Index to the 2009–2010 Federal Student Aid Handbook

Page numbers are given in the following format: Volume number—Page number.
AVG in place of a volume number refers to the "Application and Verification Guide."
In general, concepts with established acronyms are found under the acronym (e.g., FAFSA, FSEOG).
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Introduction

This publication is intended for financial aid administrators and counselors who help students begin the student aid process—filing the Free Application for Federal Student Aid (FAFSA), verifying information, and making corrections and other changes to the information reported on the FAFSA.

Throughout the Handbook we use "college," "school," and "institution" interchangeably unless some more specific use is given. "Parents" in this volume refers to the parents of dependent students, and "you" refers to the primary audience of the Handbook: financial aid administrators at colleges. "We" indicates the United States Department of Education, and "federal student aid" and "Title IV aid" are synonymous terms for the financial aid offered by that department.

We appreciate any comments that you have regarding the Application and Verification Guide (AVG) as well as all the volumes of the Federal Student Aid Handbook. We revise and clarify the text because of questions and feedback from the financial aid community, so please contact us at **fsaschoolspubs@ed.gov** to let us know how to improve the Handbook so that it is always clear and informative.

CHANGES FOR 2009–10

Two substantial pieces of legislation account for most of the changes to this year's guide: the College Cost Reduction and Access Act (CCRAA, signed into law on September 27, 2007) and the Higher Education Opportunity Act (HEOA, which also reauthorizes the Higher Education Act, or HEA, and was signed into law on August 14, 2008).

Many of these changes occur in Chapter 2 and have affected the order and number of the FAFSA questions. For example, on page 14, we discuss the new question added to identify potential recipients of the Teacher Education Assistance for College and Higher Education (TEACH) grant, which resulted from the CCRAA.

Also on page 14, we added text to the margin note specifying that income designated by code A in box 14 of the IRS Schedule K-1 is what should be included in income earned from work. We also specified that a negative income in box 14 (as with lines 12 and 18 of IRS Form 1040) should be treated as zero when determining income earned from work on the FAFSA.

On page 17 we specify that for the small family business exclusion, the term "family-owned and controlled" means over 50% ownership of the business by the "family," who are persons that are directly related or are or were related by marriage.

We updated the guidance on page 18 to show that dependent students who are owners of qualified education benefits now count those benefits as assets of their parents. We also noted that when the owner is someone else, such as a noncustodial parent, disbursements from these plans are untaxed income to the student.

On page 20 we note that the question for the amount of veterans benefits was removed, though questions remain that ask the student if he will receive the benefits and what kind they are. The HEOA excluded these benefits from estimated financial assistance beginning with the 2010–2011 award year, but a later technical corrections bill signed into law moved that up to the 2009–2010 year. This volume was updated to reflect the change.

The Secretary has determined that the stimulus payments taxpayers received due to the Economic Stimulus Act of 2008 are not to be counted as untaxed income. We note this in the margin on page 21.

The CCRAA removed several types of income from the need analysis. As a result, Worksheet A was removed from the application and the items formerly on Worksheets C and B now appear in questions in the body of the FAFSA. We discuss this on pages 20 to 23. Taxable combat pay is now excluded income; this is mentioned on page 23.

On page 22 we specify that when a dependent student receives money from a non-custodial parent that is not part of a child support agreement, the money counts as untaxed income to the student.

Beginning on page 24 we note the changes to the dependency status questions that resulted from the CCRAA. Foster children, emancipated minors, those in legal guardianship, and unaccompanied homeless youth have been added as categories of independent student.

We explain on page 28 that some states use the phrase "ward of the state" and that this is synonymous with "ward of the court" as long as the student is not a ward of the state due to being incarcerated.

We added a margin note to page 28 describing the new special circumstances field available for FAFSA on the Web applicants.

On page 30 we note that schools may now accept dependency overrides from a previous school in the same award year without gathering documentation in support of the override.

On page 32 we explain the new provision, added by the HEOA, that permits FAAs to determine if a student whose parents refuse to support and refuse to provide data for on the FAFSA may receive unsubsidized Stafford loans only.

Pages 34 and 35 give guidance about who is a dislocated worker. This status is now an alternative to the type of tax return and the receipt of means-tested federal benefits criteria for determining if a student qualifies for the simplified needs test or the automatic zero EFC.

In Chapter 3, on pages 41 and 42, we include the dislocated worker option in the criteria for the simplified needs test and zero EFC. We also note that for the means-tested benefit option, the benefit may be received at any time in the previous two years, rather than just during the base year.

Also on page 42, we amended the income threshold for determining if a student qualifies for an automatic zero EFC; in accord with the CCRAA, this has changed from $20,000 to $30,000.

Chapter 3 has also been updated throughout to include the annual revisions to the EFC calculation.

In Chapter 4 we removed references to the earned income credit, the additional child credit, and Social Security benefits because these are no longer considered untaxed income.

Chapter 5 contains additions to the types of specific situations in which an FAA may use professional judgment to adjust the student's numerical data to account for unusual family circumstances. The additions include nursing home expenses and being homeless or a dislocated worker. Also included here, in the verbatim text from the law in the margin of page 106, is the new provision relating to students whose parents refuse support.

Chapter 6 is new to this guide and contains information previously found in Volume 4, Chapter 1, of the Federal Student Aid Handbook. It pertains to applying for a Stafford or PLUS loan and signing the master promissory note.

The Application Process: FAFSA to ISIR

CHAPTER 1

The laws governing the Federal Student Aid (FSA) programs require that a person apply for aid with a form provided by the U.S. Department of Education (ED) and that no fee be charged for processing it. This form is the "Free Application for Federal Student Aid" (FAFSA), and its online version is FAFSA on the Web.

To be considered for federal student aid, a student must complete a FAFSA unless the only aid he wants to receive is a PLUS loan via his parent. The FAFSA collects financial and other information used to calculate the expected family contribution (EFC) and to determine a student's eligibility through computer matches with other agencies.

The FAFSA is the only form students must fill out to apply for Title IV aid. A school cannot require extra information from students except for verification or resolution of conflicting information. However, a school may require additional information for other purposes, such as packaging private or institutional aid. If the school collects additional information that affects Title IV eligibility, it must take the information into account when awarding Title IV aid.

Exception to FAFSA filing requirement

If the only federal aid a dependent student wants to receive is a PLUS loan to one of her parents, she doesn't have to complete a FAFSA, but the parent will need to complete a loan application and promissory note. Also, the student must still meet all the usual eligibility criteria, and the parent must meet the PLUS eligibility requirements. A student must submit a FAFSA, however, to receive a graduate PLUS loan.

TYPES OF APPLICATIONS

Most students use FAFSA on the Web to apply for federal student aid. With an aid administrator's help, they can apply via FAA Access to CPS Online. The paper FAFSA and its portable document format (PDF) version are also available.

FAFSA on the Web (FOTW)

Students can complete an application online at **www.fafsa.ed.gov** and submit it directly to the Central Processing System (CPS). They can also correct any of their previously submitted data except for the Social Security number (SSN). Help is available online, and students can also call 1-800-4-FED-AID (1-800-433-3243).

FAFSA on the Web Worksheet

To make using the Web application easier, ED makes available the FAFSA on the Web Worksheet. The worksheet can be printed from the website, and schools can order bulk quantities on the Web at **www.fsapubs.org**.

FAA Access to CPS Online

You can submit a student's application data at FAA Access to CPS Online (**www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp**). You can also connect to the site through EDExpress.

Before submitting the data, print out the signature page/FAFSA summary for the student (and parent) to sign. Alternately, you can have the student fill out and sign a paper FAFSA, but to reduce the need for paper applications, we recommend the former method. As

Free CPS/SAIG technical support for schools or their destination points

1-800-330-5947
CPSSAIG@ed.gov

Advantages of electronic filing
We strongly recommend electronic applications over the paper FAFSA because of the following benefits:

- Faster processing
- Fewer errors and rejected applications because internal and end-of-entry data edits ensure that required fields are completed and conflicts are resolved prior to submission
- Skip logic, which helps "shorten" the form by allowing applicants to skip over questions that don't pertain to them
- Availability of online help

Websites for students
www.fafsa.ed.gov
➔FAFSA on the Web
➔Make corrections to the application
➔Check status of application
➔Online SAR

www.pin.ed.gov
PIN website

www.studentaid.ed.gov
Higher education portal for students

www.fafsa4caster.ed.gov
This website allows future college students to estimate what their EFC might be and what kind of federal student aid they might be eligible for when they apply for aid. Students can later use the data they input to populate their online FAFSA.

FAFSA on the Web demo
You can use the FAFSA on the Web demonstration to train financial aid staff or to show students how to use the online application. Go to **http://fafsademo.test.ed.gov** and type in **eddemo** for the user name and **fafsatest** for the password.

noted on page 38, you will need to retain either the signed signature page/summary or signed FAFSA for your records, even if the student doesn't receive aid or attend your school.

Paper FAFSA

Schools can place limited orders (at **www.fsapubs.org**) of up to 50 copies of the paper FAFSA. Students can request a copy from the Federal Student Aid Information Center by calling 1-800-4-FED-AID. Another paper option is the PDF FAFSA (in color or black and white), which students can get at **www.federalstudentaid.ed.gov**. They can print the PDF and fill it out by hand, or they can type their data on the PDF before printing and mailing it.

The personal identification number (PIN)

The FSA PIN, along with other identifiers, gives students Internet access to their information in FSA systems. Students (and parents) can get a PIN by going to the website at **www.pin.ed.gov** or by choosing to apply for a PIN when completing a FAFSA on the Web. The PIN is available to use immediately to sign the FAFSA; once the application passes the Social Security Administration (SSA) match, the PIN becomes fully functional. Applicants can use the PIN to:

- electronically sign a FAFSA on the Web or access and sign a renewal FAFSA on the Web;
- correct their student aid report (SAR) online;
- see their EFC and other SAR information as soon as the FAFSA is processed;
- review their financial aid history as maintained in the National Student Loan Data System (NSLDS);
- access Direct loan information and tools, including online entrance and exit counseling;
- sign electronic promissory notes for Direct loans.

Students without a PIN will automatically receive one if their application was signed, passed the data match with the SSA, and had a complete address. They will receive a paper PIN mailer with the number or an e-mail (if an e-mail address was given) with a secure link to their PIN online.

Students should not give their PIN to anyone. The Higher Education Opportunity Act (HEOA) mandates that no person or entity may request, obtain, or use a student's PIN for submitting a FAFSA on behalf of the student. The unauthorized use of a PIN by anyone but the owner may result in the deactivation of the PIN or the invalidation of signed documents, including FAFSAs and promissory notes.

Renewal FAFSA

When a renewal-eligible student who had a valid application the

year before enters her personal identifiers on FAFSA on the Web, she will be asked if she wants to pre-fill some of the application with data from the prior year. If she chooses that option, she can review each pre-filled item, correct any that has changed, and provide new information as needed. Students who filled out the FAFSA4caster form before January 11, 2009, also have the option of pre-filling data on FAFSA on the Web. If an aid administrator's school does not appear on the renewal application, she can use the student's data release number (DRN) to get the application on FAA Access.

In January and February 2009 most students will automatically receive a renewal reminder by e-mail if they provided an e-mail address in the previous application year or by regular mail if they did not. The reminder tells students that they can reapply for aid on the Web and that if they forgot their PIN, they can retrieve it online.

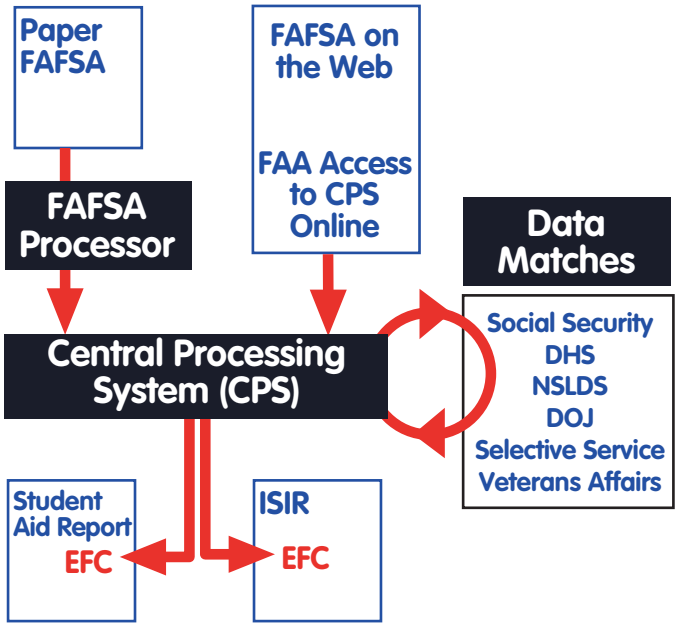
Renewal FAFSA and students from Palau, the Marshall Islands, and Micronesia

Because students from the above Pacific islands, known collectively as the Freely Associated States, are not eligible for a PIN (for lack of an SSN), they can't pre-fill data on FAFSA on the Web. But an FAA can use FAA Access to CPS Online and the student's DRN to enter and access renewal applications for these students if they meet the renewal application eligibility requirements. An FAA will submit the application using the same "888" identifier that students used on their FAFSA the previous year.

PROCESSING THE FAFSA

If the FAFSA was submitted on paper, it goes first to the FAFSA processor for data entry and then to the CPS. If the FAFSA was signed and submitted on the Web, it goes directly to the CPS. If a Web applicant indicated she would sign electronically later or send a paper signature page, the FAFSA goes to a signature hold file for up to 14 days. If some type of signature hasn't been received in that time, the application will be sent to the CPS but will result in a reject application; it won't be processed again until a signature is received. See the next section on output documents.

The CPS uses the application data to calculate the EFC and to match against several databases: those of NSLDS, the Department of Justice, the Social Security Administration, and the Department of Veterans Affairs; the Department of Homeland Security's database of noncitizens and the Selective Service System registration database.



From FAFSA to SAR/ISIR

2009–10 Summary of Changes for the Application Processing System

This is posted each autumn. Go to **www.ifap.ed.gov** and select Publications > Summary of Changes for the Application Processing System > 2009–2010.

The CPS also checks the application for possible inconsistencies and mistakes. For instance, if a dependent student reported the parents' marital status as married but reported the household size as "2," the edit checks would catch the inconsistency. Even when data is inconsistent, the CPS may be able to calculate an EFC based on assumptions. For applications that your school submits through FAA Access, you can anticipate certain assumptions and correct or override information on the student's FAFSA submission. Students who submit applications using FAFSA on the Web can also correct or override some of the CPS edits before submitting the application.

OUTPUT DOCUMENTS: THE SAR AND ISIR

After processing is complete, the CPS produces output documents or records that show the information the student originally provided, the EFC, the results of the eligibility matches, and information about any inconsistencies identified through the CPS edits. If the CPS was unable to calculate an EFC, the output record will not show one.

There are two types of output documents: the *Institutional Student Information Record* (ISIR), which is made available electronically to the schools the student listed on the FAFSA (or adds later), and the *Student Aid Report* (SAR), which is sent to the student or made available to her online.

Reject example

Sioned is living with her boyfriend. She reports on the FAFSA that she's single, but also reports her boyfriend's income as spouse's income earned from work. Her application is rejected because if she is not married, there should be no entry for spouse's income. She receives a reject reason code of 11 and a comment explaining that she reported contradictory information. Sioned must submit a correction to blank out the boyfriend's income.

You will receive an ISIR for the student only if she includes your school on her FAFSA. If your school is not listed, you can request an ISIR for her through FAA Access if you have her DRN. The DRN appears in the upper right corner of the first page of the SAR and at the top of the correctable pages. The DRN and PIN are different: the DRN authorizes your access to the student's application information; the PIN is the student's personal code, which she should give to no one. A school may ask for the student's DRN, but it should never request the PIN.

Schools are required to receive ISIRs and to accept SARs from students, but they cannot require students to submit SARs to the school in order to receive aid. We recommend making corrections electronically, via FAFSA on the Web (the student) or FAA Access (the school); however, a school can require the student to use a SAR to make corrections. If you don't have an ISIR for a student who provided a SAR or SAR Acknowledgement, you **must** use the SAR or the acknowledgement to award and disburse the student aid. You must also ensure that your school is added to the CPS record for the student (see page 98).

The SAR arrives in one of three ways. (1) Students who give an e-mail address, whether on a paper FAFSA or an electronic application (FAA Access or FAFSA on the Web), will receive an e-mail with a link to an online SAR that they can access by providing their SSN, date of birth, and first two letters of their last name. (2) Students who don't give an e-mail address and who apply with a paper application will receive a paper SAR. (3) Students who apply electronically and don't provide an e-mail address will receive a SAR Acknowledgement, which

has fewer and less detailed comments than the SAR and which can't be used for corrections as the SAR can. If a student or parent signature is missing, students will receive a rejected paper SAR.

The SARs and ISIRs include comment codes and text explaining any questionable results from the matches and edits described above. For some of these there will also be a C code, which you must resolve before paying the student aid. For instance, if a student has defaulted on a federal student loan, the SAR and ISIR will note this in several places, including comments to the student and the NSLDS financial aid history page.

For other problems, the SAR and ISIR will show that the student's application has been rejected and no EFC has been calculated. The SAR will tell the student how to remove the reject by providing signatures or more information or by correcting errors. Reject codes are given in the FAA Information section, and a complete list of reject codes is in *The ISIR Guide 2009–2010* at **www.ifap.ed.gov**.

DEADLINES

The application processing cycle lasts 18 months. For the 2009–10 award year, applications are accepted beginning January 1, 2009 and will be accepted through June 30, 2010.

The CPS must receive a student's electronic FAFSA by June 30, 2010. **A paper FAFSA must be legible, and it must be mailed to the Federal Student Aid Programs address listed on the FAFSA in time for the processor to receive it by June 30, 2010. There are no exceptions to these deadlines**. An electronic application cannot be received before January 1, 2009, and if it is received after June 30, 2010, it will not be processed. A paper application received before January 1, 2009, or after June 30, 2010, will be returned unprocessed with a letter of explanation. If it is signed before and received after January 1, 2009, it will be accepted, but the student will receive a rejected SAR asking him to date and re-sign the SAR and return it for processing.

In addition to the above dates, the following are anticipated deadlines for the 2009–10 award year:

- Corrections on a paper SAR must be received by September 20, 2010.
- Corrections through FAFSA on the Web or FAA Access to CPS Online must be received and accepted by the CPS before midnight (central time) on September 20, 2010.
- Address and school changes through the Federal Student Aid Information Center can be made through September 20, 2010.
- A school must pay or offer to pay any disbursements for a student if it receives a SAR or ISIR with an official EFC while she is enrolled and eligible, but not later than September 27, 2010.

Resources for aid administrators

For questions about EDconnect, EDExpress, and Renewal FAFSAs, call CPS customer service:
1-800-330-5947
TDD/TTY 1-800-511-5806

For technical systems publications, go to **www.fsadownload.ed.gov** and click on "Technical References and Guides."

Deadline Date Notice

Every year the Department publishes in the Federal Register a deadline notice that provides all the processing deadline dates. When the official deadline notice for the 2009–10 award year is published, it will be available on the IFAP website under "Federal Registers."

- To give a Pell grant to a student, a school must have a valid output document (one with an EFC computed from correct data) while the student is still enrolled for the award year or in the timeframe the student qualifies for a late disbursement under 34 CFR 668.164(g)(4)(i), but no later than September 27, 2010.

- For students selected for verification (both ED-selected and school-selected), the school must have verification documents, and for Pell recipients a valid output document, no later than 120 days after the last day of enrollment or September 27, 2010, whichever is earlier. Schools may set earlier deadlines for the campus-based and loan programs.

For the deadlines above, the date the CPS processed the ISIR transaction is considered to be the date the institution received the ISIR. On the SAR, SAR Acknowledgement, and ISIR printout, the processed date is above the EFC on the first page.

Filling Out the FAFSA

CHAPTER 2

The FAFSA is the first step in the financial aid process. Because it's important to complete the form correctly, this chapter discusses some of the more difficult questions that arise. While the chapter more closely follows the organization of the paper application, the guidance applies equally to FAFSA on the Web. To see how FAFSA data are used to calculate the Expected Family Contribution, refer to Chapter 3.

The FAFSA is organized as steps, each consisting of a group of related questions. There are also instructions on how to fill out the form. For 2009–10 the worksheets that were used to total untaxed income have been incorporated into the body of the form.

As of the date the FAFSA is signed, it is considered a "snapshot" of the family's information that can be updated only in certain circumstances and only for certain items; see Chapter 5.

This chapter provides guidance that supplements the application instructions. Students can get similar advice on filling out the FAFSA on our website for students at **www.studentaid.ed.gov**. Where parents are mentioned the reference is to parents of dependent students. In parentheses are the numbers for the items as they appear on the paper FAFSA, SAR, ISIR, and FAA Access.

FAFSA Steps 1–7

Step One—General student info
Step Two—Student's financial data
Step Three—Dependency questions
Step Four—Parent data (dependent students)
Step Five—Household size (independent students)
Step Six—Schools and school codes
Step Seven—Signature(s)

STEP ONE: GENERAL STUDENT INFORMATION

Purpose: This section of the application identifies the student and establishes his aid eligibility based on factors such as citizenship, educational level, and Selective Service registration (see also *Volume 1: Student Eligibility*). Some questions are included to help the school package awards and to eliminate the need for students to fill out a separate state or school financial aid form.

- **Student's name (1–3).** The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student's name and Social Security number (SSN) with the Social Security Administration (SSA), the name here should match the one in the SSA's records.

- **Permanent mailing address (4–7).** This cannot be the school address, with one exception: an incarcerated student may use his college's administrative address and, if he is submitting a paper FAFSA, he will include with it a letter from the school indicating

Completing the FAFSA

Information for students about completing the FAFSA is posted on the Web at **www.studentaid.ed.gov/completefafsa**

You may wish to add a link from pages that students use on your website to this reference information. You can also download FAFSA on the Web banner graphics to use on your website. Go to **http://www.ifap.ed.gov/fafsa/0330FAFSA4caster.html**

STEP 1

Questions 8–20
Student information

that he is incarcerated and is using the school's address. If he is applying on the Web, he should send the letter to the FAFSA processor (the same address to which a paper FAFSA is sent) and be sure that it contains his SSN.

The SSN and certain Pacific island residents
Persons from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau (the Freely Associated States) typically do not have SSNs. Students who indicate on the FAFSA that their state of legal residence is one of the above Pacific island groups should enter 888 for their SSN, and the CPS will assign them an identification number. They should use this number in place of the SSN throughout their financial aid years.

- **Student's SSN (8).** With the exception noted in the margin, a student must have an SSN to apply for federal student aid. If she submits a FAFSA without an SSN, the FAFSA will be returned to her unprocessed. To get an SSN or to determine what the number is if the Social Security card was lost, she must contact the local Social Security Administration office. Call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778) for more information.

  The student should be careful when entering her SSN; although it can be corrected after the FAFSA is processed, the number originally entered will always be used as her ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn't match the student's SSN. While not required, the student can solve the confusion by filing a new original FAFSA using the correct SSN.

- **Student's e-mail address (13).** If the student provides this address, he should get an e-mail with a link to his online SAR data within one to three days after the CPS receives his application. The Department will also use this e-mail address to correspond with him regarding his application and PIN.

- **Citizenship status (14).** Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only citizens or certain classes of noncitizen are eligible for Title IV aid; however, a student should still submit the FAFSA if she might be eligible for aid from institutional, state, or private sources that do not require U.S. citizenship.

Same-sex marriage and the Defense of Marriage Act (DOMA)
According to the Defense of Marriage Act (1996), "…the word 'marriage' means only a legal union between one man and one woman as husband and wife, and the word 'spouse' refers only to a person of the opposite sex who is a husband or a wife." Therefore, same-sex unions are not considered marriages for federal purposes, including the FAFSA.

- **Student's marital status (16 and 17).** This is marital status "as of today"—the day the application is signed. Marital status cannot be projected or updated during the award year.

- **Student's state and date of legal residence (18–20).** This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes.

  It also indicates which state agency should receive the student's FAFSA information. States have varying criteria for determining whether the student is a resident for purposes of their financial aid. However, residing in one state for four years will meet any state's criteria. Therefore, a person answering "Yes" to question 19 will likely meet the residency requirements of the state reported in question 18, while the state eligibility for a person answering "No" will depend on the date reported in question 20 and the state's requirements.

STEP 1

Questions 23–28
Student information

- **Conviction for possessing or selling illegal drugs (23).** Students convicted of a federal or state offense of selling or possessing illegal drugs that occurred while they were receiving federal student aid should still complete and submit the FAFSA because they may be eligible for federal aid, and even if they aren't, they may be eligible for state or institutional aid.

  Students who fill out their FAFSA online and answer "Yes" to question 23 will immediately receive a series of questions to determine their eligibility.

  Students who fill out a paper FAFSA and answer "Yes" to this question will receive a worksheet with their SAR to determine whether the conviction affects their eligibility for federal student aid. If the date they regain eligibility falls before July 1, 2009, the worksheet will instruct them to change the response to a "1," indicating full eligibility for the award year. If the date falls between July 1, 2009, and June 30, 2010, they will not be eligible for part of the award year and will need to change the response to a "2."

  If the date falls after June 30, 2010, the students' response will remain a "3." They will not be eligible for federal aid during the entire award year unless they complete a qualified drug rehabilitation program. See *Volume 1: Student Eligibility* for more on drug convictions and eligibility.

  Students who leave question 23 blank cannot be paid Title IV aid until they respond by submitting a corrected SAR or ISIR.

- **Highest level of school completed by student's parents (24 and 25).** Some state agencies use this information to award grants and scholarships. Father and mother are defined here as the student's birth or adoptive parents but not stepparents, guardians, or foster parents. This definition is unique to these questions—all others use the definition on page 26.

- **First bachelor's degree (27).** The FAFSA asks if the student will have a first bachelor's degree before July 1, 2008, because eligibility for Pell, ACG, National SMART, and Federal Supplemental Educational Opportunity grants (FSEOGs) is almost exclusively restricted to students who have not received a bachelor's degree or completed the requirements for one. See "Pell Grants" in Chapter 7 of *Volume 1: Student Eligibility* regarding degrees from unaccredited and foreign schools, which can count as bachelor's degrees for Pell and FSEOG eligibility.

- **Student's grade level at the start of the school year (28).** This is not based on the number of years the student has attended college but on work completed toward the degree/certificate. For instance, a full-time student might attain second-year grade level after one year of study, while a half-time student would take two years to reach that level.

Undergraduate student definition

A student who is enrolled in a program of study that usually does not exceed four academic years or is enrolled in a longer program that is designed to lead to a first degree at the baccalaureate level. A student enrolled in a program that lasts longer than five years is considered an undergraduate for only the first four years.

For the purpose of the FSEOG, Pell Grant, ACG, and National SMART Grant programs, a student is an undergraduate only if he has not earned, or completed the requirements for, a bachelor's or professional degree. Students enrolled in a postbaccalaureate program as described in 34 CFR 690.6 are still undergraduates for the purpose of Pell grants.

Students enrolled in dual degree programs that confer a bachelor's degree and either a graduate or first professional degree are undergraduates for at least the first three years of the program. The school determines at what point after three years the student ceases to be an undergraduate.
34 CFR 668.2(b)

Graduate or professional student definition

A graduate student is one who: is not receiving aid as an undergraduate for the same period of enrollment; is enrolled in a program above the bachelor's level or one leading to a professional degree; and has completed the equivalent of at least three years of full-time study, either before entrance into the program or as part of it.
34 CFR 668.2(b)

STEP 2

Questions 30–32 Enrollment status, types of aid, and potential TEACH grant recipients

Income and assets citations
HEA Sec. 480(a), (b), (f), (g).

- **Enrollment status (30).** The student indicates whether at the start of the academic year she plans to attend full time, three-quarter time, half time, less than half time, or she doesn't know. This information will help the college package her aid. A student who is applying to more than one school should provide the enrollment status for the school she is most likely to attend.

- **Types of aid (31).** The student indicates what types of aid, in addition to grants, she is interested in receiving. This helps the school in packaging her award. If she isn't sure about wanting loans or work-study, she should answer "don't know" so she will be considered for those types of aid that are available; later she can decline any aid she doesn't want. If a dependent student doesn't want to take out a loan but her parents want to get a PLUS loan, she should give an answer that doesn't exclude loans.

- **Prospective elementary and secondary school teachers (32).** This question serves only to identify students who should receive information about the Teacher Education Assistance for College and Higher Education (TEACH) grant. Students should answer "Yes" or "Don't know" if they want this information.

STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS

Purpose: Questions 33–47 ask for the student's (and spouse's) income and assets. Step Four collects similar information about parents' income and assets, so the following discussion pertains to parents as well as the student and spouse. Income, assets, and living allowances are used to calculate the student's portion of the EFC.

If the student or the student's parent wasn't married in 2008 but is married at the time the application is signed, the applicant also needs to provide income and asset information for the new spouse. If the student or the student's parent was married in 2008 but is now separated or divorced, or the spouse has died at the time the application is signed, the student or parent doesn't provide income and asset information for that spouse, even though the information may be on the 2008 tax forms.

Income earned from work and the IRS 1040 form
The FAFSA instructs the applicant to sum lines 7, 12, and 18 of the 1040 form and box 14 [code A] of Schedule K-1 (Form 1065) as an option for determining the income earned from work. But when the values of lines 12 or 18 or box 14 are negative, this will reduce the total and can wrongly affect the Social Security allowance. If values from lines 12 or 18 or box 14 are negative, treat them as zero when determining the income earned from work.

The FAFSA asks for income and taxes paid for the "base year," which for 2009–10 applicants is the 2008 tax year, so the questions refer to lines on 2008 IRS tax forms. Data from the completed tax year is used as a predictor of the family's financial situation for the current year. If 2008 tax data is not available yet, best estimates can be used on the application, though the student may need to correct them later if they differ from the tax return.

The FAFSA also collects information for certain investments and other assets. Applicants only report the net worth of assets, instead of reporting the value and debt. They should report asset amounts **as of the date the application is signed**.

STEP 2

Questions 33–43 and 82–93

Tax return data

- **Tax return filed (33–35, 82–84 for parents).** These questions ask if a 2008 tax return was completed, which return was or will be filed, and whether the student or parents were eligible to file a 1040A or 1040EZ. The CPS uses this information in part to identify if the student is eligible for the simplified needs test or the auto zero EFC (see margin note on page 17).

- **Adjusted gross income (AGI) and other tax data (36–40, 86–90 for parents).** Dependent students report these items for their parents. Each question gives the line reference to the 2008 IRS tax forms, so it will be easier for students to complete these questions if they've already completed their tax return. The student can also estimate answers, but if the estimated information is wrong, she might have to correct it when the tax return is filed. The worksheet on page 16 can help students estimate their tax information.

  Students or parents who filed a joint return but are divorced, separated, or widowed when the application is signed won't be able to copy the information from the tax forms. Instead, they must figure out how much of the income and taxes paid is attributable to them and not their spouses. For more on this calculation, see "Using a joint return to figure individual AGI and taxes paid" in Chapter 4.

  If the student, spouse, or parents were not required by IRS rules to file a tax return, the student should still report any income earned from work in lines 39–40 (student and spouse) and/or lines 89–90 (parents). The W-2 form and other records should be used to determine these amounts.

  Income earned from work is used to calculate allowances for the Social Security tax (FICA) and for the additional costs incurred by working families. For non-taxfilers it will also be used in place of AGI and will cause the application to be rejected if it is above the tax filing threshold.

  For a fiscal year tax return, as opposed to one for the calendar year, the applicant should report information from the fiscal year return that includes the greater number of months in 2008.

  If the student or parents filed a tax return using something other than a common IRS form, such as a foreign or Puerto Rican tax form, the student should report on the FAFSA the amounts (converted to U.S. dollars) from the lines of the form that correspond most closely to those on the common IRS forms.

- **Assets (41–43, 91–93 for parents).** An asset is property that is owned by the family and has an exchange value. A student or parent does not report as assets possessions such as a car, a stereo, clothes, or furniture.

Fiscal year return example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2007 includes eight months in 2008. The return they'll file for the fiscal year starting in September 2008 only includes four months of 2008. Therefore, they should use the information from the tax return for the fiscal year that started in September 2007.

Other tax forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax codes of the Commonwealth of Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms are. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the IRS line items for verification.

AGI Worksheet for those who have not completed a tax return		
Use this worksheet to estimate adjusted gross income (AGI) if you have not completed a tax return.	***For question 36 Student/Spouse***	***For question 86 Parents***
Wages, salaries, tips, etc.	$ _____.00	$ _____.00
Interest income	+ _____.00	+ _____.00
Dividends	+ _____.00	+ _____.00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment, compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____.00	+ _____.00
Add all of the numbers in the column	= _____.00	= _____.00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh plans, one-half of self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)	– _____.00	– _____.00
Total—write this amount in question 36 or 86	$ _____.00	$ _____.00

Zero income

Occasionally an applicant will report no income for the base year. This can occur when the family has tax write-offs that produce a negative AGI or when the applicant neglected to report untaxed assistance. Zero income is noted in our CPS edits and may increase the likelihood that the applicant will be selected for verification. If the CPS does not select the student for verification, you may still choose to ask her for further information about her means of support during the base year. Also, you may use professional judgment (PJ) to adjust the income line items to reflect income the family receives that doesn't appear on the tax return.

Any cash support for the student, other than support from a parent for a dependent student, counts as untaxed income and must be reported. In-kind help (see page 23) from a friend or relative—for instance, using a room at an aunt's house and eating meals with her family—is not considered untaxed income, but you may use PJ to account for the value of that in-kind support (by adjusting the room and board component of the cost of attendance, for example).

STEP 2
Assets and veterans education benefits

The FAFSA collects current (as of the day of signing the FAFSA) data about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; examples include college savings plans, Coverdell savings accounts, real estate, installment and land sale contracts (including mortgages held), trust funds, mutual funds, money market funds, UGMA and UTMA accounts, certificates of deposit, stocks, stock options, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

A family's **principal place of residence** is not reported as an asset, even if it is part of a business. Neither is a family farm reported as an asset—only investment farms are (see the margin note).

The FAFSA asks for the **net worth** of investments, which is their total current market value minus their associated debts. If their net worth is negative, the student reports a zero.

Similarly for **businesses and investment farms**, the current net worth is reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or farm was used as collateral.

Family-owned and controlled small businesses (which can include farms) that have 100 or fewer full-time or full-time equivalent employees do not count as an asset. "Family-owned and controlled" means that more than 50% of the business is owned by persons who are directly related or are or were related by marriage (family members do not have to be counted in the household size for this question).

Excluded assets—not reported on the FAFSA:

➔ **Pensions and whole-life insurance.** The value of a pension is not counted as an asset, but pension distributions do count as income—they appear in the AGI if taxable and in questions 47 and 95 if untaxed. The cash value or equity of a life insurance policy (often called a whole-life policy) isn't reported as an asset.

➔ **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 U.S. Code 1401, *et seq.*), the Alaska Native Claims Settlement Act (43 U.S. Code 1601, *et seq.*), or the Maine Indian Claims Settlement Act (25 U.S. Code 1721, *et seq.*).

Simplified needs test

The law provides a "simplified EFC" calculation for a student who meets certain income and tax-filing requirements. If the applicant is eligible based on the information on the FAFSA, the CPS will automatically exclude assets from the EFC calculation. However, some states and schools require this information for their own aid programs.

Family farm

A farm (including equipment, livestock, etc.) isn't reported as an investment on the FAFSA if:

- it is the principal place of residence for the applicant and his family (spouse or, for dependent students, parents), and
- the applicant (or parents of a dependent student) materially participated in the farming operation.

Rental properties

Rental properties are an asset. A unit within a family home that has its own entrance, kitchen, and bath (a rented bedroom would not count therefore) and that is rented to someone other than a family member, counts as an asset. To calculate its net value, multiply the net value of the entire structure by the fraction the rented space represents. Similarly, if a family owned a ten-unit apartment building and lived in one of the apartments, 9/10 or 90% of the net value of the building would be an asset.

At times a student or parent will claim rental property as a business. Generally, it must be reported as real estate instead. A rental property would have to be part of a formally recognized business to be reported as such, and it usually would provide additional services like regular cleaning, linen, or maid service.

STEP 2
Qualified tuition programs

UGMA and UTMA accounts
The Uniform Gifts and Uniform Transfers to Minors Acts (UGMA and UTMA) allow the establishment of an account for gifts of cash and financial assets for a minor without the expense of creating a trust. Because the minor is the owner of the account, it counts as his asset on the FAFSA, not the asset of the custodian, who is often the parent.

Qualified education benefits

Qualified tuition programs (QTPs, also known as section 529 plans because they are covered in section 529 of the IRS tax code) and Coverdell education savings accounts are grouped together in the law as qualified education benefits and have the same treatment: they are an asset of the owner (not the beneficiary because the owner can change the beneficiary at any time), except when the owner is a dependent student, in which case they are an asset of the parent. When the owner is some other person (including a non-custodial parent), distributions from these plans to the student count as untaxed income, as "money received."

States, their agencies, and some colleges sponsor plans known in the IRS tax code as qualified tuition programs. The IRS mentions two types of QTPs that are commonly called prepaid tuition plans and college savings plans. States may offer both plan types, but colleges may only sponsor prepaid tuition plans.

Prepaid tuition plans allow a person to buy tuition credits or certificates, which count as units of attendance. The number of units doesn't change even though tuition will likely increase before the beneficiary gets to use the tuition credits. Prior to the HERA, prepaid tuition plans were estimated financial assistance; they are now an asset of the plan owner, and their worth is the refund value of the credits or certificates.

College savings plans allow a benefactor to deposit money into an account that will be used for the beneficiary's college expenses. The buyer does not pre-purchase tuition credits as with a prepaid tuition plan. Rather, this type of plan is essentially a savings account, and its value as an asset is the current balance of the account.

Coverdell education savings accounts, or ESAs, are another tax-advantaged savings vehicle for college education. They are treated the same as college savings plans: the current balance is an asset of the account owner.

As long as distributions from QTPs and ESAs do not exceed the qualified education expenses for which they are intended, they are tax-free, so they will not appear in the next year's AGI. They should not be treated as untaxed income (except in the cases mentioned above) or as estimated financial assistance. For more information on these benefits, see the IRS's Publication 970, *Tax Benefits for Education*.

Reporting "take-back" mortgages

In a take-back mortgage, the seller of a house finances a portion of its cost for the buyer, who repays this additional mortgage to the seller. The seller reports the interest part of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if a student or his parents report such interest on the tax return, it likely indicates an asset that should be reported on the FAFSA: the value of the take-back mortgage. There would be no debt reported against this asset. For example, if a dependent student's parents sold their house for $200,000 and financed a take-back mortgage of $40,000 to the buyer, the parents should report $40,000 as the net worth of the investment. The worth will decrease each year depending on how much of the principal the buyer paid back that year. This concept applies to other forms of seller financing of the sale of a home or other property.

Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application, generally even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on its use, then the student should report its present value as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

How the trust must be reported depends on whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of a divorce or separation where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes unless the terms of the trust specify some other method of division.

Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. If the interest accumulates and is not paid out, the recipient must report an asset value for the interest she will receive. The trust officer can usually calculate the value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay for the interest income.

Principal only

The person who will receive only the trust principal must report as an asset the present value of his right to that principal. For example, if a $10,000 principal reverts to a dependent student's parents when the trust ends in 10 years and the student is receiving the interest, he would report the interest he received as income and report as a parental asset the present value of his parents' rights to the principal. The present value of the principal can be calculated by the trust officer; it's the amount that a third person would pay for the right to receive the principal 10 years from now—basically, the amount that one would have to deposit now to receive $10,000 in 10 years.

Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until it ends, the beneficiary should report as an asset the present value of the interest and principal that she is expected to receive when the trust ends.

Ownership of an asset

In some cases the ownership of an asset is divided or contested, which can affect how the student reports the asset:

Part ownership of asset

If the parent or student has only part ownership of an asset, the student should report only the owned part. Generally the value of an asset and debts against it should be divided equally by the number of people who share ownership unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.

Contested ownership

Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

Lien against, and imminent foreclosure of, an asset

If there's a lien against the asset, the net value of the asset is determined by subtracting from its total value any associated debt as well as the amount of the lien. If foreclosure of an asset is imminent, the net value of the asset would still be reported until the party making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.

STEP 2
Taxable income offsets

- **Student's veterans education benefits (44 and 45)**. The Higher Education Opportunity Act (HEOA), which reauthorized the Higher Education Act (HEA) and added new laws, removed veterans education benefits from estimated financial assistance, effective July 1, 2010. A later technical corrections bill (H.R. 1777) that became law moved the effective date to July 1, 2009. A school can use these questions to identify students who receive veterans benefits, which might reduce how much of its own aid the school will award.

- **Taxable income offsets (46 and 94).** Beginning with 2009–2010, Worksheets A, B, and C no longer appear on the FAFSA. The items that made up Worksheet C now appear in these two questions, which total certain types of taxable income that appear on the tax return but are excluded from the need analysis. When the CPS calculates the EFC, it subtracts this excluded income from the AGI. Having the AGI from the tax return listed on the application makes verification easier.

  Items that can be found on tax forms:

  ➔ **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the FAFSA refers to the pertinent lines on the tax return.

  ➔ **Taxable earnings from need-based work programs.** These are earnings from any need-based work program including FWS and need-based employment portions of fellowships or assistantships. The student might have received W-2s for these earnings. Otherwise, she will need to use any other records she received showing how much she earned.

  ➔ **Student grant and scholarship aid.** A student reports **only** the amount of grants and scholarships received that is included in taxable income. This includes grant and scholarship (not employment) portions of fellowships and assistantships. Be sure to include any AmeriCorps benefits (awards, living allowances, and interest accrual payments) except those for health care or child care. For grant and scholarship aid that is part of the taxable income, the tax filer usually writes the amount separately on the tax form next to the line where wages and other earnings are reported. If the information was reported this way, the student can copy that amount from the tax form.

  ➔ **Combat pay.** Enter only the portion that was included in adjusted gross income. This should be zero for enlisted persons and warrant officers (including commissioned warrant officers) because their combat pay is entirely non-taxable. For commissioned officers generally, combat pay in excess of the highest enlisted person's pay (plus imminent danger/hostile fire pay) is taxable. To determine the taxable amount, find the total combat pay from the serviceperson's leave and earnings

Child support payments example
Steven and his wife each have a child from a previous relationship who doesn't live with them and for whom they pay child support. Because Steven provides over half of his daughter's support through his payments, he counts her in his household size. Therefore, he doesn't report the amount of child support he pays on his FAFSA. Steven's wife isn't providing over half of her son's support, so he isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays.

statements and subtract the untaxed portion, which is reported in box 12 of the W-2 form with code Q. See IRS Publication 3, *Armed Forces' Tax Guide*, for more information.

Not from tax forms, but to be reported:

➔ **Child support payments** made during 2008 because of divorce, separation, or legal requirement by the student, spouse, or parent whose income is reported on the FAFSA. However, don't include child support paid for a child included in the household size on the FAFSA.

■ **Untaxed income (47 and 95).** These questions total the untaxed income that is added to the taxable income. The items in these questions used to appear on Worksheet B, though the College Cost Reduction and Access Act (CCRAA) removed combat pay, the foreign income exclusion, and the tax credit on special fuels from the need analysis, along with all of the types of untaxed income that appeared on Worksheet A.

Some types of income are reported on the tax form even though they aren't taxed. A student who hasn't filed a return will have to estimate these amounts, and students or parents may need to separate information from a joint return.

Items that are drawn from tax forms:

➔ **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn't be reported as an untaxed benefit.

➔ **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude from taxation payments to an IRA or Keogh, those payments are reported as untaxed income. These amounts appear on the tax return.

➔ **Tax-exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on line 8b on both the 1040 and 1040A forms.

➔ **Untaxed IRA distributions and pension or annuity payments.** A tax filer determines how much of his IRA distribution or pension or annuity payment is taxable when he completes his tax return. The applicant reports the untaxed portion but should not include rollovers (transfers of funds from one IRA to another). The question indicates how to determine the untaxed amount from the tax return.

STEP 2
Untaxed income

Excluding the 2008 stimulus

The Economic Stimulus Act of 2008 provided a tax credit in the form of a cash payment based on information reported on the 2007 tax return. The maximum amount of the payment was $600 ($1,200 for married persons filing jointly) plus $300 for each eligible child under 17. The Secretary has determined that these stimulus payments received by eligible taxpayers in 2008 are not to be included as income on the 2009–2010 FAFSA.

Independent student with parental support example

Doug is a graduate student, so he's independent even though he still lives with his parents and has no income of his own. Although the FAA at his school can't make him a dependent student, she decides to use professional judgment to add an amount to his untaxed income to account for the in-kind support his parents provide.

STEP 2
Untaxed income

Box 14 items on the W-2

Schools are not required to review income listed in box 14 of the IRS's W-2 form. There are a few reasons for this: several of the items that the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income for instance); also, employers could include in box 14 certain non-elective pension plan contributions, and non-elective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

But if you are aware that a box 14 item should be reported—i.e., if it represents discretionary income—you should include it on the appropriate line. For example, clergy parsonage allowances often appear in box 14, and you would count that on line g of question 47 or 95.

Dependent benefits example

Stanislaw's uncle Yvor lives with him and receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn't report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor's support, and because he expects to continue to provide more than half support during the award year, he includes Yvor as a dependent in his household size. However, starting the July after the current award year, Yvor expects to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won't be providing more than half of his uncle's support and therefore won't be able to include Yvor in his household size after this award year.

Income not reported on the tax return:

➔ **Child support received for all children.**

➔ **Housing, food, and other living allowances.** Some people, particularly clergy and military personnel, receive these allowances as compensation for their jobs. Money received to pay for rent should also be reported, as should the free use of a house or apartment (the rent or market value of a comparable house or apartment can be used). Similarly, if the student received free room or board in 2008 for a job that was not awarded as student financial aid (including resident advisor positions that provide free room and board as part of the student's non-need-based employment compensation), she must report the value of the room and board as untaxed income. Do not, however, include rent subsidies for low-income housing.

➔ **Veterans' noneducation benefits.** This includes disability, the death pension, Dependency and Indemnity Compensation (DIC), and VA educational work-study allowances.

➔ **Any other untaxed income not reported elsewhere.** This can include disability, worker's compensation, interest income on education IRAs, untaxed portions of railroad retirement benefits, black lung benefits, refugee assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government.

➔ **Money received.** The student reports any cash support he has received. But if he is dependent, he does not count his parents' support, with one exception: money from a non-custodial parent that is not part of a legal child support agreement is untaxed income to the student. Cash support includes money, gifts, and loans, plus housing, food, clothing, car payments or expenses, medical and dental care, college costs, and any money paid to someone else on his behalf. For example, if a friend or relative pays his electric bill or part of his rent, he must report the amount as untaxed income. If he is living with a friend who pays the rent and the student's name is on the lease, the rent paid on his behalf counts as cash support because he is responsible for payments that his friend is making. Note that this item does not appear in the parents' question (95)—only the student reports this information.

Tips on reporting benefits:

The student reports the actual amount of benefits received during the year, even if it is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Benefits the student or parent receives on behalf of anyone included in his FAFSA household size count as income to him unless the person (e.g., a grandmother) receives the benefits in her name. Such a person is not included in the household size if benefits in her name total more than half of her support.

Income and benefits NOT to be included:

➔ **Student aid** is accounted for in packaging aid (see *Volume 3: Calculating Awards and Packaging*) and does not count as income or a benefit in the calculation of the EFC. Student aid includes tuition benefits a parent receives for a dependent (for example, from the parent's employer). Note that student aid that was included in the AGI is reported separately as an exclusion so that it can be subtracted from income.

➔ **Payments and services received from states for foster care or adoption assistance,** under Part A or Part E of Title IV of the Social Security Act.

➔ **Per capita payments to Native Americans.** Money received in 2008 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless it exceeds $2,000 per payment. Any amount over that is reported as untaxed income.

➔ **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.

➔ **Flexible spending arrangements.** These are employee benefit programs, sometimes called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.

➔ **Welfare benefits, untaxed Social Security benefits, and the earned income and additional child tax credits.** These formerly appeared on Worksheet A of the FAFSA as includable types of untaxed income but were excluded by the CCRAA.

➔ **Combat pay, foreign income exclusion, and credit for federal tax on special fuels.** As noted above, these used to be included in untaxed income but were excluded by the CCRAA.

➔ **In-kind support.** In-kind support is other than money, for example, friends or relatives giving the student food or allowing him to live with them rent-free. That support isn't included as untaxed income, though you may use professional judgment (e.g., by reducing the cost of attendance or increasing income) with students who receive such in-kind support. This is not the same as housing and other allowances received as compensation for a job, which, as stated earlier, must be reported. If the student is living with someone who is paying living expenses, it

STEP 2
Untaxed income not reported on the FAFSA

Examples of in-kind income (not reported)

- Food Stamp Program
- Women, Infants, and Children Program (WIC)
- Food Distribution Program
- National School Lunch and School Breakfast programs
- Commodity Supplemental Food Program (CSFP)
- Special Milk Program for Children
- Daycare provided by the Social Services Block Grant Programs (if the recipient receives **reimbursement** for child care expenses, that amount is reported as income)
- WIA (formerly JTPA) educational benefits
- Rollover Pensions
- Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act

STEP 3
Questions 49–50
Dependency status

can be difficult to determine whether the support is cash support or in-kind support. The basic rule is: if someone pays a cost the student is obligated to pay, the amount counts as cash support.

STEP THREE: DEPENDENCY STATUS

Purpose: The law governing the FSA programs is based on the premise that the family is the first source of the student's support, and the law provides several criteria that decide if the student is considered independent of her parents for aid eligibility. Note that a student reaching the age of 18 or 21 or living apart from her parents does not affect her dependency status.

If the student is considered a dependent of his parents, information on the income and assets of the parents must be included on the FAFSA. The CPS will calculate a parental contribution and add it to the student's contribution to derive an EFC.

In unusual cases an aid administrator can determine that a student who doesn't meet any of the independence criteria should still be treated as an independent student. (See "Dependency overrides" later in this section.)

Note that the CCRAA has added considerably to the criteria that determine student dependency status. These statutory changes have been further clarified by the HEOA.

- **Married (49).** This question must be answered according to the student's marital status at the time the FAFSA is signed. If the student is engaged to be married, she must answer as unmarried unless she waits until after the marriage to complete the FAFSA. If she is married and planning to divorce, she must answer as married. Note that a student **cannot** update FAFSA information for changes in marital status after the application is signed.

  If the student has a relationship that meets the criteria for common-law marriage in his state, the student is considered to be married. A married student who is separated (not divorced) is considered married for determining dependency status. A student who was independent only because he was married becomes dependent for the next award year if he divorces and cannot answer yes to any of the dependency questions.

- **Graduate or professional study (50).** The FAFSA asks the student if she will be working on a master's, doctorate, or graduate certificate program at the beginning of the school year. A student who is a graduate or professional student is independent for purposes of Title IV aid.

  Graduate and professional students aren't eligible for Pell grants, so a student who incorrectly answers "Yes" to this question must submit a correction before he can get a Pell grant, even if he is independent for another reason.

Criteria for independence

For the 2009–10 year, a student is independent if he meets any of the following criteria from HEA Sec. 480(d), i.e., if he:

- was born before January 1, 1986
- is married as of the date he applies
- will be a graduate or professional student at the start of the award year
- is currently serving on active duty for purposes other than training
- is a veteran of the U.S. Armed Forces
- has dependents other than a spouse
- was an orphan, foster child, or ward/dependent of the court at any time since the age of 13
- is an emancipated minor
- is in legal guardianship or
- was determined at any time since July 1, 2008, to be an unaccompanied youth who was homeless or was self-supporting and at risk of being homeless.

Early exit cadets

Students who attend a U.S. military academy or military academy preparatory school and who are discharged other than dishonorably prior to commission are veterans for FSA purposes but might not be veterans for VA purposes. These students will likely receive match results showing that they aren't veterans. Just like other students who receive these match results, if an early exit cadet meets one of the other criteria for independence, no resolution is required. But if he meets no other independence criteria, he must provide the school with documentation that shows he was a cadet of a military academy or its preparatory school.

Students should fill out the FAFSA based on their expected grade level at the beginning of the award year. If a dependent student completes her undergraduate program during the year and begins graduate school, she can update the answer to the dependency question so that the CPS can reprocess her application, or the aid administrator at the graduate school can recalculate her EFC and use it to package her graduate aid.

- **Member or veteran of the U.S. Armed Forces (51 and 52).** Veterans and persons on active duty in the U.S. Armed Forces (the Army, Navy, Air Force, Marines, or Coast Guard) for purposes other than training are independent.

  Veterans are those who were in active service (which includes basic training) and were released under a condition other than "dishonorable." This includes those who fraudulently entered the service as long as their entire period of service was not voided. There is no minimum amount of time the student has to have served to be a veteran, but it does have to be active service. This is less stringent than the VA's definition of veteran for receiving certain VA benefits.

  The application also tells students to answer "Yes" to the question about veteran status if they aren't yet a veteran but will be by June 30, 2010. Students who attended a **U.S. service academy** or its preparatory school (e.g., USMAPS or NAPS, not high school academies) for at least one day and were released under conditions other than "dishonorable" count as veterans for Title IV purposes. Students serving in ROTC or currently attending a U.S. military academy are not veterans.

  Members of the **National Guard** or **Reserves** are only considered veterans if they were called up to active federal duty by presidential order for a purpose other than training. It does not matter how long the active duty lasted or if the student returned to reserve status afterward, but, as with the other qualifying veterans, the student must have had a character of service that was not "dishonorable."

- **Children and legal dependents (53 and 54).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who receive more than half their support from the student, and other persons (except a spouse) who live with and receive more than half their support from the student as of the FAFSA signing date and will continue to do so for the award year. The same criteria apply to household size.

  When a student applies after the award year has begun, in order to count a person not her child as a dependent, the support already given that year plus the future support must total more than 50% for the whole year. See the margin example.

STEP 3
Questions 51–54
Dependency status

Legal dependent examples

Laurel is going to college and is her cousin Paul's legal guardian. Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul's support. Because Paul lives with Laurel and will be supported by her (through the Social Security benefits) throughout the award year, Laurel answers "Yes" to the legal dependent question. If Paul didn't live with Laurel, she would have to answer "No" to the question.

Alan pays $4,000 to support his girlfriend, Cathy, who lives with him. She has earned income of $3,000, and she receives $200 a month ($2,400 a year) from her parents. She uses all of this for her support. Alan cannot consider Cathy a dependent since the $4,000 he provides is not more than half of her total support of $9,400.

In April 2009 Anika applies for aid for 2008–09. One month prior to that her cousin Bettina came to live with her. Even though Anika provides all of her cousin's support, the one month of support she has given plus the two months left in the award year would not amount to more than 50% for the entire year, so she can't consider Bettina her dependent for 2008–09. If Bettina had moved in just before the midpoint of the year, Anika would have been able to count her as a dependent for 2008–09.

STEP 3
Veteran match

Veteran match (for question 52)

If the student answers "Yes" to the question about veteran status, the CPS performs a match with the U.S. Department of Veterans Affairs (VA) records to confirm that status. The VA sends the result back, which appears as a match flag in the FAA Information section of the output document. For flags 2, 3, and 4, a comment and a C flag will appear on the SAR only if veteran status is the sole reason that the student would be independent. See Appendix B in *The ISIR Guide: 2009–2010*.

Successful match (match flag 1)

There won't be any comments on the output document if the VA confirms that the student is a veteran.

Not a veteran (match flag 2)

A student will receive this flag if the VA database indicates he is not a veteran. If the student answered "Yes" to one of the other dependency questions, he is independent based on that question and can receive student aid without resolving his veteran status.

If the student answered "No" to all the other dependency questions and he believes he is a qualifying veteran, he should provide the financial aid office at his school a copy of his DD214 (the Certificate of Release or Discharge from Active Duty, with "Character of Service" as anything but "dishonorable"). If it shows that he is a veteran, he can receive aid as an independent student. A dependency override is not necessary because the CPS accepts his "Yes" answer to the veteran question. If a national guardsman or a reservist who served on active duty (for other than training) did not receive a DD214 but can obtain a letter from a superior officer that documents the call-up to active duty and that classifies the character of service as anything but "dishonorable," the student will be considered a veteran for FSA purposes. If the student turns out not to be a veteran, he will need to change his answer to the question from "Yes" to "No" and provide parent information including a parent's signature.

If the VA match problem is due to an error in the VA's database, the student should contact the VA and correct the error. A subsequent transaction will then redo the match with the VA.

Not on database (match flag 3)

Much of the guidance above applies for students not on the VA database: if the student is independent for a reason other than being a veteran, she doesn't need to resolve the problem before receiving student aid, although she should have the VA correct its database if it's wrong. If she answered "No" to the other dependency questions, she must either correct any problem with the VA, provide documentation showing she is a veteran or will be one by June 30, 2010, or, if she is not a veteran and will not be one by that date, provide parent data and change her response to the question from "Yes" to "No."

Active duty (match flag 4)

If the student is currently on active duty, he isn't a veteran yet, but if his active duty will end by June 30, 2010, he counts as a veteran for dependency status. Because he should have answered "Yes" to the active duty question, he would be independent by that criterion, and he wouldn't have to resolve this situation.

STEP 3
Who is a parent or has dependents

Who counts as a parent?

If the applicant answers "No" to questions 48–60, then she is dependent and must report parental information. In most cases it's clear who the parents are, but not always.

✔ **Adoptive parents and stepparents**

An adoptive parent is treated just like a biological parent. For reporting income and assets in Step 4, a stepparent is considered a parent if married to a biological or adoptive parent and if the student counts in their household size.

However, a stepparent who did not adopt the student cannot be the sole parent for determining dependency status. If the other parent dies, the student is still a dependent of the remaining biological parent, not the stepparent. If no biological parent remains, the student answers "Yes" to Question 55 and is independent.

× **Foster parents, legal guardians, and relatives**

A foster parent or a legal guardian is not treated as a parent for FSA purposes. If at any time since the age of 13 both of the student's parents were dead (and he did not have an adoptive parent) or he was in foster care, he is independent. If he is now, or was when he became an adult, an emancipated minor or in legal guardianship, he is independent.

If a student is living with her grandparents or other relatives, their data should not be reported on the FAFSA as parental data unless they have adopted the student. Any cash support from persons other than the student's parents should be reported as untaxed income, as discussed in Step 2. The school may also consider other kinds of support as part of the student's financial resources and use professional judgment to include the support under the item for student's untaxed income (see Chapter 5 on professional judgment).

Other sources of support for children and other household members

If the student is receiving support to raise her child, is the child still considered a legal dependent? If one or both of the student's parents are directly or indirectly providing more than 50% support in cash or other assistance to the child, then the student would answer "No" to the FAFSA question about legal dependents. "Indirect support" to the child includes support that a parent gives to the student on behalf of the child. If the student is living with a parent who is paying for most of the household expenses, the parent would usually be considered the primary source of support to the child, and the student would answer "No" to the question about legal dependents. However, there may be some cases where the student can demonstrate that she provides more than half of her child's support even while living at home, in which case she would answer "Yes" to the question about legal dependents.

When the student receives money for the child from any source other than her parents, she may count it as part of her support to the child. Sources include child support and government programs, such as Temporary Assistance to Needy Families (TANF), that provide benefits for dependent children. So a student may be considered independent when the benefit she receives is the primary support for her child. For example, if a student who lives alone with her child receives cash from her boyfriend that amounts to more than 50% support for her child, then she would be able to count the child as a dependent and in her household size, and she would be independent. If the boyfriend is the father of the child and a student himself, then he would also be able to count the child as a dependent and in his household size, and he would be independent too.

STEP 3
Questions 55–60
Dependency status

Unable to provide parent data
New for 2009–2010, FAFSA on the Web allows students to indicate that they believe they have special circumstances that prevent them from providing parent information. A student who indicates this is thoroughly informed about what warrants a dependency override and what the results will be for his application. If he persists through those screens and does not include parent data, he will get a rejected ISIR that will have the special circumstances flag set. You, the FAA, will have to review the student's situation and determine if he: is an unaccompanied youth, merits a dependency override, must instead provide parent data, or should be permitted to borrow only unsubsidized Stafford loans because he can document that his parents have refused to support him and to provide their information on his FAFSA. See page 32.

Student living with relatives example
Millie's father is dead, and her mother can't support her, so she is living with her grandmother. Her mother doesn't pay any money for her support. Millie doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Millie will have to provide information about her mother on the form unless there are unusual circumstances that would warrant a dependency override or her receiving only unsubsidized loans (see page 32). In any case, the school might use PJ to account for the grandmother's support.

- **Orphan, foster child, or ward of the court (55).** This category was modified by the CCRAA to include foster children and to make 13 the effective age. A student who was an **orphan**—both her parents were dead—when 13 or older is independent even if she was subsequently adopted. Likewise, a student who was at any time since the age of 13 a **foster child** or a **ward of the court** is independent even if her status changed later.

  A student is a ward of the court if the court has assumed custody of her. In some states the court may impose its authority over a juvenile who remains in the legal custody of her parents; such a student is not a ward of the court. Also, incarceration of a student does not qualify her as a ward of the court. In some states the phrase "ward of the state" is used. This is considered the same as a ward of the court for dependency status as long as the student is a ward of the state **not** due to incarceration.

- **Emancipation and legal guardianship (56 and 57).** The CCRAA added these categories for 2009–2010, and the HEOA clarifies them. Students are independent if they are, or were upon reaching the age of majority, emancipated minors (released from control of their parent or guardian) or in legal guardianship, both as adjudicated by a court in their state of legal residence.

- **Unaccompanied homeless youth (58–60).** As another result of the CCRAA, a student is independent if at any time on or after July 1, 2008, she is determined to be an *unaccompanied homeless youth* by a school district homeless liaison or the director (or designee) of an emergency shelter program funded by the Department of Housing and Urban Development (HUD). The director (or designee) of a runaway or homeless youth basic center or transitional living program can determine this as well, plus whether a student is independent because she is an *unaccompanied youth who is self-supporting and at risk of being homeless.* These authorities make this determination if the student is receiving their programs' services or if, in the case of a school district homeless liaison, the student is in high school.

  A financial aid administrator can also determine if a student is an unaccompanied youth who is either homeless or is self-supporting and at risk of being homeless. It is important that you examine students' living situations and claims on a case-by-case basis. This is not a dependency override or an exercise of professional judgment. If a student does not have, and cannot get, documentation from any of the above authorities, you must determine if she is an unaccompanied youth who is homeless or is self-supporting and at risk of being homeless.

  As defined in the margin note, a student is considered homeless if he lacks fixed, regular, and adequate housing. This is broader than just living "on the street." It includes temporarily living with other people because he had nowhere else to go; living in

substandard housing (if it doesn't meet local building codes or the utilities are turned off, it is generally not adequate); living in emergency or transitional shelters, for example, trailers provided by the Federal Emergency Management Agency (FEMA) after disasters; or living in motels, camping grounds, cars, parks, abandoned buildings, bus or train stations, or any public or private place not designed for humans to live in. It also includes living in the school dormitory if the student would otherwise be homeless. A student living in any of these situations and fleeing an abusive parent may be considered homeless even if the parent would provide support and a place to live.

There is no prescribed documentation for an FAA's evaluation of the living arrangements of a student, but it must demonstrate that she meets the definition of this category of independent student. The determination may be based on a documented interview with the student if there is no written documentation available.

For 2009–2010, process the student's FAFSA as though it were a dependency override; we expect to add a separate item for homeless youth on the 2010–2011 application. As with a dependency override, you may rely on a determination by another school that a student was, on or after July 1, 2008, an unaccompanied homeless youth or an unaccompanied, self-supporting youth at risk of being homeless.

Students who are older than 21 but not yet 24 and who, if not for their age, would be considered unaccompanied homeless youths or unaccompanied, self-supporting youths at risk of being homeless, would qualify for a dependency override.

Dependency overrides

The Higher Education Act allows a financial aid administrator (FAA) to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the FAA determines that an override is appropriate, she must write a statement detailing the determination and must include the statement and supporting documentation in the student's file. **However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances meriting a dependency override:**

1. Parents refuse to contribute to the student's education;
2. Parents are unwilling to provide information on the FAFSA or for verification;
3. Parents do not claim the student as a dependent for income tax purposes;
4. Student demonstrates total self-sufficiency.

Unusual circumstances do include an abusive family environment or abandonment by parents and may cause any of the above conditions. In such cases a dependency override might be warranted. See Chapter 5 for guidance on other professional judgment (PJ) changes.

STEP 3
Dependency overrides

Homeless youth definitions

At risk of being homeless—when a student's housing may cease to be fixed, regular, and adequate, for example, a student who is being evicted and has been unable to find fixed, regular, and adequate housing.
Homeless—lacking fixed, regular, and adequate housing.
Self-supporting—when a student pays for his own living expenses, including fixed, regular, and adequate housing.
Unaccompanied—when a student is not living in the physical custody of a parent or guardian.
Youth—a student who is 21 years old or younger or still enrolled in high school as of the date he signs the application.

Housing

Fixed—stationary, permanent, and not subject to change.
Regular—used on a predictable, routine, or consistent basis.
Adequate—sufficient for meeting both the physical and psychological needs typically met in the home.

Verification not required

You are not required to verify the answers to the homeless youth questions unless you have conflicting information. A documented phone call with, or a written statement from, one of the relevant authorities is sufficient verification.

Example: surviving parent and stepparent

Meurig's parents divorced when he was seven; his mother later remarried, and Meurig lived with his mother and stepfather. His stepfather didn't adopt him. His mother died last year, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

STEP 3
Students without parent support

Dependency overrides
HEA Sec. 480(d)(7). Also see Dear Colleague Letter GEN-03-07.

Overrides and professional judgment
The phrase "professional judgment" is commonly used for the discretion that FAAs apply to dependency overrides and to data adjustments in the application. It is important to note that the provisions for these two types of changes are in separate places in the HEA. The citation for dependency overrides is in Sec. 480(d)(7); the citation for data adjustments is in Sec. 479A and is copied in toto in a margin note in the last chapter of this guide.

The presence of these conditions would not disqualify a student from being an unaccompanied youth who is homeless or self-supporting and at risk of being homeless. As noted on page 29, such a student who is too old to be a "youth" would merit a dependency override.

An aid administrator may override only from dependent to independent (though as noted earlier, if an independent student receives substantial support from others, a school may use PJ to adjust the COA or FAFSA data items such as untaxed income).

In the past overrides were valid only at the school that performed them, but now FAAs may, without gathering documentation, use an override that another school granted in the same award year. However, overrides still do not carry over from one year to the next; the FAA must reaffirm each year that the unusual circumstances persist and that an override is still justified.

Generally the documentation of unusual circumstances should come from a third party that knows the student's situation (such as a teacher or member of the clergy), but in cases where this is not available, the school can accept a signed and dated statement from the student or a family member detailing the unusual circumstances.

To override the student's dependent status on an initial application through FAA Access, the FAA should use the Dependency Override code of "1" (see the *EDE Technical Reference* for more information).

To authorize a dependency override on a paper FAFSA, the FAA marks the oval for an override, labeled "D/O," in the "College Use Only" box, fills in the school's federal school code, and signs. A separate letter attached to the application in lieu of making the override is **not** acceptable.

If the student has already applied, you can use FAA Access to CPS Online to authorize or cancel an override; overrides cannot be done on the SAR. If she had an override done at another school in the current year, that will be noted with the school's federal code on FAA Access. Only the school performing the override will receive that transaction. If the student adds your school to the transaction or if she gives you her data release number (DRN), you can access the record.

COLLEGE USE ONLY:
D/O ◯ 1
Federal School Code
FAA Signature
1

Reporting information in cases of death, separation, divorce, and remarriage

If the parents of a student divorce or separate, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent.

Death of a parent

If one, but not both, of the student's parents has died, the student answers the parental questions about the surviving biological or adoptive parent and does not report any financial information for the deceased parent. If both her parents are dead when she fills out the FAFSA, she must answer "Yes" to Question 55, making her independent. Remember that an adoptive parent counts as a parent, but a legal guardian doesn't. If the surviving parent dies after the FAFSA has been filed, the student must update her dependency status and report income and assets as an independent student.

Stepparent

A stepparent is treated like a biological parent if the stepparent has legally adopted the student or if the stepparent is married, as of the date of application, to a student's biological or adoptive parent whose information will be reported on the FAFSA. **There are no exceptions.** A prenuptial agreement does not exempt the stepparent from providing information required of a parent on the FAFSA. The stepparent's income information for the entire base year, 2008, must be reported even if the parent and stepparent were not married until after 2008. See above for how to fill out the parent questions when the stepparent's spouse (the biological parent) dies; if the stepparent has not adopted the student, he would no longer provide parental information as before, but any financial support he gives to the student would be counted as untaxed income.

Divorce of the student's parents

If the student's parents are divorced, he should report the information of the parent with whom he lived longer during the twelve months prior to the date he completes the application, regardless of which parent claimed him as an exemption for tax purposes. If the student lived equally with each parent or didn't live with either one, then he should provide the information for the parent from whom he received more financial support or the one from whom he received more support the last calendar year for which it was given. Note that it is not typical that a student will live with or receive support from both parents exactly equally. Usually you can determine that the student lived with one of the parents more than half the year or that he received more than half support from one of the parents.

Separation of the student's parents or the student and spouse

A couple need not be legally separated to be considered separated—they may deem themselves informally separated when one of the partners has left the household for an indefinite period and the marriage is severed. While a married couple that lives together can't be informally separated, in some states they can be legally separated. If their state allows this, and if they are still living together and are legally separated, then that is their status on the FAFSA. For a dependent student, use the rules for divorce to determine which parent's information to report.

Common-law marriage

If a couple lives together and has not been formally married but meets the criteria in their state for a common-law marriage, they should be reported as married on the application. If the state doesn't consider their situation to be a common-law marriage, then they aren't married; a dependent student would follow the rules for divorce to determine which parent's information to report. Check with the appropriate state agency concerning the definition of a common-law marriage.

STEP 4
Questions 61–70
Parent information

Death, separation, divorce
HEA Sec. 475(f)

Divorce example
Marta is 22 and doesn't meet any of the independence criteria. Her parents divorced recently, and she hasn't lived with them since she was 18. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them and they were still married. Because her father's income was larger and he contributed more money to the overall household expenses, Marta determines that the last time she received support, most of it was from her father. She provides his data on the FAFSA.

Students without parent support

Although students whose parents refuse support are not eligible for a dependency override, the Higher Education Opportunity Act of 2008 (HEOA) granted that such students may receive unsubsidized Stafford loans only. For a student to be eligible for this provision (the text of which is in the "Professional judgment" margin note in Chapter 5), you must get documentation (1) that his parents refuse to provide information for his FAFSA and (2) that they do not and will not provide any financial support to him. Include the date support ended. If the parents refuse to sign and date a statement to this effect, you must get documentation from a third party (the student himself is not sufficient), such as a teacher, counselor, cleric, or court.

As noted above, this situation does not justify a dependency override. But as with overrides, making this determination is up to the discretion of the financial aid administrator. If you decide that a student falls into this category, you must document your decision and ensure that the student submits a FAFSA and passes all the eligibility matches. The result will be a rejected application with no EFC. You can then award the student unsubsidized Stafford loans up to the maximum the student would normally be eligible for depending on his grade level (but not the amount a student can get when his parent is unable to get a PLUS loan). See DCL GEN-08-12 for more information.

STEP FOUR: PARENTS' INFORMATION (DEPENDENT STUDENTS ONLY)

Purpose: Questions 61–81 collect information about the student's parents and their household. Questions 82–95 collect tax and financial information for the parents, and because these questions are answered in the same way as for the student, they were discussed under Step 2.

- **Parents' personal information (61–70).** The FAFSA asks for parents' SSNs, last names, first initial, date of birth, and month and year they were married, separated, divorced, or widowed. This is to prepare for a possible match with the IRS on AGI, taxes paid, filing status, and number of exemptions claimed. If the SSN, last name, and birth date for at least one parent are not provided, or if neither parent's SSN matches with the Social Security Administration, the application will be rejected. When the SSN doesn't match with SSA, the wrong number must be corrected so that the application and SSA agree. For a name or birth date that doesn't match, correct the application if it's wrong or re-enter the information if it's correct. If the parent doesn't have an SSN, enter 000-00-0000 to prevent or remove a reject code. (See also the SSN chapter in Volume 1.)

- **Parents' state of residence (72–74).** Parents who do not live in the U.S. should enter "FC" for question 72.

- **Household size (75).** This determines the standard living allowance that offsets the family income in the EFC calculation.

The following persons may be included in the household size of a dependent student's parents:

➔ **The student and parents,** even if the student is not living with them. Exclude a parent who has died or is not living in the household because of separation or divorce.

➔ **The student's siblings and children,** if they will receive more than half their support from the student's parent(s) from July 1, 2009, through June 30, 2010. Siblings need not live in the home. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., they need not be students nor apply for aid).

For the purpose of including children in the household size, the "support test" is used rather than residency because there may be situations in which a parent supports a child who does not live with her, such as when the parent is divorced or separated. If the parent receives benefits (such as social security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child. An exception to this is foster care payments, which typically cover the costs of foster children, who for FSA purposes are not considered children of the foster parents and are not counted in the household size.

➔ **Other persons** who live with and receive more than half their support from the student's parent(s) and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 25.

■ **Number in college (76).** The applicant is **always** included in the number in college, but parents are not included. Others who count in the household size are in the number in college if they are or will be enrolled at least half time during the award year in an eligible degree or certificate program at a school eligible for any of the FSA programs. The definition of half-time enrollment for this question must meet the federal requirements even if the school defines half time differently. (See *Volume 1: Student Eligibility* for enrollment status requirements.) Do not include students at a U.S. service academy because most of their primary educational expenses are paid for.

■ **Receipt of means-tested federal benefits (77–81).** This as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

STEP 4

Questions 72–76 Household size and number in college

FSA and IRS household rules

The rules that decide whether someone is counted in the household for FSA purposes aren't identical to the IRS rules for determining dependents or household members.

Dependent student household size example

Lydia is a dependent student, and her parents are married. Her brother Ron is 26, but his parents still provide more than 50% of his support, so he is included in the household size. Her sister Elizabeth is attending college but is an independent student and isn't supported by their parents, so she isn't included in the household size. Her sister Susan is not attending college, but is working and supporting herself. However, if Susan were to apply for student aid, she would be considered a dependent student, so she is included. Therefore, the household size that Lydia reports for her parents is 5.

Number in college

HEA Sec. 474(b)(3)

STEP 4

Questions 77–85 Benefits, tax forms, income, assets, and dislocated worker

- **Tax forms filed by parents, income, and assets (82–84, 86–95).** The criteria for reporting income, assets, and the tax forms filed are basically the same for parents as for the student, so refer to the discussion in Step Two for these questions.

- **Dislocated worker (85).** The CCRAA added dislocated worker (as defined in the Workforce Investment Act or WIA; see 29 U.S.C. 2801 for the definition) status as a new alternative to the tax return and means-tested federal benefits criteria for determining if a person qualifies for the simplified needs test or automatic zero EFC. A person would still answer "Yes" to this question if she meets the statutory definition of dislocated worker but does not appear to because of the general nature of the FAFSA instructions. Under the WIA, a dislocated worker is someone who falls into at least one of these categories:

1. A person who meets all of the following requirements:

- he was terminated or laid off from employment or received a notice of termination or layoff;

- he is eligible for or has exhausted his unemployment compensation, **or** he is not eligible for it because, even though he has been employed long enough to demonstrate attachment to the workforce, he had insufficient earnings or performed services for an employer that weren't covered under a state's unemployment compensation law; **and**

- he is unlikely to return to a previous industry or occupation.

2. A person who was terminated or laid off from employment or received a notice of termination or layoff as a result of any permanent closure of, or any substantial layoff at, a plant, facility, or enterprise.

3. A person who is employed at a facility at which the employer made a general announcement that it will close within 180 days.

4. A person who is employed at a facility at which the employer made a general announcement that it will close.

5. A self-employed person (including farmers, ranchers, or fishermen) who is unemployed because of natural disasters or because of general economic conditions in his community.

6. A displaced homemaker, someone who meets all of the following requirements:

- she has been providing unpaid services to family members in the home;

- she has been dependent on the income of another family member but is no longer supported by that income; **and**

STEP 4

Question 85
Dislocated worker

• she is unemployed or underemployed and is having difficulty obtaining or upgrading employment. An "underemployed" person is one who is working part time but wants to work full time or one who is working below the demonstrated level of her education or job skills.

Not everyone who receives unemployment benefits will meet the definition of dislocated worker. For example, in general those who quit their jobs are not considered dislocated workers, even if they are receiving unemployment benefits.

You are not required to verify the answer to this question. If you choose to verify it, documentation can include, as appropriate to the category, a letter or a layoff or termination notice from the employer, unemployment insurance (UI) system verification, tax returns, a business license, or newspaper articles. You may also use documents from the state workforce agency or a "one-stop career center," though they are not required to provide you such documentation and a person may meet the dislocated worker definition without going to the workforce investment system for services. Absent all other evidence, self-certification will suffice, such as a statement signed by the person affirming that he meets the definition of dislocated worker.

Information from the workforce investment system. The local workforce investment system and state UI agency may support financial aid administrators by:

• providing general information to dislocated workers;

• providing general information to financial aid administrators, such as about the WIA definition of dislocated workers and appropriate samples of documentation that financial aid offices can request from an individual to verify dislocated worker status;

• providing specific information to dislocated workers. A person can request documentation from the career center or other appropriate office that he is receiving dislocated worker services through the workforce investment system. That office can give the documentation to him, or at his request it may (it is not obligated to) give the documentation directly to the college.

If you need to determine a person's dislocated worker status, you have sole responsibility for assessing the validity of that status for the purpose of federal student aid. You are required to make this determination regardless of whether he has proof of dislocated worker status, or is receiving dislocated worker services, from the workforce investment system.

Response of "Don't know"
"Don't know" is treated as "No" by the CPS. If a person gives this response, you are not required to verify it, but you may want to determine if he is a dislocated worker and if that would affect the student's eligibility for federal aid.

STEPS 5–6

Questions 96–104 Independent student and school data

Independent student household size example

Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. Eddy's nephew Chavo lives with him and gets more than half of his support from Eddy (and will do so for the award year), so he can be counted in Eddy's household size, which is 2.

Having just turned 24, Chavo is also independent, and his household size is 1.

STEP FIVE: FOR INDEPENDENT STUDENTS ONLY

Purpose: Questions 96–103 collect information about independent students. Only students who answered "Yes" to one or more questions in Step Three complete this step.

- **Student's household size (96).** The following persons are included in the household size of an independent student:

  ➔ **The student and his or her spouse,** unless the spouse has died or is not living in the household due to separation or divorce.

  ➔ **The student's children,** regardless of where they live, if they will receive more than half of their support from the student from July 1, 2009, through June 30, 2010. This includes the student's unborn children who will be born during the award year and will receive more than half their support from the student from birth to the end of the award year. Foster children do not count in household size.

  ➔ **Other persons** who live with and receive more than half their support from the student and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 25.

- **Number in college (97).** The student is **always** included in the number in college. Also included are those in the household size who are or will be enrolled at least half time during the award year in a degree or certificate program at a Title IV-eligible school and who can reasonably be expected to receive aid from the family for their education. This excludes students at a U.S. service academy because their entire education is paid for. The definition of half-time enrollment for this question must meet the federal requirements even if the school defines half time differently.

- **Receipt of means-tested federal benefits (98–102).** This as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

- **Dislocated worker (103).** See question 85.

STEP SIX: SCHOOL INFORMATION

Purpose: These items collect information about which colleges the student wants to receive his information. For a college to be able to receive his data, the student must list the college's federal school code (not the OPE ID) or enter its complete name, address, city, and state. There is a federal school code search on the FAFSA on the Web site (**www.fafsa.ed.gov**), and the entire list of school codes is available in portable document format (PDF) and Excel on the IFAP site (**www.ifap.ed.gov**).

For each school, the student is asked to indicate whether he expects to live on campus, with his parents, or off campus. While this information is not used to calculate the student's EFC, it is useful to schools for determining the cost of attendance.

The student can list up to four schools on the paper FAFSA, ten on the Web (at least one is required). If he wants his information to be available to more schools, he can use his SAR or Corrections on the Web to change the schools listed. The CPS will send data to no more than four (or ten) schools at a time for a student. Chapter 5 describes how he can add or change schools on the list.

STEP 7

Questions 105–109
Date, signatures, and preparer's data

STEP SEVEN: SIGNATURE REQUIREMENTS

Purpose: By signing the FAFSA, the applicant is assuming responsibility for the accuracy of the information reported.

- **Date and signature(s) (105–106).** In addition to certifying that the data on the FAFSA are correct, the student is also signing a Statement of Educational Purpose, which is required to receive FSA funds. Among other things, the student agrees to spend FSA funds only on educational expenses and affirms that he is not in default on a federal loan or does not owe a grant overpayment. If he is dependent, one parent whose information is reported on the FAFSA must also provide a signature.

- **Preparer's ID and signature (107–109).** The HEOA changed the requirements for FAFSA preparers. Now, only persons who are paid a fee to help the student fill out the application are considered preparers. Those who advise students without charging a fee, such as high school counselors and FAAs, are not preparers. A preparer must include his name, his company's name (if applicable), his address or the company address, and either his SSN or the company Employer Identification Number (EIN, as assigned by the IRS). With the paper FAFSA, the preparer must also sign and date the form.

  Preparers have other obligations. In their advertising and their initial contact with a consumer, including via the Internet or phone, they must clearly inform him that the FAFSA is free and can be completed electronically or on paper without professional help. If they have a website for their service, it must link to FAFSA on the Web. They may not use any form other than the FAFSA for the purpose of applying for Title IV aid.

  A preparer who knowingly falsifies information on the application is subject to the same penalties as an applicant.

Copies of signed documents

While you will often receive documents with original or "wet" signatures from the student (e.g., a paper FAFSA that the student has worked on and signed while in your office), there might be an occasion where the student gives you a copy or sends you a fax of a signed document. Except for a copied FAFSA, other imaged versions of the original signed document are valid and may be kept in the student's file.

Signatures for electronic applications

FAA Access to CPS Online

If you enter a student's original application through FAA Access to CPS Online, you must obtain original or "wet" signatures on the printed signature page/FAFSA summary or on a completed paper FAFSA, and you must keep the signed document in the school files even if the student doesn't receive federal student aid or attend your school. You may electronically store the original document, but you may not accept faxed or copied signatures from the student for the FAFSA. (You have more latitude regarding verification documents and changes to the application; see Chapters 4 and 5.)

FAFSA on the Web

Students who have PINs can electronically sign their FAFSA on the Web. Parents who have a PIN can also electronically sign. Both parents and students will have to provide their name ID (first two letters of their last name), SSN, and date of birth along with the PIN. Parents also must provide their child's name ID, SSN, and DOB in order to match the parent's signature record with the student's FAFSA.

Alternately, students can print the signature page, sign it, and mail it to the processor. If the processor doesn't receive the signature page within 14 calendar days of receiving the application data, it will mail a "reject 16" SAR to the student ("no student signature on an electronic application"), which the student can sign and return. If the student chooses not to print and send a signature page, or if no printer was available, the processor won't wait 14 days to print a rejected SAR for the student, but will generate one within 72 hours of receiving the data.

If the student indicated on an electronic FAFSA that she would print, sign, and mail in a signature page but the processor has not received the signature page, the student can call FAFSA on the Web customer service and have her record released from the FAFSA hold file. Because no signature page has been received, the FAFSA processor will produce a rejected SAR and mail it to the student to sign and return. The processor will accept the first signature document it receives—either the signed signature page or the signed SAR.

Schools and states receive ISIRs for rejected records. A student's reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won't calculate an official EFC for the student (an unofficial EFC that cannot be used to award or disburse aid will appear on the ISIR) or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required "wet" signatures at the school, either on the SAR or a document that has the required certification statements (FAA Access allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

Renewal FAFSA on the Web

To access their Renewal FAFSA on the Web, students must provide their PIN along with other identifiers. In addition to allowing access to application data over the Internet, the PIN is a legal equivalent to a manual or "wet" signature for FSA purposes. For an independent student, no other signatures are needed, and the application will be processed within 72 hours.

Parents of dependent students can sign with their own PIN. Otherwise, the student can print a signature page for the parent. If the student indicates that no printer was available, the CPS will generate a "reject 15" (no parent signature) output document for the student within 72 hours. If the student indicated she would send in a signature page, the processor will wait up to 14 calendar days to receive the signed page. If it doesn't receive a signed signature page after 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it back to the address on the SAR. For reject 15 records, a student's SAR and ISIR will reflect the data provided on the application, but the processor won't calculate an EFC for the student until it receives the parent's electronic signature or the signed SAR or signature page.

Signature requirements for changes made after the FAFSA is filed will be discussed in Chapter 5.

Signature Requirements: Application and Verification for All FSA Programs			
	Application ***(FAFSA, FAFSA on the Web, FAA Access to CPS Online)***	***IRS Forms*** ***(1040 or other form submitted for verification)***	***Verification Worksheet***
Student	Must sign statement that data are accurate and other conditions are met (on paper FAFSA, Web summary, or signature page or by using PIN).	Tax return must be signed by student (or spouse), or the tax preparer must provide his name and SSN, EIN, or PTIN.	Must sign worksheet.
Parent(s) (if student is dependent)	One parent must sign statement that data are accurate (on paper FAFSA, Web summary, or signature page or by using PIN).	Tax return must be signed by one parent, or the tax preparer must provide his name and SSN, EIN, or PTIN.	One parent must sign.
Aid Administrator	Must certify if overriding dependency status (can't be done on FAFSA on the Web).		
Signature Requirements for Changes*			
	Changes via SAR or Corrections on the Web	***Changes submitted via FAA Access***	***Professional Judgment via FAA Access***
Student	Must sign corrections statement on the SAR; on the Web the PIN serves as the student's signature.		
Parent(s) (if student is dependent)	One parent must sign the corrections statement on the SAR. If parent data are changed on the Web, a parent must sign with PIN or print and sign signature page.		
Aid Administrator		School must have signed documentation from student and parent.	Must certify for adjustments or dependency override.

* These requirements apply to any submission of changes to the Central Processing System, whether required by regulation (for Pell grant recipients or corrections to data match items) or at the discretion of the financial aid administrator (for Campus-based aid and Stafford loans).

Substitutes for a parent's signature

Although parent information must be provided for a dependent student, a high school counselor or a college aid administrator may sign the application in place of a parent if:

- the parents are not currently in the United States **and** cannot be contacted by normal means,
- the current address of the parents is not known, or
- the parents have been determined physically or mentally incapable of providing a signature.

The signer must provide her title in parentheses next to her signature and briefly state the reason (only one is needed) why she is signing for the parents. The signer assures a minimum level of credibility in the data submitted, however, she does not assume any responsibility or liability in this process. If the counselor or FAA finds any inaccuracies in the information reported, she should direct the student to send the SAR through the normal correction process or, if she is an FAA, she can submit corrections through FAA Access. Because this proxy signing isn't possible electronically, it must be done on a paper FAFSA or on the signature page/FAFSA summary used with FAA Access.

Expected Family Contribution (EFC)

CHAPTER 3

The EFC is a measure of how much the student and his or her family can be expected to contribute to the cost of the student's education for the year. The EFC is calculated according to a formula specified in the law. In this chapter, we describe the EFC formula in detail.

GENERAL INFORMATION

All the data the CPS uses to calculate the EFC come from the information the student provides on the FAFSA. The EFC formula uses many variables, including income, assets, the number of persons in the household, and the number attending college for the award year.

Every year the Department publishes updated tables used in the EFC calculation. The 2009–2010 updates are in the May 29, 2008, *Federal Register*. Also available at **www.ifap.ed.gov** is the *EFC Formula Guide*.

The law provides three different formulas to calculate the EFC: one for dependent students, one for independent students without dependents other than a spouse, and one for independent students with dependents other than a spouse. In addition there are three simplified versions of each formula with fewer data elements.

SIMPLIFIED FORMULA

The simplified formula is basically the same as the regular formula, except that asset information isn't considered in the calculation. A dependent student qualifies for the simplified calculation if:

- the parents' combined AGI (for tax filers) or income earned from work (for non-filers) was less than $50,000, and
- either: (1) the parents were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988 (see Chapter 2 for a description of dislocated worker), or (3) anyone counted in their household size received a means-tested federal benefit during 2007 or 2008.[2]

Basic EFC formulas

➔ Dependent students
➔ Independent students
➔ Independent students with dependents

Special calculations

➔ Simplified formula (no assets)
➔ Automatic zero EFC
➔ Other than 9-month enrollment

HEA Sec. 474–479

[1] Persons not required to file the IRS Form 1040 comprise those who were eligible to file a 1040A or 1040EZ form and those who did not have to file a return at all. Someone who filed a Form 1040 solely to claim a tax credit is not disqualified from consideration for the simplified formula or the automatic zero EFC.

[2] The means-tested federal benefit programs are:

- Supplemental Security Income (SSI)
- Food Stamps
- Free and Reduced Price School Lunches
- Temporary Assistance for Needy Families (TANF)
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Other tax forms
A foreign tax return counts as an IRS Form 1040 to determine if one qualifies for the simplified formula and the automatic zero EFC. A tax return for Puerto Rico, Guam, American Samoa, the Virgin Islands, Marshall Islands, the Federated States of Micronesia, or Palau counts as an IRS Form 1040A or 1040EZ for the purposes of qualifying for the simplified formula and the automatic zero EFC.

Assets not reported on FAFSA
If the student doesn't provide any asset data and qualifies for the simplified formula, her application will still be processed normally. She will only receive one EFC, which will be produced by the simplified formula. However, if the student doesn't qualify for the simplified formula, her application will be rejected and she will have to submit asset data before the CPS will calculate an EFC.

Automatic zero EFC
Sec. 479(c)

Receipt of means-tested federal benefits
A person need not have received the benefit for an entire year; receiving it at any time in the base or prior year qualifies. Also, an FAA may use professional judgment (PJ) to count a benefit if a person did not receive it during those 24 months but is receiving it now.

[1] See margin note #1 on the previous page.

[2] See the previous page for a list.

An independent student qualifies for the simplified calculation if:

- the student's and spouse's combined AGI (tax filers) or income earned from work (non-filers) was less than $50,000, and
- either: (1) the student and spouse were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988, or (3) anyone counted in the household size received a means-tested federal benefit during 2007 or 2008.[2]

The application asks for asset information from all students. If the student qualifies for the simplified formula and provides the asset information, the CPS will make two EFC calculations: one using the assets and one excluding them. The EFC from the simplified formula (which excludes assets) is called the primary EFC and is printed on the front of the student's SAR, while the EFC from the full calculation is called the secondary EFC and is printed in the FAA Information section. To determine the student's aid, the school must use the primary EFC, which will always be less than or equal to the secondary EFC. If it turns out that the student was not eligible for the simplified formula, the school must correct and submit the record and use the EFC reported on the resulting transaction.

AUTOMATIC ZERO EFC

The law also provides for an automatic zero EFC for some students. The CPS will assign a zero EFC to a dependent student if:

- the parents' combined AGI (for tax filers) or combined income earned from work (for non-filers) is $30,000 or less, and
- either: (1) the parents were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988, or (3) anyone counted in their household size received a means-tested federal benefit during 2007 or 2008.[2]

An independent student with dependents other than a spouse automatically qualifies for a zero EFC if:

- the student's and spouse's combined AGI (for tax filers) or combined income earned from work (for non-filers) is $30,000 or less, and
- either: (1) the student and spouse were not required to file an IRS Form 1040,[1] (2) one of them is a dislocated worker as defined in the Workforce Investment Act of 1988, or (3) anyone counted in the household size received a means-tested federal benefit during 2007 or 2008.[2]

Independent students with no dependents other than a spouse do not qualify for an automatic zero EFC.

Another group of students have their EFC reduced to zero: those with a parent or guardian who was a member of the U.S. Armed Forces and died in Iraq or Afghanistan after September 11, 2001. These students must be eligible for Pell grants and must have been less than 24 years old or enrolled in college when the parent or guardian died.

Formula for dependent students

- **Parents' contribution**
  Parents' available income
  Parents' contribution from assets
  Number in college
- **Student's contribution from income**
- **Student's contribution from assets**

ALTERNATE EFCS

The law specifies how the EFC of a dependent student must be modified if the student is going to enroll for other than a nine-month period. The EFC found in the upper-right-hand corner of the first page of the output document is based on a nine-month enrollment period and should always be used for awarding a Pell grant, even if the student is attending for a longer or shorter period. The second section of the "FAA Information" area contains a table of alternate primary and secondary EFCs for periods of one to twelve months. These are alternate EFCs that you must use to award aid (other than Pell grants) if the student is attending for other than nine months.

FORMULA A—DEPENDENT STUDENTS

The EFC for a dependent student is calculated using the FAFSA information for the student and his parents. The CPS calculates the parents' contribution, the student's contribution from income, and the student's contribution from assets; the EFC is the sum of these three. The parents' contribution includes a contribution from assets.

Under the simplified formula the parent's contribution doesn't include assets, nor is the student's contribution from assets counted.

Worksheets and tables that can be used to calculate the EFC for a dependent student are at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Negative AGI or zero?

The FAFSA instruction for parents' AGI is to use the number that appears on a specific line of the tax return; this can be a negative number. The first line of the worksheet for EFC Formula A cites the FAFSA line number and instructs you to substitute a zero if the AGI is negative. Do not take this to mean that a negative AGI should be reported as a zero on the FAFSA. The CPS will change the value to zero, and it makes assumptions that you will not when completing an EFC worksheet by hand. When filling out the FAFSA, the applicant should follow the instruction given and use the AGI as it appears on the tax return.

Parents' contribution

There are three basic steps in calculating the parents' contribution. First, the parents' available income is determined. Then, the parents' contribution from assets is calculated. Finally, the parents' contribution is calculated using the available income, the contribution from assets, and the number in college.

▼ *Parents' available income.* The parents' available income is calculated by subtracting certain allowances from the parents' total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been offset for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

The total income is the sum of the taxable and untaxed income, minus amounts reported in the income but excluded from the formula. If the parents are tax filers, the parents' AGI as reported on the FAFSA is the amount of the parents' taxable income used in the calculation. If the parents are not tax filers, the calculation uses the parents' reported income earned from work. Total income can be a negative number.

The sum of the following allowances are used to reduce the parents' total income:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.

- **State and other tax allowance.** Use Table A1. This allowance is a percentage of parents' total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the parents' total income is below $15,000 or is $15,000 or more. The state used is the parents' state of legal residence reported on the FAFSA. If this item is blank or invalid, the student's reported state of legal residence is used. If both are blank or invalid, the state in the student's mailing address is used. If all three are blank or invalid, the rate shown in Table A1 for a blank or invalid state is used (3% for total income below $15,000; 2% for total income of $15,000 or more). If the allowance is a negative amount, it's set to zero.

- **Father's and mother's Social Security tax allowance.** The father's and mother's Social Security taxes are calculated separately by applying the rates shown in Table A2 to the father's income earned from work and the mother's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** Use Table A3. This allowance is for the basic living expenses of a family. It varies according to the number in the parents' household and the number in college in 2009–10, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. For two working

parents, the allowance is 35% of the lesser of the father's income earned from work (question 89) or the mother's income earned from work (question 90), but may not exceed $3,500. For one-parent families, the allowance is 35% of the parent's income earned from work, also not to exceed $3,500. If a student's parents are married and only one parent reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

▼ *Parents' contribution from assets.* The full formula uses the assets of parents of a dependent student and determines a "contribution from assets." This amount is combined with available income to give an accurate picture of the family's financial strength. In the simplified formula assets aren't counted.

First, the parents' **net worth** is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table A4 to calculate the amount to be used.

Second, the parents' **discretionary net worth** is calculated by subtracting the education savings and asset protection allowance (Table A5) from the parents' net worth. As with income, this is done to protect a portion of assets. The allowances for ages 40 through 65 approximate the present cost of an annuity which, when combined with Social Security benefits, would provide at age 65 a moderate level of living for a retired couple or single person. As shown in Table A5, the allowance increases with the age of the older parent (as reported on the FAFSA) to indicate the cost of purchasing such an annuity at a given age. Discretionary net worth may be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **parents' contribution from assets**, which represents the portion of parental assets considered available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

▼ *Calculation of parents' contribution.* This is the final step in determining the parents' contribution. The parents' available income and contribution from assets are added together to determine the parents' adjusted available income, which can be a negative number. The total parents' contribution from adjusted available income is calculated from the amounts and rates in Table A6 and is the total amount parents are expected to contribute toward all of their family's postsecondary educational costs. The rates in Table A6 increase from 22% to 47% as the adjusted available income increases. This is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases and the portion available for discretionary purposes increases. Therefore, a progressively larger amount of income may be contributed toward postsecondary educational costs.

The parents' contribution for the individual student is calculated by dividing the total parents' contribution from adjusted available income by the number in college in 2009–10, as reported on the FAFSA. Parents are not included in the number attending college.

Student's contribution from income

To determine the student's contribution from income, the student's available income (AI) is first calculated by subtracting total allowances from the student's total income. The AI is then assessed at a rate of 50% to obtain the student contribution from available income. If the student contribution from available income is less than zero, it's set to zero.

As with the parents' income information, the student's total income is calculated using information from the student's FAFSA. The student's total income is the sum of the student's taxable and untaxed income, minus amounts reported in the income but excluded from the formula (see Chapter 2 for more on these exclusions). If the student is a tax filer, the student's AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student is not a tax filer, the calculation uses the student's reported income earned from work. Total income may be a negative number.

The allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-tax filers don't receive this allowance. If this is a negative amount, it's set to zero.

- **State and other tax allowance.** Use Table A7. This allowance is a percentage of the student's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the parents' state of legal residence is used. If all three items are blank or invalid, the rate for a blank or invalid state in Table A7 is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's Social Security taxes are calculated by applying the rates shown in Table A2 to the student's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** The income protection allowance for a dependent student is $3,750.

- **Parent's negative AAI.** To recognize that a student's income may be needed to help support the family, the EFC calculation allows a parent's negative adjusted available income (AAI) to reduce a dependent student's contribution from income. Because the

student's contribution from income cannot be negative, this will not affect the student's contribution from assets.

Formula for independent students without dependents other than a spouse

- **Contribution from available income**
- **Contribution from assets**

Student's contribution from assets

The student's assets are treated the same way as the parents' assets with three differences: there is no adjustment to the net worth of a business or farm, there is no education savings and asset protection allowance, and net worth is assessed at the rate of 20%. Remember that under the simplified formula there is no student contribution from assets.

The student's net worth is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). The net worth is multiplied by 20% to obtain the student's contribution from assets, which is the portion of assets considered available to help pay for his postsecondary education.

Alternate EFCs for other than nine-month enrollment

The standard parents' contribution is for a nine-month enrollment period. For a shorter period, the parents' contribution is prorated according to the number of months of enrollment. The student's contribution from available income is also prorated and then added to the student asset contribution, which is not prorated. For an enrollment of more than nine months, the parents' contribution is calculated by adjusting the standard nine-month formula on page 3 of Worksheet A of the EFC worksheets, and the student's contribution remains at the nine-month amount.

FORMULA B—INDEPENDENT STUDENT WITHOUT DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student without dependents other than a spouse is calculated using the FAFSA information for the student and spouse. The CPS calculates a contribution from available income and a contribution from assets. The sum of these two is divided by the number in college in 2009–10, as reported on the FAFSA. The result is the EFC for the 2009–10 award period. Under the simplified formula, the contribution from assets isn't used.

Worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse are at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Contribution from available income

The student's available income, which can be a negative number, is calculated by subtracting the total allowances from the total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided to meet those expenses, the formula assumes that the remaining income is available for discretionary purposes, including

paying for a postsecondary education. The available income is then assessed at a rate of 50% to obtain the student's contribution from available income.

▼ *Total income.* The total income is the sum of the student's and her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 2 for more on these exclusions). If the student and spouse are tax filers, their AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not tax filers, the calculation uses reported income earned from work. Untaxed income is included in the formula because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student or spouse are tax filers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.

- **State and other tax allowance.** Use Table B1. This allowance is a percentage of the student and spouse's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (2%). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table B2 to the student's income earned from work in 2008 and the spouse's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** The income protection allowance for an unmarried student is $7,000. For a married student, the income protection allowance is $7,000 if the student's spouse is enrolled at least half time, and $11,220 if the student's spouse isn't enrolled at least half time.

- **Employment expense allowance.** Families with two working spouses have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. If the student isn't married, the employment expense allowance is zero. If the student is married but only

one person is working (either the student or the student's spouse), the allowance is zero. If both the student and his spouse are working, the allowance is 35% of the lesser of the student's income earned from work (question 39) or the spouse's income earned from work (question 40), but may not exceed $3,500.

Formula for independent student with dependents other than a spouse

- **Available income**
- **Contribution from Assets**
- **Calculation of the student's EFC**

Contribution from assets

For students who qualify for the simplified formula, there is no contribution from assets. In the full formula, the assets of an independent student with no dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs.

First, the **net worth** of the student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table B3 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table B4) from the net worth. The allowance increases with the age of the student as of December 31, 2009, which may be determined from the student's date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 20% to obtain the student and spouse's contribution from assets, which represents the portion of the value of the assets that is considered available to help pay for the student's college education. If the contribution from assets is less than zero, it's set to zero.

Alternate EFCs for other than nine-month enrollment

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.

FORMULA C — INDEPENDENT STUDENT WITH DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student with dependents other than a spouse is calculated using the information for the student and spouse provided on the FAFSA. The formula is almost the same as the formula for the parents of a dependent student. There are three basic steps. First, the student's available income is determined. Then, the student's contribution from assets is calculated. Finally, the EFC is calculated using the available income, the contribution from assets, and the number in college.

Worksheets and tables that can be used to calculate the EFC for an independent student with dependents other than a spouse are given at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Available income

Available income is calculated by subtracting certain allowances from the student's total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

▼ *Student's total income.* The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 2 for more information on these exclusions). If the student and spouse are tax filers, AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not tax filers, the calculation uses reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student and spouse are tax filers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-tax filers don't receive this allowance. If this is a negative amount, it is set to zero.

- **State and other tax allowance.** Use Table C1. This allowance is a percentage of the total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the total income is below $15,000 or is $15,000 or more. The state to be used is the student's state of legal residence reported on the FAFSA. If this item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (3% for total income below $15,000; 2% for total income of $15,000 or more). If the allowance is a negative amount, it's set to zero.

- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table C2 to the student's income earned from work and the spouse's income earned from work in 2008 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.

- **Income protection allowance.** Use Table C3. This allowance provides for the basic living expenses of a family. It varies according to the number in the student's household and the number in college in 2009–10, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. When both the student and spouse work, the allowance is 35% of the lesser of the student's income earned from work (question 39) or the spouse's income earned from work (question 40), but may not exceed $3,500. If the student isn't married, the allowance is 35% of the student's income earned from work, or $3,500, whichever is less. If a student is married and only the student *or* the spouse (but not both) reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

Contribution from assets

In the full formula, the assets of an independent student with dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs. The formula determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strengths. In the simplified formula, the assets aren't counted at all.

First, the **net worth** of a student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or farm is adjusted to protect a portion of these assets. Use Table C4 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table C5) from the net worth. The allowance increases with the age of the student as of December 31, 2009, which may be determined from the student's date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by 7% to obtain the **contribution from assets**, which is the portion of the value of the student's and spouse's assets considered to be available to help pay for

the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

Calculation of student's EFC

This is the final step in determining the EFC for the independent student with dependents other than a spouse. The available income and the contribution from assets are added together to obtain the adjusted available income. The adjusted available income can be a negative number. The total contribution from adjusted available income is calculated from using Table C6. This is the total amount the student's family is expected to contribute toward family postsecondary educational costs. The rates in Table C6 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. The larger the income, the easier it is for a family to contribute toward postsecondary educational costs with less effect on the maintenance of the family.

The EFC is calculated by dividing the total student's contribution from adjusted available income by the number in college in 2009–10, as reported on the FAFSA. The result is the EFC for the 2009–10 award period.

Alternate EFCs for other than nine-month enrollment

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.

2009-2010 EFC FORMULA A : DEPENDENT STUDENT

REGULAR WORKSHEET Page 1 **A**

PARENTS' INCOME IN 2008	
1. Parents' Adjusted Gross Income (FAFSA/SAR #86) If negative, enter zero.	
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #89) _____	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #90) + _____	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Total untaxed income and benefits: (Total of FAFSA/SAR #95.a. through 95.i.) +	
5. Taxable and untaxed income (sum of line 3 and line 4) =	
6. Total additional financial information (Total of FAFSA/SAR #94.a. through 94.e.) –	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2008 U.S. income tax paid (FAFSA/SAR #87) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table A1) If negative, enter zero. +	
10. Father's/stepfather's Social Security tax allowance (Table A2) +	
11. Mother's/stepmother's Social Security tax allowance (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or $3,500, whichever is less	
• One-parent families: 35% of earned income, or $3,500, whichever is less	
• Two-parent families, one working parent: enter zero +	
14. TOTAL ALLOWANCES =	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The parents are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- Either one of the parents is a dislocated worker

If these circumstances are true, the expected family contribution is automatically zero.

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) –	
15. AVAILABLE INCOME (AI) May be a negative number. =	

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #91)	
17. Net worth of investments** (FAFSA/SAR #92) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #93) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Education savings and asset protection allowance (Table A5) –	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	**.12**
24. CONTRIBUTION FROM ASSETS If negative, enter zero. =	

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2009-2010 (Exclude parents) (FAFSA/SAR #76) ÷	
28. PARENTS' CONTRIBUTION (standard contribution for nine-month enrollment)*** If negative, enter zero. =	

**Do *not* include the family's home.

***To calculate the parents' contribution for other than nine-month enrollment, see page 11.

continued on the next page

REGULAR WORKSHEET Page 2 **A**

STUDENT'S INCOME IN 2008		
29. Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
30. Income earned from work (FAFSA/SAR #39)		
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)		
32. Total untaxed income and benefits (Total of FAFSA/SAR #47.a. through 47.j.)	+	
33. Taxable and untaxed income (sum of line 31 and line 32)	=	
34. Total additional financial information (Total of FAFSA/SAR #46.a. through 46.e.)	–	
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT INCOME		
36. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
37. State and other tax allowance (Table A7) If negative, enter zero.	+	
38. Social Security tax allowance (Table A2)	+	
39. Income protection allowance	+	**3,750**
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+	
41. TOTAL ALLOWANCES	=	

STUDENT'S CONTRIBUTION FROM INCOME		
Total income (from line 35)		
Total allowances (from line 41)	–	
42. Available income (AI)	=	
43. Assessment of AI	×	**.50**
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=	

STUDENT'S CONTRIBUTION FROM ASSETS		
45. Cash, savings & checking (FAFSA/SAR #41)		
46. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
47. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.	+	
48. Net worth (sum of lines 45 through 47)	=	
49. Assessment rate	×	**.20**
50. STUDENT'S CONTRIBUTION FROM ASSETS	=	

EXPECTED FAMILY CONTRIBUTION		
PARENTS' CONTRIBUTION (from line 28)		
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+	
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+	
51. EXPECTED FAMILY CONTRIBUTION (standard contribution for nine-month enrollment)** If negative, enter zero.	=	

*Do *not* include the student's home.

**To calculate the EFC for other than nine-month enrollment, see the next page.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for other than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR WORKSHEET Page 3 **A**

Calculation of Parents' Contribution for a Student Enrolled LESS than Nine Months		
A1. Parents' contribution (standard contribution for nine-month enrollment, from line 28)		
A2. Divide by 9	÷	**9**
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	×	
A5. Parents' contribution for LESS than nine-month enrollment	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than Nine Months		
B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	**4,380**
B3. Alternate parents' AAI for more than nine-month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #76)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for nine-month enrollment (from line 28)	–	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	**12**
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	×	
B12. Adjustment to parents' contribution for months that exceed nine (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for nine-month enrollment (from line 28)	+	
B14. Parents' contribution for MORE than nine-month enrollment	=	

Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS than Nine Months*		
C1. Student's contribution from AI (standard contribution for nine-month enrollment, from line 44)		
C2. Divide by 9	÷	**9**
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	×	
C5. Student's contribution from AI for LESS than nine-month enrollment	=	

*For students enrolled more than nine months, the standard contribution from AI is used (the amount from line 44).

Use next page to calculate total EFC for enrollment periods other than nine months

REGULAR WORKSHEET Page 4 **A**

Calculation of Total Expected Family Contribution for Periods of Enrollment Other than Nine Months	
Parents' Contribution—use ONE appropriate amount from previous page: • Enter amount from line A5 for enrollment periods less than nine months **OR** • Enter amount from line B14 for enrollment periods greater than nine months	
Student's Contribution from Available Income—use ONE appropriate amount from previous page: • Enter amount from line C5 for enrollment periods less than nine months **OR** + • Enter amount from line 44 for enrollment periods greater than nine months	
Student's Contribution from Assets • Enter amount from line 50 +	
Expected Family Contribution for periods of enrollment other than nine months =	

2009-2010 EFC FORMULA A: DEPENDENT STUDENT

SIMPLIFIED WORKSHEET Page 1 **A**

PARENTS' INCOME IN 2008	
1. Parents' Adjusted Gross Income (FAFSA/SAR #86) If negative, enter zero.	
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #89) _____	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #90) + _____	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Total untaxed income and benefits (sum total of FAFSA/SAR #95.a. through 95.i.) +	
5. Taxable and untaxed income (sum of line 3 and line 4) =	
6. Total additional financial information (sum total of FAFSA/SAR #94.a. through 94.e.) –	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2008 U.S. income tax paid (FAFSA/SAR #87) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table A1) If negative, enter zero. +	
10. Father's/stepfather's Social Security tax allowance (Table A2) +	
11. Mother's/stepmother's Social Security tax allowance (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or $3,500, whichever is less	
• One-parent families: 35% of earned income, or $3,500, whichever is less	
• Two-parent families, one working parent: enter zero +	
14. TOTAL ALLOWANCES =	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The parents are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- Either one of the parents is a dislocated worker

If these circumstances are true, the expected family contribution is automatically zero.

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) –	
15. AVAILABLE INCOME (AI) May be a negative number. =	

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #91)	
17. Net worth of investments** (FAFSA/SAR #92) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #93) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Education savings and asset protection allowance (Table A5) –	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	.12
24. CONTRIBUTION FROM ASSETS If negative, enter zero. =	

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2009-2010 (Exclude parents) (FAFSA/SAR #76) ÷	
28. PARENTS' CONTRIBUTION (standard contribution for nine-month enrollment)*** If negative, enter zero. =	

**Do *not* include the family's home.

***To calculate the parents' contribution for other than nine-month enrollment, see page 15.

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

continued on the next page

SIMPLIFIED WORKSHEET Page 2 **A**

STUDENT'S INCOME IN 2008		
29. Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
30. Income earned from work (FAFSA/SAR #39)		
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)		
32. Total untaxed income and benefits (Total of FAFSA/SAR #47.a. through 47.j.)	+	
33. Taxable and untaxed income (sum of line 31 and line 32)	=	
34. Total additional financial information (Total of FAFSA/SAR #46.a. through 46.e.)	–	
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT INCOME		
36. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
37. State and other tax allowance (Table A7) If negative, enter zero.	+	
38. Social Security tax allowance (Table A2)	+	
39. Income protection allowance	+	**3,750**
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+	
41. TOTAL ALLOWANCES	=	

STUDENT'S CONTRIBUTION FROM INCOME		
Total income (from line 35)		
Total allowances (from line 41)	–	
42. Available income (AI)	=	
43. Assessment of AI	×	**.50**
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=	

STUDENT'S CONTRIBUTION FROM ASSETS		
45. Cash, savings & checking (FAFSA/SAR #41)	+	
46. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
47. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.	+	
48. Net worth (sum of lines 45 through 47)	=	
49. Assessment rate	×	**.20**
50. STUDENT'S CONTRIBUTION FROM ASSETS	=	

EXPECTED FAMILY CONTRIBUTION		
PARENTS' CONTRIBUTION (from line 28)		
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+	
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+	
51. EXPECTED FAMILY CONTRIBUTION standard contribution for nine month enrollment. If negative, enter zero.**	=	

*Do not include the student's home.

**To calculate the EFC for other than nine-month enrollment, see the next page.

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for other than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED WORKSHEET Page 3 **A**

Calculation of Parents' Contribution for a Student Enrolled LESS than Nine Months		
A1. Parents' contribution (standard contribution for nine-month enrollment, from line 28)		
A2. Divide by 9	÷	**9**
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	×	
A5. Parents' contribution for LESS than nine-month enrollment	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than Nine Months		
B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	**4,380**
B3. Alternate parents' AAI for more than nine-month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #76)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for nine-month enrollment (from line 28)	–	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	**12**
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	×	
B12. Adjustment to parents' contribution for months that exceed nine (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for nine-month enrollment (from line 28)	+	
B14. Parents' contribution for MORE than nine-month enrollment	=	

Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS than Nine Months*		
C1. Student's contribution from AI (standard contribution for nine-month enrollment, from line 44)		
C2. Divide by 9	÷	**9**
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	×	
C5. Student's contribution from AI for LESS than nine-month enrollment	=	

*For students enrolled more than nine months, the standard contribution from AI is used (the amount from line 44).

Use next page to calculate total EFC for enrollment periods other than nine months

SIMPLIFIED WORKSHEET Page 4 **A**

Calculation of Total Expected Family Contribution for Periods of Enrollment Other than Nine Months	
Parents' Contribution—use ONE appropriate amount from previous page: • Enter amount from line A5 for enrollment periods less than nine months **OR** • Enter amount from line B14 for enrollment periods greather than nine months	
Student's Contribution from Available Income—use ONE appropriate amount from previous page: • Enter amount from line C5 for enrollment periods less than nine months **OR** + • Enter amount from line 44 for enrollment periods greater than nine months	
Expected Family Contribution for periods of enrollment other than nine months =	

Table A1: State and Other Tax Allowance

for EFC Formula Worksheet A (parents only)

STATE	PERCENT OF TOTAL INCOME	
	$0-$14,999	$15,000 or more
Alabama	3%	2%
Alaska	2%	1%
American Samoa	3%	2%
Arizona	4%	3%
Arkansas	4%	3%
California	8%	7%
Canada and Canadian Provinces	3%	2%
Colorado	5%	4%
Connecticut	8%	7%
Delaware	4%	3%
District of Columbia	7%	6%
Federated States of Micronesia	3%	2%
Florida	3%	2%
Georgia	5%	4%
Guam	3%	2%
Hawaii	5%	4%
Idaho	5%	4%
Illinois	5%	4%
Indiana	4%	3%
Iowa	5%	4%
Kansas	5%	4%
Kentucky	5%	4%
Louisiana	3%	2%
Maine	6%	5%
Marshall Islands	3%	2%
Maryland	8%	7%
Massachusetts	7%	6%
Mexico	3%	2%
Michigan	5%	4%
Minnesota	6%	5%
Mississippi	3%	2%
Missouri	5%	4%
Montana	5%	4%
Nebraska	5%	4%
Nevada	3%	2%
New Hampshire	5%	4%
New Jersey	9%	8%
New Mexico	3%	2%
New York	9%	8%
North Carolina	6%	5%
North Dakota	3%	2%
Northern Mariana Islands	3%	2%
Ohio	6%	5%
Oklahoma	4%	3%
Oregon	7%	6%
Palau	3%	2%
Pennsylvania	6%	5%
Puerto Rico	3%	2%
Rhode Island	7%	6%
South Carolina	5%	4%
South Dakota	2%	1%
Tennessee	2%	1%
Texas	3%	2%
Utah	5%	4%
Vermont	5%	4%
Virgin Islands	3%	2%
Virginia	6%	5%
Washington	4%	3%
West Virginia	3%	2%
Wisconsin	7%	6%
Wyoming	2%	1%
Blank or Invalid State	3%	2%
OTHER	3%	2%

Multiply Parents' Total Income (EFC Formula Worksheet A, line 7) by the appropriate rate from the table above to get the "State and Other Tax Allowance" (EFC Formula Worksheet A, line 9). Use the parents' State of Legal Residence (FAFSA/SAR #72). If this item is blank or invalid, use the student's State of Legal Residence (FAFSA/SAR #18). If both items are blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If all three items are blank or invalid, use the rate for a blank or invalid state above.

Table A2: Social Security Tax

Calculate separately the Social Security tax of father, mother, and student.

Income Earned from Work*	Social Security Tax
$0 - $102,000	7.65% of income
$102,001 or greater	$7,803.00 + 1.45% of amount over $102,000

*Father's/stepfather's 2008 income earned from work is FAFSA/SAR #89.
Mother's/stepmother's 2008 income earned from work is FAFSA/SAR #90.
Student's 2008 income earned from work is FAFSA/SAR #39.
Social Security tax will never be less than zero.

Table A3: Income Protection Allowance

Number in parents' household, including student (FAFSA/SAR #75)	Number of college students in household (FAFSA/SAR #76)				
	1	2	3	4	5
2	$15,840	$13,130	———	———	———
3	19,730	17,030	$14,320	———	———
4	24,370	21,660	18,960	$16,250	———
5	28,750	26,040	23,340	20,630	$17,940
6	33,630	30,920	28,220	25,510	22,820

Note: For each additional family member, add $3,800.
For each additional college student (except parents), subtract $2,700.

Table A4: Business/Farm Net Worth Adjustment

for EFC Formula Worksheet A (parents only)

If the net worth of a business or farm is—	Then the adjusted net worth is—			
Less than $1	$0			
$1 to $115,000	40% of net worth of business/farm			
$115,001 to $340,000	$ 46,000	+	50%	of net worth over $115,000
$340,001 to $565,000	$158,500	+	60%	of net worth over $340,000
$565,001 or more	$293,500	+	100%	of net worth over $565,000

Table A5: Education Savings and Asset Protection Allowance

for EFC Formula Worksheet A (parents only)

*Age of older parent as of 12/31/2009**	Allowance if there are two parents	Allowance if there is only one parent	*Age of older parent as of 12/31/2009**	Allowance if there are two parents	Allowance if there is only one parent
25 or less ...	$0	$0	45	$48,700	$19,900
26	2,900	1,200	46	49,900	20,400
27	5,800	2,400	47	51,200	20,900
28	8,700	3,600	48	52,400	21,400
29	11,600	4,800	49	53,700	21,900
30	14,500	6,000	50	55,300	22,400
31	17,400	7,200	51	56,700	22,900
32	20,300	8,400	52	58,000	23,500
33	23,100	9,500	53	59,800	24,000
34	26,000	10,700	54	61,200	24,600
35	28,900	11,900	55	63,000	25,300
36	31,800	13,100	56	64,900	25,900
37	34,700	14,300	57	66,400	26,500
38	37,600	15,500	58	68,300	27,200
39	40,500	16,700	59	70,300	27,900
40	43,400	17,900	60	72,300	28,700
41	44,200	18,200	61	74,400	29,500
42	45,300	18,600	62	76,600	30,300
43	46,400	19,100	63	79,100	31,100
44	47,600	19,500	64	81,300	32,000
			65 or over ..	84,000	32,800

*Determine the age of the older parent listed in FAFSA/SAR #66 and #70 as of 12/31/09. If no parent date of birth is provided, use age 45.

Table A6: Parents' Contribution from AAI

If parents' AAI is—	**The parents' contribution from AAI is—**
Less than –$3,409	–$750
–$3,409 to $14,200	22% of AAI
$14,201 to $17,800	$3,124 + 25% of AAI over $14,200
$17,801 to $21,400	$4,024 + 29% of AAI over $17,800
$21,401 to $25,000	$5,068 + 34% of AAI over $21,400
$25,001 to $28,600	$6,292 + 40% of AAI over $25,000
$28,601 or more	$7,732 + 47% of AAI over $28,600

Table A7: State and Other Tax Allowance

for EFC Formula Worksheet A (student only)

Alabama	2%
Alaska	0%
American Samoa	2%
Arizona	3%
Arkansas	3%
California	5%
Canada and Canadian Provinces	2%
Colorado	3%
Connecticut	4%
Delaware	3%
District of Columbia	6%
Federated States of Micronesia	2%
Florida	1%
Georgia	4%
Guam	2%
Hawaii	4%
Idaho	3%
Illinois	2%
Indiana	3%
Iowa	3%
Kansas	3%
Kentucky	4%
Louisiana	2%
Maine	4%
Marshall Islands	2%
Maryland	5%
Massachusetts	4%
Mexico	2%
Michigan	3%
Minnesota	4%
Mississippi	2%
Missouri	3%
Montana	3%
Nebraska	3%
Nevada	1%
New Hampshire	1%
New Jersey	4%
New Mexico	3%
New York	6%
North Carolina	4%
North Dakota	1%
Northern Mariana Islands	2%
Ohio	4%
Oklahoma	3%
Oregon	5%
Palau	2%
Pennsylvania	3%
Puerto Rico	2%
Rhode Island	4%
South Carolina	3%
South Dakota	1%
Tennessee	1%
Texas	1%
Utah	4%
Vermont	3%
Virgin Islands	2%
Virginia	4%
Washington	1%
West Virginia	2%
Wisconsin	4%
Wyoming	1%
Blank or Invalid State	2%
OTHER	2%

Multiply the student's total income (EFC Formula Worksheet A, line 35) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet A, line 37). Use the student's state of legal residence (FAFSA/SAR #18). If this item is blank or invalid, use the state in the student's mailing address (FAFSA/SAR #6). If both items are blank or invalid, use the parents' state of legal residence (FAFSA/SAR #72). If all three items are blank or invalid, use the rate for a blank or invalid state above.

2009-2010 EFC FORMULA B: INDEPENDENT STUDENT
Without Dependent(s) Other than a Spouse

REGULAR WORKSHEET Page 1 **B**

STUDENT/SPOUSE INCOME IN 2008		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
2. a. Student's income earned from work (FAFSA/SAR #39) _____		
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____		
Total student/spouse income earned from work	=	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.)	+	
5. Taxable and untaxed income (sum of line 3 and line 4)	=	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.)	–	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
9. State and other tax allowance (Table B1) If negative, enter zero.	+	
10. Student's Social Security tax (Table B2)	+	
11. Spouse's Social Security tax (Table B2)	+	
12. Income protection allowance: • $7,000 for unmarried or separated student; • $7,000 for married student if spouse is enrolled at least 1/2 time; • $11,220 for married student if spouse is not enrolled at least 1/2 time.	+	
13. Employment expense allowance: • If student is not married or is separated, the allowance is zero. • If student is married but only one person is working (the student or spouse), the allowance is zero. • If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or $3,500, whichever is less.	+	
14. TOTAL ALLOWANCES	=	

CONTRIBUTION FROM AVAILABLE INCOME		
TOTAL INCOME (from line 7)		
TOTAL ALLOWANCES (from line 14)	–	
15. AVAILABLE INCOME (AI)	=	
16. Assessment rate	×	**.50**
17. CONTRIBUTION FROM AI May be a negative number.	=	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS		
18. Cash, savings & checking (FAFSA/SAR #41)		
19. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
20. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.		
21. Adjusted net worth of business/farm (Calculate using Table B3.)	+	
22. Net worth (sum of lines 18, 19, and 21)	=	
23. Asset protection allowance (Table B4)	–	
24. Discretionary net worth (line 22 minus line 23)	=	
25. Asset conversion rate	×	**.20**
26. CONTRIBUTION FROM ASSETS If negative, enter zero.		

EXPECTED FAMILY CONTRIBUTION		
CONTRIBUTION FROM AI (from line 17) May be a negative number.		
CONTRIBUTION FROM ASSETS (from line 26)	+	
27. Contribution from AI and assets	=	
28. Number in college in 2009-2010 (FAFSA/SAR #97)	÷	
29. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.**	=	

*Do *not* include the student's home.

**To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 29 above).

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR WORKSHEET Page 2 **B**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 29)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet B, line 29).

2009-2010 EFC FORMULA B: INDEPENDENT STUDENT
Without Dependent(s) Other than a Spouse

SIMPLIFIED WORKSHEET Page 1 **B**

STUDENT/SPOUSE INCOME IN 2008		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
2. a. Student's income earned from work (FAFSA/SAR #39) _____		
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____		
Total student/spouse income earned from work	=	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.)	+	
5. Taxable and untaxed income (sum of line 3 and line 4)	=	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.)	–	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
9. State and other tax allowance (Table B1) If negative, enter zero.	+	
10. Student's Social Security tax (Table B2)	+	
11. Spouse's Social Security tax (Table B2)	+	
12. Income protection allowance: • $7,000 for unmarried or separated student; • $7,000 for married student if spouse is enrolled at least 1/2 time; • $11,220 for married student if only the student is enrolled at least 1/2 time.	+	
13. Employment expense allowance: • If student is not married or is separated, the allowance is zero. • If student is married but only one person is working (the student or spouse), the allowance is zero. • If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or $3,500, whichever is less.	+	
14. TOTAL ALLOWANCES	=	

CONTRIBUTION FROM AVAILABLE INCOME		
TOTAL INCOME (from line 7)		
TOTAL ALLOWANCES (from line 14)	–	
15. AVAILABLE INCOME (AI)	=	
16. Assessment rate	×	.50
17. CONTRIBUTION FROM AI May be a negative number.	=	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS		
18. Cash, savings & checking (FAFSA/SAR #41)		
19. Net worth of investments* (FAFSA/SAR #42) If negative, enter zero.		
20. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.		
21. Adjusted net worth of business/farm (Calculate using Table B3.)	+	
22. Net worth (sum of lines 18, 19, and 21)	=	
23. Asset protection allowance (Table B4)	–	
24. Discretionary net worth (line 22 minus line 23)	=	
25. Asset conversion rate	×	.20
26. CONTRIBUTION FROM ASSETS If negative, enter zero.		

EXPECTED FAMILY CONTRIBUTION		
CONTRIBUTION FROM AI (from line 17) May be a negative number.		
CONTRIBUTION FROM ASSETS (from line 26)	+	
27. Contribution from AI and assets	=	
28. Number in college in 2009-2010 (FAFSA/SAR #97)	÷	
29. EXPECTED FAMILY CONTRIBUTION for nine-month enrollment. If negative, enter zero.**	=	

*Do *not* include the student's home.

**To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 29 above).

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED WORKSHEET Page 2 **B**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 29)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet B, line 29.)

Table B1: State and Other Tax Allowance

Alabama	2%
Alaska	0%
American Samoa	2%
Arizona	3%
Arkansas	3%
California	5%
Canada and Canadian Provinces	2%
Colorado	3%
Connecticut	4%
Delaware	3%
District of Columbia	6%
Federated States of Micronesia	2%
Florida	1%
Georgia	4%
Guam	2%
Hawaii	4%
Idaho	3%
Illinois	2%
Indiana	3%
Iowa	3%
Kansas	3%
Kentucky	4%
Louisiana	2%
Maine	4%
Marshall Islands	2%
Maryland	5%
Massachusetts	4%
Mexico	2%
Michigan	3%
Minnesota	4%
Mississippi	2%
Missouri	3%
Montana	3%
Nebraska	3%
Nevada	1%
New Hampshire	1%
New Jersey	4%
New Mexico	3%
New York	6%
North Carolina	4%
North Dakota	1%
Northern Mariana Islands	2%
Ohio	4%
Oklahoma	3%
Oregon	5%
Palau	2%
Pennsylvania	3%
Puerto Rico	2%
Rhode Island	4%
South Carolina	3%
South Dakota	1%
Tennessee	1%
Texas	1%
Utah	4%
Vermont	3%
Virgin Islands	2%
Virginia	4%
Washington	1%
West Virginia	2%
Wisconsin	4%
Wyoming	1%
Blank or Invalid State	2%
OTHER	2%

Multiply the total income of student and spouse (EFC Formula Worksheet B, line 7) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet B, line 9). Use the student's State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use rate for blank or invalid state above.

Table B2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work*	Social Security Tax
$0 - $102,000	7.65% of income
$102,001 or greater	$7,803.00 + 1.45% of amount over $102,000

*Student's 2008 income earned from work is FAFSA/SAR #39.
Spouse's 2008 income earned from work is FAFSA/SAR #40.
Social Security tax will never be less than zero.

Table B3: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—			
Less than $1	$0			
$1 to $115,000	40% of net worth of business/farm			
$115,001 to $340,000	$ 46,000	+	50%	of net worth over $115,000
$340,001 to $565,000	$158,500	+	60%	of net worth over $340,000
$565,001 or more	$293,500	+	100%	of net worth over $565,000

Table B4
Asset Protection Allowance

Age of student as of 12/31/09*	Allowance for— Married Student	Unmarried Student
25 or less ...	$0	$0
26	2,900	1,200
27	5,800	2,400
28	8,700	3,600
29	11,600	4,800
30	14,500	6,000
31	17,400	7,200
32	20,300	8,400
33	23,100	9,500
34	26,000	10,700
35	28,900	11,900
36	31,800	13,100
37	34,700	14,300
38	37,600	15,500
39	40,500	16,700
40	43,400	17,900
41	44,200	18,200
42	45,300	18,600
43	46,400	19,100
44	47,600	19,500
45	48,700	19,900
46	49,900	20,400
47	51,200	20,900
48	52,400	21,400
49	53,700	21,900
50	55,300	22,400
51	56,700	22,900
52	58,000	23,500
53	59,800	24,000
54	61,200	24,600
55	63,000	25,300
56	64,900	25,900
57	66,400	26,500
58	68,300	27,200
59	70,300	27,900
60	72,300	28,700
61	74,400	29,500
62	76,600	30,300
63	79,100	31,100
64	81,300	32,000
65 or over ..	84,000	32,800

*Determine student's age as of 12/31/09 from student's date of birth (FAFSA/SAR #9).

2009-2010 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other than a Spouse

REGULAR WORKSHEET Page 1 **C**

STUDENT/SPOUSE INCOME IN 2008	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.	
2. a. Student's income earned from work (FAFSA/SAR #39) _____	
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)	
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.) +	
5. Taxable and untaxed income (sum of line 3 and line 4) =	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.) –	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table C1) If negative, enter zero. +	
10. Student's Social Security tax (Table C2) +	
11. Spouse's Social Security tax (Table C2) +	
12. Income protection allowance (Table C3) +	
13. Employment expense allowance: • Student and spouse both working: 35% of the lesser of the earned incomes, or $3,500, whichever is less • One-parent families: 35% of earned income, or $3,500, whichever is less • Student or spouse working (not both): zero +	
14. TOTAL ALLOWANCES =	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The student (and the student's spouse, if any) are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- The student (or the student's spouse, if any) is a dislocated worker

If these circumstances are true, the expected family contribution is automatically zero.

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) –	
15. AVAILABLE INCOME (AI) May be a negative number. =	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #41)	
17. Net worth of investments** (FAFSA/SAR #42) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table C4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Asset protection allowance (Table C5) –	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	**.07**
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total contribution from AAI (Calculate using Table C6.) If negative, enter zero.	
27. Number in college in 2009-2010 (FAFSA/SAR #97) ÷	
28. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.***	

**Do *not* include the student's home.

***To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 28 above).

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

REGULAR WORKSHEET Page 2 **C**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 28)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet C, line 28).

2009-2010 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other than a Spouse

SIMPLIFIED WORKSHEET Page 1 **C**

STUDENT/SPOUSE INCOME IN 2008		
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #36) If negative, enter zero.		
2. a. Student's income earned from work (FAFSA/SAR #39) _____		
2. b. Spouse's income earned from work (FAFSA/SAR #40) + _____		
Total student/spouse income earned from work	=	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)		
4. Total untaxed income and benefits (sum total of FAFSA/SAR #47.a. through 47.j.)	+	
5. Taxable and untaxed income (sum of line 3 and line 4)	=	
6. Total additional financial information (sum total of FAFSA/SAR #46.a. through 46.e.)	–	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME		
8. 2008 U.S. income tax paid (FAFSA/SAR #37) (tax filers only) If negative, enter zero.		
9. State and other tax allowance (Table C1) If negative, enter zero.	+	
10. Student's Social Security tax (Table C2)	+	
11. Spouse's Social Security tax (Table C2)	+	
12. Income protection allowance (Table C3)	+	
13. Employment expense allowance: • Student and spouse both working: 35% of the lesser of the earned incomes, or $3,500, whichever is less • One-parent families: 35% of earned income, or $3,500, whichever is less		
• Student or spouse working (not both): zero	+	
14. TOTAL ALLOWANCES	=	

*STOP HERE if the following are true:

Line 3 is $30,000 or less **and**

- The student (and the student's spouse, if any) are eligible to file a 2008 IRS Form 1040A or 1040EZ (they are not required to file a 2008 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2007 or 2008 from any of the designated means-tested Federal benefit programs **or**
- The student (or the student's spouse, if any) is a dislocated worker

If these circumstances are true, the expected family contribution is automatically zero.

AVAILABLE INCOME		
TOTAL INCOME (from line 7)		
TOTAL ALLOWANCES (from line 14)	–	
15. AVAILABLE INCOME (AI) May be a negative number.	=	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS		
16. Cash, savings & checking (FAFSA/SAR #41)		
17. Net worth of investments** (FAFSA/SAR #42) If negative, enter zero.		
18. Net worth of business and/or investment farm (FAFSA/SAR #43) If negative, enter zero.		
19. Adjusted net worth of business/farm (Calculate using Table C4.)	+	
20. Net worth (sum of lines 16, 17, and 19)	=	
21. Asset protection allowance (Table C5)	–	
22. Discretionary net worth (line 20 minus line 21)	=	
23. Asset conversion rate	×	.07
24. CONTRIBUTION FROM ASSETS If negative, enter zero.		

EXPECTED FAMILY CONTRIBUTION		
AVAILABLE INCOME (AI) (from line 15)		
CONTRIBUTIONS FROM ASSETS (from line 24)	+	
25. Adjusted available income (AAI) May be a negative number.	=	
26. Total contribution from AAI (Calculate using Table C6.) If negative, enter zero.		
27. Number in college in 2009-2010 (FAFSA/SAR #97)	÷	
28. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.***		

**Do *not* include the student's home.

***To calculate the EFC for less than nine-month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 28 above).

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

Note: *Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG, or a National SMART Grant. Do not use this page to prorate the EFC for a Federal Pell Grant or TEACH Grant. The EFC for the Federal Pell Grant Program is the nine-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.*

SIMPLIFIED WORKSHEET Page 2 **C**

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine-month enrollment, from line 28)		
Divide by 9	÷	**9**
Expected Family Contribution per month	=	
Multiply by number of months enrollment	×	
Expected Family Contribution for less than nine-month enrollment*	=	

*Substitute the student's EFC for less than nine-month enrollment in place of the EFC for the standard nine-month enrollment (EFC Formula Worksheet C, line 28).

Table C1: State and Other Tax Allowance

STATE	PERCENT OF TOTAL INCOME		STATE	PERCENT OF TOTAL INCOME	
	$0-$14,999	$15,000 or more		$0-$14,999	$15,000 or more
Alabama	3%	2%	Missouri	5%	4%
Alaska	2%	1%	Montana	5%	4%
American Samoa	3%	2%	Nebraska	5%	4%
Arizona	4%	3%	Nevada	3%	2%
Arkansas	4%	3%	New Hampshire	5%	4%
California	8%	7%	New Jersey	9%	8%
Canada and Canadian Provinces	3%	2%	New Mexico	3%	2%
Colorado	5%	4%	New York	9%	8%
Connecticut	8%	7%	North Carolina	6%	5%
Delaware	4%	3%	North Dakota	3%	2%
District of Columbia	7%	6%	Northern Mariana Islands	3%	2%
Federated States of Micronesia	3%	2%	Ohio	6%	5%
Florida	3%	2%	Oklahoma	4%	3%
Georgia	5%	4%	Oregon	7%	6%
Guam	3%	2%	Palau	3%	2%
Hawaii	5%	4%	Pennsylvania	6%	5%
Idaho	5%	4%	Puerto Rico	3%	2%
Illinois	5%	4%	Rhode Island	7%	6%
Indiana	4%	3%	South Carolina	5%	4%
Iowa	5%	4%	South Dakota	2%	1%
Kansas	5%	4%	Tennessee	2%	1%
Kentucky	5%	4%	Texas	3%	2%
Louisiana	3%	2%	Utah	5%	4%
Maine	6%	5%	Vermont	5%	4%
Marshall Islands	3%	2%	Virgin Islands	3%	2%
Maryland	8%	7%	Virginia	6%	5%
Massachusetts	7%	6%	Washington	4%	3%
Mexico	3%	2%	West Virginia	3%	2%
Michigan	5%	4%	Wisconsin	7%	6%
Minnesota	6%	5%	Wyoming	2%	1%
Mississippi	3%	2%	Blank or Invalid State	3%	2%
			OTHER	3%	2%

Multiply the total income of student and spouse (EFC Formula Worksheet C, line 7) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet C, line 9). Use the student's State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use the rate for blank or invalid state above.

Table C2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work*	Social Security Tax
$0 - $102,000	7.65% of income
$102,001 or greater	$7,803.00 + 1.45% of amount over $102,000

*Student's 2008 income earned from work is FAFSA/SAR #39.
Spouse's 2008 income earned from work is FAFSA/SAR #40.
Social Security tax will never be less than zero.

Table C3: Income Protection Allowance

Number in student's household, including student (FAFSA/SAR #96)	Number of college students in household (FAFSA/SAR #97)				
	1	2	3	4	5
2	$17,720	$14,690	———	———	———
3	22,060	19,050	$16,020	———	———
4	27,250	24,220	21,210	$18,170	———
5	32,150	29,120	26,100	23,070	$20,060
6	37,600	34,570	31,570	28,520	25,520

Note: For each additional family member, add $4,240.
For each additional college student, subtract $3,020.

Table C4: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than $1	$0
$1 to $115,000	40% of net worth of business/farm
$115,001 to $340,000	$ 46,000 + 50% of net worth over $115,000
$340,001 to $565,000	$158,500 + 60% of net worth over $340,000
$565,001 or more	$293,500 + 100% of net worth over $565,000

Table C5: Asset Protection Allowance

Age of student as of 12/31/09*	Allowance for— Married Student	Allowance for— Unmarried Student	Age of student as of 12/31/09*	Allowance for— Married Student	Allowance for— Unmarried Student
25 or less ...	$0	$0	45	$48,700	$19,900
26	2,900	1,200	46	49,900	20,400
27	5,800	2,400	47	51,200	20,900
28	8,700	3,600	48	52,400	21,400
29	11,600	4,800	49	53,700	21,900
30	14,500	6,000	50	55,300	22,400
31	17,400	7,200	51	56,700	22,900
32	20,300	8,400	52	58,000	23,500
33	23,100	9,500	53	59,800	24,000
34	26,000	10,700	54	61,200	24,600
35	28,900	11,900	55	63,000	25,300
36	31,800	13,100	56	64,900	25,900
37	34,700	14,300	57	66,400	26,500
38	37,600	15,500	58	68,300	27,200
39	40,500	16,700	59	70,300	27,900
40	43,400	17,900	60	72,300	28,700
41	44,200	18,200	61	74,400	29,500
42	45,300	18,600	62	76,600	30,300
43	46,400	19,100	63	79,100	31,100
44	47,600	19,500	64	81,300	32,000
			65 or over ..	84,000	32,800

*Determine student's age as of 12/31/09 from student's date of birth (FAFSA/SAR #9)

Table C6: Contribution from AAI

If student's AAI is—	The student's contribution from AAI is—
Less than –$3,409	–$750
–$3,409 to $14,200	22% of AAI
$14,201 to $17,800	$3,124 + 25% of AAI over $14,200
$17,801 to $21,400	$4,024 + 29% of AAI over $17,800
$21,401 to $25,000	$5,068 + 34% of AAI over $21,400
$25,001 to $28,600	$6,292 + 40% of AAI over $25,000
$28,601 or more	$7,732 + 47% of AAI over $28,600

Verification

CHAPTER 4

Because students sometimes make errors on their application, colleges have procedures for verifying the reported information. The regulations include this verification as part of the FSA program requirements. The Department only requires that a portion of the FAFSA filers at your school be verified, as selected by the Central Processing System. However, you also have the authority—and may be required—to verify additional students.

Verification concerns applicants for most FSA programs, but it isn't required if the student will only receive a parent or graduate PLUS loan or an unsubsidized Stafford loan, because these loans are not based on the EFC. However, a student can't avoid verification by choosing to borrow an unsubsidized loan instead of a subsidized loan. If he tries to do this, the school is to continue with verification.

REQUIRED POLICIES

Your school must have written policies and procedures on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- a method of notifying students of award changes due to verification,
- required correction procedures for students, and
- standard procedures for referring overpayment cases to the Department.

Additionally, the school must give each applicant selected for verification a written statement explaining the following:

- **Documents required for verification.**
- **Student responsibilities**—including correction procedures, the deadlines for completing any actions required, and the consequences of missing the deadlines.
- **Notification methods**—how your school will notify a student if her award changes as a result of verification, and the time frame for such notification.

Required Verification Items:
34 CFR 668.56
1. Household size
2. Number in college
3. Adjusted gross income (AGI)
4. U.S. taxes paid
5. Certain types of untaxed income and benefits:
   - ➔ Child support
   - ➔ IRA/Keogh deductions
   - ➔ Interest on tax-free bonds
6. All other untaxed income included on the U.S. income tax return, excluding information on the schedules

Verification regulations
34 CFR 668, Subpart E
Required policies—34 CFR 668.53

Online verification assessment module
http://ifap.ed.gov/qahome/qaassessments/fsaverification.html

Quality Assurance Program
Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to FSA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including some verification requirements, though they are not exempt from resolving conflicting information. The QA Program provides QA schools with an alternative management approach to develop verification that fits their population. Currently, QA schools use the ISIR Analysis (IA) Tool to analyze the effectiveness of their institutional verification program. The tool shows which application elements changed when verified and reveals the impact that those changes have on the EFC. This tool is available to all schools on the main menu of FAA Access to CPS Online. See Volume 2: School Eligibility and Operations for more information.

APPLICATIONS TO BE VERIFIED

Applications are selected for verification either by the CPS or by the school. Under certain circumstances, a CPS-selected application may be excluded from required verification (see "30% Verification Option" and "Verification Exclusions" below).

Students' output documents show if their application was chosen by the CPS: the verification flag, which is in the *Financial Aid Office Use Only* section with the match flag results, will have a value of "Y." Also, next to the EFC will be an asterisk referring to a comment in the student section of page 1 that tells applicants they will be asked by their schools to provide copies of certain financial documents.

A school must verify any application information that it has reason to believe is incorrect [34 CFR 668.54(a)(3)] or discrepant [34 CFR 668.16(f)]. Students with these applications are considered to be selected for verification by the school even though it may not be verifying the same data as for CPS-selected applications.

The school may also select additional applications for verification beyond those required, and in these cases the school decides which items to verify: it can choose any that must be verified on CPS-selected applications, or it can choose different items.

Regardless of whether the CPS or the school selected the application for verification, all other verification requirements, such as deadlines and allowable tolerances and interim disbursement rules, apply equally to all students who are being verified.

If you want to learn more about verification results, you can use the ISIR Analysis Tool, which provides a variety of reports and analyses using current Web technology. The reports it generates can help you identify potentially faulty applications that discretionary verification or the CPS edits might be missing. They can also help you develop discretionary verification edits that focus on student changes that affect the EFC and Pell eligibility. See "Program Integrity" in the *School Eligibility and Operations* volume.

30% Verification option
34 CFR 668.54(a)(2)

30% Verification option

A school must verify all applications the CPS selects for verification, up to 30% of the school's total number of federal aid applicants in an award year. The school may choose to verify more than 30%, and if the CPS selects less than that, the school isn't required to reach 30%; it is not a quota. Applications a school selects and those with conflicting information don't count toward the 30% level.

Schools have the flexibility to define "applicant." For example, it can be anyone who applies to the school (i.e., they need not be enrolled), anyone who is enrolled, or, even more narrowly, anyone enrolled who is also eligible to receive an aid award. Whatever definition your school uses, the students you count toward the 30% limit must meet that definition.

30% Verification Examples

Frisson College has 1,000 applicants for federal student aid. The CPS selected 475 of the applications for verification. Bennet also selected 100 other applications based on its own criteria. To meet the 30% level, Bennet needs to verify at least 300 applications from the 475 the CPS selected; the 100 Bennet selected don't count toward the 30% requirement.

Brust Conservatory has 1,000 applicants for federal student aid, and the CPS selected 289 of the applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants, but it does not have to select 11 more applications to reach 30%.

Benoit Institute has 1,000 applicants for federal student aid, of which the CPS selected 300 for verification. Also, the school identified 40 additional applications as having conflicting information that Benoit must resolve. However, because the resolution of conflicting information is separate from CPS-selected verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more than 30% of the total applicants for federal student aid.

The verification tracking flag on the ISIR uses a four-digit number to prioritize applicants—the higher the number, the greater the potential for significant error. If you use the 30% option, this field will help you rank and choose applications for verification that potentially have the most significant mistakes.

Verification exclusions

A selected application may be exempt from some or all of the verification requirements due to unusual circumstances. Except in the case of the student's death, however, none of these exemptions excuse the school from the requirement to resolve conflicting information.

➔***Incarceration.*** A selected application does not have to be verified if the student is in jail or prison at the time of verification.

➔***Recent immigrant.*** A selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 2009 or 2010.

➔***Spouse unavailable.*** A school isn't required to verify spousal information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.
- The spouse is residing in a country other than the United States and can't be contacted by normal means.
- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

You should document the basis for the exclusion. Because this exemption only applies to the spouse's data, the application must still be verified according to all other requirements.

Verification exclusions

34 CFR 668.54(b)

In addition to unsubsidized Stafford Loans and PLUS Loans, verification is not required—

- for Stafford Loans (subsidized or unsubsidized) received for study at eligible foreign schools.
- for the TEACH Grant Program.
- for the Leveraging Educational Assistance Partnership (LEAP) and SLEAP (Special LEAP) Programs.
- for the Robert C. Byrd Honors Scholarship Program.

Also note that schools participating in the Quality Assurance Program can develop verification procedures different than those specified in the FSA regulations.

Immigrant example
Hector arrives in the United States in February 2009 and begins attending Guerrero University in September 2009. His 2009–10 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2009 calendar year.

Spouse unavailable example
Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

➔***Parents unavailable.*** You don't have to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated. (If both parents are dead, the student is an orphan and thus is an independent student. If the parents die after the student has applied, the student must update his or her dependency status, as discussed in Chapter 5.)
- The parents are residing in a country other than the United States and can't be contacted by normal means.
- The parents can't be located because their address is unknown, and the student can't obtain it.

➔***Death of the student.*** If you make an interim disbursement during verification and the student dies before it is completed, you don't have to continue verification to justify the first disbursement. You can't make any additional disbursements, except for FWS funds already earned, to any of the student's beneficiaries. You cannot originate a Direct loan, certify a FFEL, or deliver proceeds from either one for the student's beneficiaries. For more information see Chapter 2 of Volume 5.

➔***Applicant verified by another school.*** You don't have to verify the selected application of a student who completed verification for the current award year at another school before transferring. However, to document a student's eligibility for this exclusion, you must get a letter from the school that completed the verification. The letter must include:

- a statement that the student's application data have been verified,
- the transaction number of the verified application, **and**
- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 94).

➔***Pacific Island resident.*** You don't have to verify the selected application of a student who is either:

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands, or
- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

To qualify for this exclusion, a dependent student's parents must also meet the same criteria. As documentation, you should note the permanent mailing address in the student's file.

➔***Not an aid recipient.*** You don't have to verify a student who won't receive FSA for reasons other than his failure to complete verification. This category includes students ineligible for aid from the FSA programs and those who withdraw without receiving aid.

REQUIRED VERIFICATION ITEMS

If the CPS selects an application for verification, you must verify five major data elements:

- household size,
- number enrolled in college,
- adjusted gross income (AGI),
- U.S. income tax paid, and
- certain untaxed income and benefits.

In addition to verifying these required items for CPS-selected students, you can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies. You may decide which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General documentation requirements and the verification worksheets

This chapter includes the verification worksheets developed by the Department. Master copies are available on the IFAP website at **www.ifap.ed.gov**, and you may reproduce as many as you need. When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents, you will usually have enough information to complete verification.

However, you're not required to use the verification worksheets. Your school may use its own worksheet or none at all. You may require other documentation in addition to or instead of a completed verification worksheet. The chart on page 87 shows other forms of acceptable documentation for each required verification item.

If you require students to complete verification worksheets, you must provide the appropriate (dependent or independent) worksheets to the selected students. You should remind your students that they must submit the completed worksheet and copies of the relevant income tax returns or alternative documents to your financial aid office, not to the Department of Education.

When you receive the student's submission, you should make sure that the worksheet is signed, that all required sections are completed, and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies (such as

Required verification items
34 CFR 668.56(a)

Timing of signature
Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification—they can't be collected after the verification deadline for that award year.

Verification following disasters
Dear Colleague Letter GEN-04-04 gives general guidance for when federally-declared disasters affect the awarding of aid. The DCL states that the Secretary will not enforce the verification requirements during the award year for applicants whose records were lost or destroyed because of a disaster. The school must document when it does not perform verification for this reason and use status code "S" when reporting the disbursement of Pell grants to affected students.

HEROES Act modifications
The Higher Education Relief Opportunities for Students (HEROES) Act provides for the modification and waiving of some statutory and regulatory provisions related to students who receive financial aid and who are on active duty during a war or other military operation or who reside or are employed in a declared disaster area. These adjustments apply to return of funds and signature requirements for verification and application, among other things. These waivers and modifications were due to expire on September 30, 2007, but on that date the law—and with it the Secretary's authority to issue the waivers and modifications—was made permanent. As a result, the above actions will remain in effect until September 30, 2012, unless the Secretary ends or changes them before then. For all the details on the Act and a list of the eligible students, see pages 69312–69318 of the Federal Register dated December 12, 2003.

Household size documentation and exceptions
Student assistance general provisions
34 CFR 668.57(b)
34 CFR 668.56(a)(3), (b), (c)

photocopies, faxes, digital images) of worksheets, tax returns, or other documents are acceptable. Unless specifically noted in this chapter, a signature on a copy is as valid as an original signature (i.e., a handwritten or "wet" signature). After checking the documentation against the student's application data, you may either disburse the student's award or make the necessary corrections and updates. (See "After documentation is complete," page 94.)

Household size

Steps 4 and 5 in Chapter 2 discuss household size. If the student completed the Department's verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and, for dependent students, at least one of the parents) listing the names of the household members, their ages, and their relationship to the student.

You don't have to verify household size if any of the following apply:

- it's the same as reported and verified in the previous award year.
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.
- for a dependent student, the household size reported for married parents is three—or two if the parent is single, divorced, separated, or widowed.
- the household size reported for a married independent student is two—or one if the student is single, divorced, separated, or widowed.

Number enrolled in college

Number in college—documentation and exceptions
Student assistance general provisions
34 CFR 668.57(c)
34 CFR 668.56(a)(4), (b), (d)

If the student completes the Department's verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and at least one of the student's parents, for dependent students). The statement can be combined with the statement verifying household size and should include the names and ages of those enrolled and the names of the schools they plan to attend. If you have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and schools listed. (If other students in the family haven't enrolled yet, documentation from the other schools may not be available.)

You don't have to verify the number enrolled in college if any of the following conditions apply:

- the reported number enrolled is one (the student only).
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.

Acceptable Documentation

	Verification Worksheet & Tax Return(s)	*Other Documentation in lieu of Worksheet or Tax Return (see the text for details)*
Household Size	✓	Signed statement
Number Enrolled	✓	Signed statement or institutional certification
AGI & Taxes Paid	✓	IRS tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or a signed statement
Untaxed Income & Benefits	✓	Signed statement or official agency documentation

- the family members the student lists are enrolled at least half time at your school, and you have confirmed their enrollment through your school's own records.

Adjusted gross income (AGI) and U.S. income tax paid

You can usually verify AGI and U.S. income tax paid by getting a copy of the signed U.S. income tax return. The tax documents needed for verification may depend on the filing method—electronic or paper. Documents must have the signatures (or preparer's stamp or other official validation) and data required for verification. If all necessary data are not present, the student must provide additional documentation as described in this section.

AGI and income tax documentation
34 CFR 668.57(a)

To verify AGI and taxes paid, you must first identify everyone whose financial data was reported on the FAFSA and which tax returns, if any, they filed. You must check the tax returns for anyone whose financial data were reported on the FAFSA: the student and his spouse or parents if applicable. They should have reported on the FAFSA either what tax return they filed or that they were not required to file a return. The type of form reported on the FAFSA should match what the student and parents actually filed.

FAFSA tax return questions
For students, the tax return questions are 33–35 on the FAFSA. For parents, the tax return questions are 82–84.

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see "Using a joint return to figure individual AGI and taxes paid," page 86). If the figures don't match, a correction may be needed, as discussed later in this chapter. For more information on how specific types and special categories of income should be reported on the FAFSA, see Chapter 2.

Tax documents: special situations and alternatives

There are certain situations, such as when the student filed a tax return electronically or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

Electronic filing (e-file)

The IRS e-file program comprises two electronic filing methods. The taxfiler can go to an e-file provider who will send the return to the IRS, or he can use tax filing software on a home computer for submission to the IRS. The filer should always receive a paper copy of the return in some format. Software used on a home computer may allow the tax filer to print out a standard 1040, 1040A, or 1040EZ form that contains the information that was filed electronically. The e-file provider might print out a copy of the return using its own format. Any of these paper copies of the return are acceptable documentation for verification as long as they are signed by at least one of the tax filers. (When an electronic tax return is filed, the filer also submits IRS Form 8453, which doesn't have enough information and can't be used for verification.)

Returns in the e-file provider's format might not contain every line item, showing instead only the data the tax filer provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means no taxable interest income was reported.

Non-filers

An AGI figure won't be available for someone who isn't required to file a tax return. A non-filer would instead report on the FAFSA income earned from work, which includes any income reported on the individual's W-2 forms plus any other earnings from work not reported on those forms. Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.

A properly completed federal verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each non-filer a signed statement certifying his or her non-filer status and listing the sources and amounts of income.

Financial aid professionals are not expected to have special knowledge or expertise regarding the U.S. tax code. If someone whose data were required on the FAFSA submits a signed statement claiming non-filer status and you have reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more on conflicting information, see Chapter 5.) For example, in such a case, you might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the claim to nonfiler status. **Conflicting information must be resolved before you can disburse federal student aid**.

Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax returns should have been filed and must be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school shall accept as alternative documentation copies of the W-2 forms, and, as proof that the IRS has granted a filing extension, either a copy of IRS Form 4868—Application for Automatic Extension of Time to File U.S. Individual Income Tax Return (automatically grants the taxpayer a six-month extension beyond the April 15 deadline) or a copy of the IRS approval of an extension beyond the automatic six-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When you receive the completed tax returns, you may use them to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the deadline for verification is ineligible for FSA funds and is required to repay any aid disbursed.

Fiscal year tax returns

For a fiscal year return, as opposed to one for the calendar year, the student should report the AGI and U.S. income tax paid from the return that includes the greater number of months in the base year (see Chapter 2 for an example). Accordingly, you should use the tax return from that fiscal year for verification purposes.

Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

Foreign income

As noted in Step 2 in Chapter 2, information from non-IRS tax returns would be reported on the FAFSA, with the value of the foreign income and taxes reported in U.S. dollars, using the exchange rate at the time of application. For verification purposes, these returns would be considered equivalent to an IRS Form 1040. If the student (or the student's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

If a tax return isn't available

If a copy of the tax return is not available, the student must instead submit a copy of any IRS form that lists tax information and provides the information needed for verification. The form **must** be signed by the student unless the IRS sent the form directly to the school.

A common form is the tax transcript. A student can order one by calling the IRS at 1-800-829-1040 and following the directions below or by completing and mailing Form 4506-T, Request for Transcript of Tax Return. If the transcript does not have as much financial information as the tax return, the student may have to provide additional documents to complete verification.

If the IRS can't provide a copy of the return or any form with tax account information, you must get a copy of the W-2 unless the filer is self-employed or a W-2 is otherwise unavailable; in those cases you can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

Obtaining a tax transcript or a copy of a return

If a person wants a copy of a return, she must complete and mail a Form 4506; if she wants a tax transcript, she can either submit a Form 4506-T or she can call 1-800-829-1040 and use the automated system to request one. The steps in the automated system are generally: choose the option for "personal tax account," enter the SSN or EIN, choose "transcripts," enter the numbers of one's street address, and enter the year of the return requested.

Citations: 34 CFR 668.57(a)(4)(i)
34 CFR 668.57(a)(2)
34 CFR 668.57(a)(4)(ii), (a)(5)

The chart on page 91 shows the tax form line numbers for the most commonly reported items. This chart is a reference only; it is not a list of all the items the school must check on a tax return.

For verification purposes, you can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. You can accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature. And you can also accept an electronic copy of the return that has been electronically signed by the person to whom the document belongs, provided your school's process for accepting an electronic signature complies with the E-Sign Act. But a signature on Form 8879, the IRS e-file Signature Authorization, is not an acceptable substitute for a signature on the tax return.

Instead of a return the filer has signed, you may accept a paper return on which the tax preparer has stamped, typed, signed, or printed her name (not the name of her company) and her SSN, EIN (Employer Identification Number), or PTIN (Preparer Tax Identification Number). You may also accept a copy of an IRS form with tax information that the IRS mailed directly to your school (otherwise at least one of the filers must sign the form). Documents from electronic returns must be signed by the filer as explained on page 82. In some cases you can waive the requirement for spouse information and signatures (see "Verification exclusions," page 83).

Untaxed income and benefits

The term "untaxed income" means any income excluded from federal income taxation under the IRS code. For an application selected for verification, you must verify up to three specific types of untaxed income and benefits:

- child support,
- IRA/Keogh deductions, and
- interest on tax-free bonds.

In addition, you must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). Chapter 2 discusses the untaxed income and benefits that must be reported on the FAFSA.

Except for child support, the required items can be verified using the tax return or alternative tax documents. Non-filers should submit a signed statement confirming that they did not file a tax return and listing the amount and specific sources of untaxed income and benefits by name.

You're not required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis

of a financial need assessment. Also, "in-kind" income (see Chapter 2) is not reported on the FAFSA and does not have to be verified.

Child support documentation
34 CFR 668.57(d)(3)

✔ ***Verifying child support received***

You must verify child support if the student, student's spouse, or student's parents report receiving it, or if you have reason to believe it was received. Child support doesn't have to be verified if the amount reported is the same amount that was verified in the previous year.

A completed verification worksheet is sufficient to verify child support received. If you don't use the verification worksheet, you must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If you have reason to doubt the statement provided, you should request at least one of the following items:

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- a signed statement from the parent who provided the support showing the amount of child support provided, or
- copies of the canceled checks or money order receipts.

Untaxed income and benefits documentation
34 CFR 668.57(d)

✔ ***Verifying deductions for IRA and Keogh plans***

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 28 and 32 of IRS Form 1040 or line 17 of IRS Form 1040A.

✔ ***Verifying interest on tax-free bonds***

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

Line items from the 2008 tax return

	1040	*1040A*	*1040EZ*
AGI	37	21	4
Income Tax Paid	56	35	11
Deductible IRA/SEP	28 plus 32	17	
Tax-exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	11a minus 11b and 12a minus 12b	

Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary to determine the individual's income and taxes paid using the joint return and the relevant IRS W-2 forms. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Add the income amounts from the individual's W-2 forms to any other income that can be extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer certifying that the data from the joint return were accurately assessed is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

• **Tax table (preferred method).** Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)

• **Proportional distribution.** Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage.

Example 1: Calculating individual AGI from joint return example

Eddy's application is selected for verification. He and his wife filed a joint return for 2008 and have since separated. The AGI on Eddy's FAFSA matches the AGI of $38,000 on the 2008 tax return, which means it's wrong because it includes his wife's income.

Eddy's W-2 shows that his income for 2008 was $14,900, and the tax return shows $200 in interest. Because it was interest on a joint savings account, the aid administrator adds $100 of it to Eddy's income and submits $15,000 as the corrected income via FAA Access.

Example 2: Calculating individual taxes paid from a joint return

The aid administrator determines that Eddy's part of the $38,000 AGI he and his wife reported is $15,000. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children and will claim them as her dependents when she files her tax return for 2009. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling $6,100. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is $7,000 (instead of the $9,500 for married filers). Eddy's income of $15,000 minus the $6,100 for exemptions and the $7,000 standard deduction results in $1,900 in taxable income.

The aid administrator uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of $1,900, the amount of tax paid from the tax schedule would be $191.

To use the proportional distribution method instead, the aid administrator figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (15,000 divided by 38,000 is .3947). The aid administrator then multiplies the income tax paid as reported on the tax return ($1,323 for this example) by this percentage. Therefore, Eddy's income tax paid would be $516 (.39 x $1,323).

COMPLETING THE PROCESS

Unless receiving only PLUS funds or an unsubsidized Stafford loan, a student selected for verification must complete it. You have the authority—and in some instances are required—to withhold disbursement of any FSA funds until she does. Adopting this policy substantially reduces the incidence of overpayments. You can, however, make an interim disbursement before verification is finished. Remember that verification requirements apply to CPS- and school-selected students.

Interim disbursements

You can make an interim disbursement of some Title IV funds before verification is complete **if you have no reason to believe the application information is inaccurate**. The limitations for each program are given below. Your school is liable for an interim disbursement if verification shows the student received an overpayment or if he fails to complete verification.

- ***Pell Grant, Perkins, and FSEOG.*** You can make one disbursement from each of these programs for the student's first payment period. If you make an interim Pell disbursement, you report the payment with a "W" verification status code. See "Verification status codes" later in this chapter.

- ***Federal Work-Study.*** You can employ a student under FWS for up to 60 *consecutive* days after he enrolls (or in summer employment for up to 60 days). After 60 days, if verification has not been completed, you can't continue to employ the student under FWS. If you later discover that the student has been overawarded, you should attempt to adjust the student's other aid. Otherwise, you must reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can't be required to repay FWS wages earned. (See *Volume 6: Campus-Based Programs.*)

- ***Stafford Loans.*** You can certify a FFEL Stafford loan application or originate a Direct Stafford loan for a student who hasn't completed verification, but you can't disburse the loan. See *Volume 4: Processing Aid and Managing FSA Funds* regarding loan disbursements and limits on how long your school can hold loan money before disbursing it or returning it to the lender.

Selection after disbursement

A student's application might be selected for verification after corrections are submitted and after the student has already been paid based on the previous unselected CPS transaction. (There is a change flag on the ISIR to call attention to this situation.) You must verify his application before making further disbursements. If verification does not justify aid already disbursed, then the student is responsible for repaying all aid for which he is not eligible, though he may keep any Stafford loan money he received and FWS wages he earned. See below for what happens if he fails to complete verification.

Disbursing unsubsidized and PLUS loans without verification

As already mentioned, verification isn't required for unsubsidized and PLUS loans. Therefore, schools can originate, certify, and disburse unsubsidized and PLUS loans regardless of a student's verification status.

Interim disbursements

34 CFR 668.58

Example: selection after disbursement

Owen is attending Guerrero University. His application isn't selected for verification, and he receives aid in the fall. In December, Owen submits a correction on his SAR that causes the ensuing transaction to be selected for verification. The aid administrator at Guerrero tells Owen he needs to submit verification documents if he wants his aid for the spring and if he wants to keep the Pell funds he received for fall, but Owen doesn't turn in the documents. Owen doesn't have to repay the Stafford loan he got in the fall, but he does have to return the Pell grant, and Guerrero must cancel his aid package for the spring.

Items that must be updated

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see Chapter 5).

Tolerance example

Emma originally reported on her FAFSA an AGI of $2,500, $500 in untaxed income, and $250 U.S. income tax paid. Verification shows that her AGI was actually $2,800, and she paid $281 in U.S. income tax.

Original: $2,500 (AGI) + $500 (untaxed income) – $250 (taxes paid) = $2,750

Corrected: $2,800 (AGI) + $500 (untaxed income) – $281 (taxes paid) = $3,019

Net Difference: $269 ($3,019 – $2,750)

Because the net difference is within tolerance, the school can award Emma's aid based on what she originally reported without requiring corrections or recalculation of the EFC.

Failure to submit documentation

Pell Grants—34 CFR 668.60(c)
C-B/Stafford—34 CFR 668.60(b)

After documentation is complete

When you've obtained all necessary verification documents from the student, you should compare them to the SAR or ISIR you are reviewing for payment. If all the student's information is correct and there are no outstanding issues or conflicting information, you may award and disburse aid for which the student is eligible.

If verification reveals errors or inconsistencies, the student may have to make corrections or update information (see Chapter 5).

Verification tolerance

Verification can sometimes uncover minor errors that won't significantly affect the student's eligibility, so the regulations provide a tolerance for verification changes.

This tolerance is $400: if the total difference between the incorrect and correct values for certain items is more than $400, the information must be corrected. To calculate the difference, first add the original (incorrect) AGI and untaxed income amounts. From that sum subtract the original U.S. income tax paid to get the uncorrected total. Do the same for the correct values: add the correct AGI and untaxed income and subtract the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is $400 or less, the errors are within tolerance; you may award the student aid without submitting a correction or recalculating the EFC. Using the tolerance is optional—you can always have the student submit corrections for reprocessing.

Note that there is no tolerance for errors in nondollar items. If the original application has an error in any nondollar item, such as household size, the student or school must correct it.

Deadlines and failure to submit documentation

A Pell applicant selected for verification must complete the process by the deadline published in the *Federal Register*. As of this writing the notice for 2009–10 has not been published, but the deadline is expected to be September 27, 2010, or 120 days after the last day of the student's enrollment, whichever is earlier. Campus-based and Stafford loan applicants must complete verification by the same deadline or by an earlier one established by your aid office.

Verification is complete when your school has all the requested documentation. Also, for Pell grants, the student must have corrected any errors or shown that the information is correct, and your school must have his valid correct ISIR or SAR. For Campus-based and Stafford loan funds, you must have an ISIR or SAR with an official EFC that shows the application data were processed through the CPS at least once while the student was enrolled.

If a student fails to provide the required documentation by the deadline:

- Do not disburse additional Pell, ACG, National SMART, FSEOG, or Perkins loan funds to the student.

- Do not continue the student's employment in an FWS job.

- Do not disburse Stafford loan funds to the student or certify (FFEL) or originate (DL) a Stafford loan application.

- Return to the lender (FFEL) or the Department (DL) any undelivered or undisbursed Stafford loan money.

- If the student already received Pell, ACG, National SMART, FSEOG, or Perkins money in a disbursement prior to being selected for verification, then he must return that money (see Volume 5 for information about overpayments that the student is responsible for). If he received it as an interim disbursement that you gave while waiting to complete verification, your school is responsible for returning the money to the programs.

Late disbursements
34 CFR 668.164(g)

Late disbursements

Generally a student ceases to be eligible for aid once he has finished the term and is no longer enrolled. However, he may submit verification documentation and receive a late disbursement after that time if the Department processed a SAR or ISIR with an official EFC while he was still enrolled. Also, if there was a change in his EFC due to verification completed after he was enrolled, any Pell grant awarded would be based on the higher EFC. For information regarding *post-withdrawal* disbursements, see Volume 5 of the Handbook.

Verification status codes

When you disburse a Pell grant, you must report through Common Origination and Disbursement (COD) the student's verification status even if he wasn't selected for verification.

V—You have verified the student. This includes students selected by the CPS and those your school chose to verify based on its own criteria.

W—The student was selected for verification by the CPS or your school, and you chose to pay a first disbursement of Pell without documentation. This code must be updated once verification is complete, or COD will reduce the Pell grant to zero.

S—The CPS selected the student for verification, but you did not verify him because you already reached the 30% verification threshold, because he satisfied one of the exclusions under 34 CFR 668.54(b) that are described earlier in the chapter, or because your school participates in the Quality Assurance Program and the student's application did not meet your school's verification criteria.

Blank—Report a blank if you have not performed verification because neither the CPS nor your school selected the student.

U.S. Department of Education

2009-2010 Verification Worksheet

Federal Student Aid Programs

Dependent

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 2008 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Complete and sign the worksheet—you and at least one parent.
4. Submit the completed worksheet, tax forms, and any other documents your school requests to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You or your school may need to make corrections electronically or by using your SAR.

A. Student Information

Last name _____ First name _____ M.I. _____

Social Security Number _____

Address (include apt. no.) _____

Date of birth _____

City _____ State _____ ZIP Code _____

Phone number (include area code) _____

B. Family Information

List the people in your *parent(s)' household*, including:

- yourself and your parent(s) (including stepparent) even if you don't live with your parents, and
- your parents' other children, even if they don't live with your parent(s), if (a) your parents will provide more than half of their support from July 1, 2009 through June 30, 2010, or (b) the children would be required to provide parental information when applying for Federal Student Aid, and
- other people if they now live with your parents, and your parents provide more than half of their support and will continue to provide more than half of their support from July 1, 2009 through June 30, 2010.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending at least half time between July 1, 2009 and June 30, 2010, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Missy Jones (example)	*18*	*Sister*	*Central University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0041. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: US Department of Education, Washington, DC 20202-5345.

C. Student's Tax Forms and Income Information (all applicants) Dependent

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or request an Internal Revenue Service form that lists tax account information.

☐ Check here if you are attaching a signed copy of your tax return.

☐ Check here if a signed tax return will be submitted to the school by _____(date).

☐ Check here if you will not file and are not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 47 of the Free Application for Federal Student Aid (FAFSA).)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If you did not file and are not required to file a 2008 Federal income tax return, list below your employer(s) and any income received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

D. Parent(s)' Tax Forms and Income Information

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If your parent(s) did not keep a copy of their tax return, request a copy from the tax preparer or request an Internal Revenue Service form that lists tax account information.

☐ Check here if you are attaching a signed copy of your parents' tax return(s).

☐ Check here if a signed tax return(s) will be submitted to the school by _____(date).

☐ Check here if your parent(s) will not file and are not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 95 of the FAFSA.)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If your parent(s) did not file and are not required to file a 2008 Federal income tax return, list below your parent(s)' employer(s) and any income they received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

E. Sign this Worksheet

Each person signing this form certifies that all the information reported on it is complete and correct. The student and at least one parent must sign and date.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

_____

Student **Date**

_____

Parent **Date**

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.

Independent

U.S. Department of Education

2009-2010 Verification Worksheet

Federal Student Aid Programs

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 2008 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your (and your spouse's) financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Complete and sign the worksheet.
4. Submit the completed worksheet, tax forms, and any other documents your school requests to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You or your school may need to make corrections electronically or by using your SAR.

A. Student Information

Last name | First name | M.I.

Social Security Number

Address (include apt. no.)

Date of birth

City | State | ZIP Code

Phone number (include area code)

B. Family Information

List the people in *your household*, including:

- yourself, and your spouse if you have one, and
- your children, if you will provide more than half of their support from July 1, 2009 through June 30, 2010, even if they do not live with you, and;
- other people if they now live with you, and you provide more than half of their support and will continue to provide more than half of their support from July 1, 2009 through June 30, 2010.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending at least half time between July 1, 2009 and June 30, 2010, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones (example)	*24*	*Wife*	*City University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0041. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: US Department of Education, Washington, DC 20202-5345.

C. Student's Tax Forms and Income Information (all applicants) Independent

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or request an Internal Revenue Service form that lists tax account information.

- ☐ Check here if you are attaching a signed copy of your tax return.
- ☐ Check here if a signed tax return will be submitted to the school by _____(date).
- ☐ Check here if you will not file and are not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 47 of the Free Application for Federal Student Aid (FAFSA).)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If you did not file and are not required to file a 2008 Federal income tax return, list below your employer(s) and any income received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

D. Spouse's Tax Forms and Income Information (if student is married)

1. Check only one box below. Tax returns include the 2008 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If your spouse did not keep a copy of the tax return, request a copy from the tax preparer or request an Internal Revenue Service form that lists tax account information.

- ☐ Check here if you are attaching a signed copy of your and your spouse's joint tax return.
- ☐ Check here and attach spouse's signed tax return if your spouse filed a separate return.
- ☐ Check here if a signed spouse's tax return will be submitted to the school by _____(date).
- ☐ Check here if your spouse will not file and is not required to file a 2008 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Question 47 of the FAFSA.)

Sources of Untaxed Income	2008 Amount	Sources of Untaxed Income	2008 Amount
a. Child Support	$	d.	$
b. Workman's Compensation	$	e.	$
c. Untaxed Pensions	$	f.	$

3. If your spouse did not file and is not required to file a 2008 Federal income tax return, list below your spouse's employer(s) and any income received in 2008 (use the W-2 form or other earnings statements if available).

Sources	2008 Income
	$
	$
	$

E. Sign this Worksheet

Each person signing this form certifies that all the information reported on it is complete and correct. If married, spouse's signature is optional.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

_____

Student **Date**

_____

Spouse **Date**

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.

Corrections, Updates, and Adjustments

CHAPTER 5

There are situations where the original application information may need to be changed: when errors need to be corrected; when dependency status, household size, or number in college must be updated; and when an aid administrator makes an adjustment based on professional judgment. This chapter discusses how to make these changes to application information.

Students and schools can *correct* items that were incorrectly reported on the original FAFSA submission, but because the FAFSA is considered to be a "snapshot" of the family's financial situation as of the date the application was submitted, only a few answers from the FAFSA can be *updated* to reflect changes after the FAFSA was signed. Also, as an aid administrator you have the discretion to use your professional judgment to *adjust* the student's reported information to account for special circumstances.

TYPES OF CHANGES

Corrections
➔ Application errors

Updates
➔ Changes to dependency status, household size, or number in college under certain conditions

Professional judgment [1]
➔ Override dependency status
➔ Adjust data elements

[1] Aid administrators only

CORRECTING ERRORS

Errors can occur if the student submits the wrong information or if the information she provided was not scanned or entered correctly. In general, your school must have correct data before it can pay the student, which in some cases means that you or the student must submit corrections for reprocessing. However, there are other cases where you can pay the student without waiting for corrections to be reprocessed—for instance, if the aid amount doesn't change or, for the Campus-based and Stafford/PLUS programs, if you base the award on your recalculation of the EFC. For students selected for verification, there are additional situations where corrections aren't required (see Chapter 4 of this publication).

Even if the EFC or award amount doesn't appear to change, corrections must be submitted to the CPS (or otherwise resolve the discrepancy) if the Social Security number is wrong or if there were problems with other application questions that are subject to data matches, such as the citizenship questions.

Regulations on corrections and updating
Corrections for Pell Grants
34 CFR 690.14
Verification and updating, interim disbursements, options for payment, etc.
668.55, 668.58-.61

Options if error doesn't affect eligibility

If there would be no change to the **Pell, AC, or National SMART Grant**, the student doesn't have to submit corrections for reprocessing unless something such as a data match item must be changed. When submitting payment information in such a case, you must be sure to use the verified transaction. The rule is similar for the **Campus-based** and **Stafford loan programs**—you can award aid based on the original data if your recalculation of the EFC shows the correction would not

Correction if misreported as graduate

Any student who reports on the FAFSA that she is a graduate student can't receive Pell funds. Therefore, a student who incorrectly reported that she is a graduate student must correct that information, even if there are no errors that affect the EFC.

Examples—errors not affecting EFC

Stanislaw reported $1,000 for cash, savings, and checking accounts, and also reported $1,000 for the net worth of investments. He reported no other assets. He actually should have reported $2,500 for the net worth of investments. However, because his asset protection allowance is $4,700, making the correction won't change his EFC at all. Therefore, he can receive aid from any of the programs without submitting a correction, based on the data he originally reported.

Eric reported an AGI of $20,000 but forgot to report untaxed income of $120. Eric's EFC was 846. The FAA at Frisson College determines that making the correction would change Eric's EFC to 874. For an EFC of 846, the scheduled award is $2,900, as it is for an EFC of 874, so the college can pay Eric's Pell without requiring him to make a correction. When Frisson submits the origination record for Eric, it uses the original EFC of 846. (The college will need to either use its recalculated EFC or submit a correction for aid from the campus-based, Direct Loan, or FFEL programs; see "Options if correction decreases eligibility.")

Correction increases eligibility, Pell grants

34 CFR 668.59(b)(2)(ii)(A)

Verification completed within 120-day period for Pell

34 CFR 668.60(c)(1)

change the student's award amount. Of course, for any program you can still require corrections to be submitted for reprocessing.

Options if correction increases eligibility

For **Pell, AC, and National SMART Grants**, if the scheduled award would increase and if the student completes verification and submits no corrections, you may use the original EFC and grant amount. Otherwise, you must pay the student the increased amount by submitting the corrections to the CPS for reprocessing. If the student was selected for verification, you can make a first payment based on the original EFC and adjust the second payment upon receipt of the reprocessed ISIR/SAR, or you can wait until you receive the new EFC before you pay the student. If the student wasn't selected for verification, you must wait until you receive the reprocessed EFC before making a payment.

There's an important limitation when a student completes verification while no longer enrolled but within the subsequent 120-day period allowed for verification. In such cases you **must always use the higher EFC,** even if it was the original and incorrect EFC (refer to the regulation cited in the margin).

For the **Campus-based** and **Stafford loan programs**, if your recalculation shows that the student's eligibility will increase, you can either pay the student based on your recalculation or you or the student can submit a correction and use the new EFC from the CPS. Remember that your school will be liable for any overpayment if your recalculation is incorrect.

Options if correction decreases eligibility

If the student would be eligible for less aid based on the correct information, you can't use the incorrect EFC to award FSA aid.

For **Pell, AC, and National SMART Grants**, if the scheduled award would decrease, the data must be corrected and submitted to the CPS. You can't make any grant payments to the student until you receive the new output document.

For the **Campus-based** and **Stafford loan programs**, when your recalculation of the EFC shows that the corrections would decrease the student's aid, you can either pay the student based on your recalculation or require the student to submit a correction and use the new EFC from the CPS.

UPDATING

Generally, a student cannot update information, such as income or assets, that was correct as of the date the application was signed. For example, if the student's family sold some stock after she signed the FAFSA and spent the money on a non-reported asset such as a car, she can't update her information to show a change in the family's assets. However, three items—household size, number in college, and dependency status—must be updated in certain circumstances.

Dependency status

A student must update his dependency status any time during the award year unless it changed because his marital status changed. This update is required whether or not he was selected for verification. For the Pell Grant Program, the updated information must be submitted to the CPS for reprocessing. For the Campus-based and Stafford/PLUS loan programs, you can recalculate the student's EFC based on the updated dependency status and use that recalculated EFC. Remember that your school will be liable for any overpayment due to recalculation errors.

Once you've originated or certified a Stafford loan, the DL origination record or FFEL certification record can't be changed to reflect a change in dependency status. However, you can use the updated status and recalculated EFC to originate or certify additional loans if the student qualifies.

Household size and number in college

Unlike dependency status, household size or number in college **cannot** be updated unless the student is selected for verification. If he is selected, these items **must** be updated to be correct at the time of verification unless they changed due to a change in the student's marital status, in which case updating is not permitted.

For **Pell Grants**, the student doesn't have to submit updated information for reprocessing if the scheduled award will increase or remain the same; you can disburse Pell funds using the original EFC. But in order for the student to get the increased grant amount, the updated information must be submitted to the processor. You can make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed output document, or you can wait until you receive the new EFC before paying the student. If the award will decrease, the updated information must be submitted to the processor. You can't make any payments until you have the new output document with the updated information.

For the **Campus-based** and **Stafford/PLUS programs**, you can require the student to submit the updated information for the CPS to recalculate the EFC, or you can recalculate the student's EFC yourself. Remember that your school will be liable for any overpayment due to recalculation errors.

Effect on previous disbursements

If you paid a student based on information that is updated later, you must use the revised EFC to determine the correct award and adjust future disbursements or require a repayment by the student if necessary.

HOW TO SUBMIT CORRECTIONS AND UPDATES

Corrections and updates can be submitted by the student on the SAR or the Web or by the school using FAA Access to CPS Online.

Example: correction increases eligibility

Chris's EFC is 616. He correctly reported his household size of three but incorrectly reported the number in college as one. The FAA at Benoit Institute determines that correcting the number in college to two would change Chris's EFC to 534. This would increase his Pell award by $100. Benoit can disburse Pell to Chris on the lower scheduled award but not on the higher award unless he sends in a correction and receives a new output document. Benoit could use the recalculated EFC for awarding under the Campus-based, Direct Loan, or FFEL programs without any corrections being submitted.

Example: correction decreases eligibility

On the application, Chavo reported his $6,000 in income as taxes paid instead of income earned from work. Making the correction will increase Chavo's EFC, so his eligibility will be reduced. Because Chavo will still qualify for a Pell, the FAA at Sarven Technical Institute sends the correction to the CPS for recalculation. Chavo can't receive any Pell payments until Sarven receives the corrected ISIR. However, Sarven could recalculate his EFC and disburse campus-based aid, Direct Loans, or FFELs to Chavo before it receives the corrected data from the CPS.

Parent remarriage after applying

While the applicant does not update household size or number in college because of a change in his marital status, if he is a dependent student and his parent remarries between application and verification, he must update household size to include the new stepparent. However, the student would not count the new stepparent's income and assets. The school could use professional judgment to include the stepparent's income or to otherwise account for the change.

HEA Sec. 475(f)(3)
34 CFR 668.55(b)

Making corrections and updates

FAFSA on the Web
www.fafsa.ed.gov

FAA Access to CPS Online
www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp
by the school aid office

Student aid report
paper corrections sent by mail

By phone
Change schools listed or student address (DRN required)
Federal Student Aid Information Center (FSAIC)
1-800-4-FED-AID (1-800-433-3243)

Using FAFSA on the Web (FOTW)

Any student who has a PIN—regardless of how he originally applied—may correct any of his own data, except SSN, by using FAFSA on the Web at **www.fafsa.ed.gov**. If dependent students need to change parental data, a parent must either sign electronically with her own PIN or print out and sign a signature page.

Submitting changes via FAA Access to CPS Online

Your school can submit corrections and updates electronically through FAA Access to CPS Online even if the original application wasn't submitted with that method. If your school isn't listed on the transaction you want to correct, the student will have to give you the DRN printed on the SAR or SAR Acknowledgement so that you can add your school in the next available institution field and then get electronic access to the resulting corrected transaction. If all the fields are filled, the student will have to tell you which school to replace with yours.

If you send a correction or update for a student using FAA Access, you must first have signed documentation from the student and parent. This can be signatures on Part 2 of the SAR, a signed copy of the correction or update, or a signed verification document. Unlike those for the original application, these do not have to be wet signatures. See Chapter 2 for more on signature requirements.

The CPS will process the change, send an ISIR to the school, and send the student a one-page SAR acknowledgement or, if the CPS has her e-mail address, an e-mail with a link to her SAR information on the Web.

Using the Student Aid Report (SAR) to make corrections

Students who received a paper SAR may make corrections or updates on it, then sign and return it to the FAFSA processor at the address given at the end of the SAR (of course, students with PINs can instead use FOTW). One parent must also sign if the student is dependent, unless the only corrections are to the institution or housing codes, the address, or telephone number.

If the student applied electronically through a school or received an e-mail link to SAR information on the Web but would like to make corrections with a paper SAR, she can have one mailed to her by calling the FSAIC at 1-800-433-3243 and providing her name, SSN, and date of birth.

Adding schools and changing a student's address

As with other changes, a student can add schools or change her address, e-mail address, or telephone number on the Web or on a paper SAR. But she can also update these items over the phone by calling 1-800-4-FED-AID and providing her DRN. You can submit those changes for her through FAA Access, though, as noted before, if your school was not listed on the student's application, you will need her DRN to add your school.

The FAFSA has limited space for a student to list schools that will receive the application data: four schools can appear on the paper application, ten with either FAFSA on the Web or FAA Access. If the student wants information sent to more schools, he can use any of the methods listed above to replace some or all of the original schools, though the replaced schools will not receive an ISIR. For example, if the student originally listed ten schools on the application and then used FOTW to replace two schools with two new ones, those that were replaced would not receive an ISIR from this correction or any subsequent correction on which they did not appear.

PROFESSIONAL JUDGMENT

An aid administrator may use professional judgment (PJ), on a case-by-case basis only, to alter the data used to calculate the EFC. This alteration is valid only at the school making it. You submit a PJ change electronically, via FAA Access to CPS Online or third-party software, and you may do it without a signature from the student or parent.

The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate him—not to conditions that exist for a whole class of students. You can also use professional judgment to adjust the student's cost of attendance. You must resolve any inconsistent or conflicting information shown on the output document *before* making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department.

The statute states that nothing within it shall be construed as limiting the authority of aid administrators to make data adjustments for some situations. However, the law gives some examples of special circumstances, such as elementary or secondary school tuition, medical or dental or nursing home expenses not covered by insurance, unusually high child care costs, being homeless or a dislocated worker, recent unemployment of a family member, or other changes in the family's income or assets. Use of professional judgment is neither limited to nor required for the situations mentioned.

Another situation where you might want to use professional judgment involves Roth IRAs. When someone converts a regular IRA into a Roth IRA by transferring funds, the amount converted has to be reported as taxable income on the tax return. So the income reported on the FAFSA will be higher than without the Roth conversion, even though the family doesn't actually have additional income or assets available. You can use professional judgment to reduce the income and taxes paid to the amount that would have been reported if there was no Roth conversion if you think the adjustment is warranted for a student. As with the specific special circumstances listed in the law, you're not required to make an adjustment in this situation.

The law doesn't allow you to modify either the formula or the tables used in the EFC calculation; you can only change the cost of attendance or the values of specific data elements used in the EFC

Corrections by phone limited to processor errors

As we've discussed, a student with a DRN can change his address and school listings by calling the Federal Student Aid Information Center.

Most other corrections can't be made over the phone—they have to be done on the SAR or through FOTW or FAA Access. There is only one exception, and that's when the information the student submitted on a paper FAFSA or SAR was not scanned or input correctly.

If a student contacts the FSAIC and an operator can verify by viewing the image file of the document that an answer to an item was not correctly recorded by the FAFSA processor, the operator can correct that error.

The correction will be transmitted to the CPS, a corrected ISIR will be available to the student's schools within 72 hours, and he will receive a corrected SAR in the mail within 10 days. The student doesn't have to sign for this correction because he has already signed the original paper document that has the correct information.

Refusing or reducing a loan

Remember that the discretion of FAAs extends to refusing or reducing FFEL or DL funds as long as the reason is documented and given in written form to the student and is not due to discrimination against the student on the basis of race, national origin, religion, sex, marital status, age, or disability.
HEA Sec. 479A(c)

Professional judgment

HEA Sec. 479A(a) IN GENERAL—Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical, dental, or nursing home expenses not covered by insurance, unusually high child care or dependent care costs, recent unemployment of a family member or an independent student, a student or family member who is a dislocated worker (as defined in section 101 of the Workforce Investment Act of 1998), the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 487, a change in housing status that results in an individual being homeless (as defined in section 103 of the McKinney-Vento Homeless Assistance Act), or other changes in a family's income, a family's assets or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases (1) to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title, or (2) to offer a dependent student financial assistance under section 428H or a Federal Direct Unsubsidized Stafford Loan without requiring the parents of such student to file the financial aid form prescribed under section 483 if the student financial aid administrator verifies that the parent or parents of such student have ended financial support of such student and refuse to file such form. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information.

calculation. In addition, you can't adjust data elements or the cost of attendance solely because you believe the tables and formula are not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances. For example, if a family member is ill, you might modify the AGI to allow for lower earnings in the coming year or might adjust assets to indicate that family savings will be spent on medical expenses.

Professional judgment can't be used to waive general student eligibility requirements or to circumvent the intent of the law or regulations. For instance, you cannot use professional judgment to change FSEOG selection criteria. Nor can you include post-enrollment activity expenses in the student's COA. For example, professional licensing costs to be incurred after the enrollment period would not be includable (though one-time licensing costs incurred during the enrollment period may be—see *Cost of Attendance* in Volume 3).

Occasionally aid administrators have made decisions contrary to the professional judgment provision's intent. These "unreasonable" judgments have included, for example, the reduction of EFCs based on recurring costs such as vacation expenses, tithing expenses, and standard living expenses (related to utilities, credit card expenses, childrens' allowances, and the like). Aid administrators must make "reasonable" decisions that support the intent of the provision. Your school is held accountable for all professional judgment decisions and for fully documenting each decision.

An FAA should keep in mind that an income protection allowance (IPA) is included in the EFC calculation to account for modest living expenses. Before adjusting for an unusual expense, consider whether it is already covered by the IPA. It is reasonable to assume that approximately 30% of the IPA is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance is one of the intermediate values in the FAA Information section of the output document (labeled as "IPA"). See Chapter 3 for the IPA values.

If you use professional judgment to adjust a data element, you must use the resulting EFC consistently for all FSA funds awarded to that student. For example, if for awarding the student's Pell grant you adjust a data element that affects the EFC, that new EFC must also be used to determine the student's eligibility for aid from the Campus-based and Stafford loan programs.

CONFLICTING INFORMATION

In addition to reviewing application and data match information from the CPS, a school must have an adequate internal system to identify conflicting information—regardless of the source and regardless of whether the student is selected for verification—that would affect a student's eligibility, such as information from the admissions office as to whether the student has a high school diploma or information from

other offices regarding academic progress and enrollment status. The school must resolve all such conflicting information, except when the student dies during the award year.

If your school has conflicting information concerning a student's eligibility or you have any reason to believe a student's application information is incorrect, you **must** resolve the discrepancies before disbursing FSA funds. If you discover discrepancies *after* disbursing FSA funds, you must still reconcile the conflicting information and take appropriate action under the specific program requirements.

Adjustment example

Kitty's mother had income earned from work of $25,000 in 2008 but is no longer employed. After receiving documentation confirming this, the FAA at Krieger College decides to adjust the AGI reported for Kitty's parents to take into account their reduced income. The FAA also reduces the income earned from work for Kitty's mother to zero.

Subsequent ISIRs

You are required to review all subsequent transactions for a student for the entire processing year, even if you have already verified an earlier transaction. First determine if the EFC or the "C" flag has changed or if there are new comments or NSLDS information that impacts eligibility for aid. Also check any updates or corrections. If the EFC has not changed and there are no changes in the "C" flag or NSLDS information, generally no action is required. If the EFC does change but it either doesn't affect the amount and type of aid received or the data elements that changed were already verified, no action is required. But if the EFC changes and the pertinent data elements were not verified, then you must investigate. Of course, any time the "C" flag changes or NSLDS data have been modified, you must resolve any conflicts.

IPA percentage example

In 2008 Allen had $2,250 in medical expenses that weren't covered by insurance. He's married and has two children, and he's the only member of his household in college, so his IPA is $23,560. Because Allen's expenses are less than the amount for medical expenses already included in the IPA (11% of $23,560 is $2,592), the aid administrator at Sarven Technical Institute does not make an adjustment to Allen's FAFSA information.

Discrepant tax data

We have already stated that financial aid administrators do not need to be tax experts, yet there are some issues that even a layperson with basic tax law information can evaluate. Because conflicting data often involve such information, FAAs must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. You are obligated to know: (1) whether a person was required to file a tax return, (2) what the correct filing status for a person should be, and (3) that an individual cannot be claimed as an exemption by more than one person.

Online review of PJ practices

http://ifap.ed.gov/qadocs/FSAVeriModule/activity5verif.doc

Publication 17 of the IRS, *Your Federal Income Tax*, is a useful resource for aid administrators. You can view it on the Web at **www.irs.gov** or you can call the IRS at 1-800-829-3676 to order a copy. It addresses pertinent tax issues on these pages: the filing requirements—i.e., who is required to file a return—are on pages 5–8; the instructions on which form a person should file are on pages 8–9; and the filing status requirements are on pages 20–25.

Requirement to identify and resolve discrepant information

34 CFR 668.16(f)

For example, an FAA noticing that a dependent student's married parents have each filed as "head of household" (which offers a greater tax deduction than filing as single or married) must question whether that is the correct filing status. Publication 17 explains on pages 22–24 the criteria a person must meet to file as head of household. Resolution of the conflict may be a reasonable explanation of why there appears to be a conflict but is none, or the parents may refile and submit a copy of the amended return.

Requirement to verify questionable data

34 CFR 668.54(a)(3)

"If an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate, it shall require the applicant to verify the information that it has reason to believe is inaccurate."

IRS Publication 17
The IRS's Publication 17 is a large document, but so that you won't be daunted by its size, we have included the page numbers you might need to refer to.

Online review of conflicting information policies
http://ifap.ed.gov/qadocs/FSAVeriModule/activity4verif.doc

OIG referrals
34 CFR 668.16(g)

Resolution of conflicting information

You may not disburse aid until you have resolved conflicting information, which you must do for any student as long as he is at your school. Even if the conflict concerns a previous award year, you must still investigate it. You have resolved the matter when you have determined which data are correct; this might simply be confirming that an earlier determination was the right one. Of course, you must document your findings in the student's file and explain why, not simply assert that, your decision is justified.

REFERRAL OF FRAUD CASES

If you suspect that a student, employee, or other individual has misreported information or altered documentation to fraudulently obtain federal funds, you should report your suspicions and provide any evidence to the Office of Inspector General. See also Volume 2.

OIG Address and Phone Numbers

Regional Offices	*Telephone No.*	*National Hotline*
Boston, MA	(617) 289-0174	Inspector General's Hotline Office of Inspector General U.S. Department of Education 400 Maryland Avenue, SW Washington, DC 20202-1510 1-800-MIS-USED Email: oig.hotline@ed.gov Web: http://www.ed.gov/about/offices/list/oig/hotline.html
New York, NY	(646) 428-3861	
Philadelphia, PA	(215) 656-6900	
Atlanta, GA	(404) 562-6460	
Chicago, IL	(312) 730-1620	
Dallas, TX	(214) 661-9530	
Denver, CO	(303) 844-0058	
Kansas City, MO	(816) 268-0530	
Long Beach, CA	(562) 980-4141	
San Juan, PR	(787) 766-6278	
Washington, DC	(202) 245-6911	

Applying for Stafford and PLUS loans

CHAPTER 6

This chapter explains the process of making a loan and describes what information is required of the student, parent, and school. There will be some variations from school to school and between the FFEL and Direct Loan programs, but this chapter discusses the requirements that are common to schools and the loan programs.

APPLYING FOR AID & COMPLETING THE MPN

A student who wishes to receive a Stafford loan must complete a Free Application for Federal Student Aid (FAFSA) and a master promissory note (MPN). Depending on the loan program, she may obtain an MPN from a school, a lender, guaranty agency, or ED. An MPN can be used to make multiple loans over several years of borrowing.

In the traditional paper process, a student might complete a Stafford MPN at the school and submit it to the lender or school. In other cases, the school certifies or originates the loan based on the student's acceptance of the aid package. The lender, the school, or ED sends the MPN to him for his signature. Regardless of the method used, the *Borrowers' Rights and Responsibilities Statement* must be provided to the student with the MPN. Also, if you receive the MPN, you must ensure its accuracy based on the information you have available.

Schools may also offer borrowers the option of completing and signing an electronic MPN, but they may not require borrowers to use an electronic MPN. A borrower who wishes to complete a paper MPN must be given that option. In most cases the promissory note will be completed through a website, and the site owner is responsible for authenticating the borrower and obtaining the borrower's electronic signature. In the Direct Loan Program, schools can opt out of the electronic MPN process or choose that ED only accept electronic MPNs. These options can be set on the eMPN website. Student and parent borrowers can complete the MPN for Direct Stafford and PLUS loans at http://dlenote.ed.gov.

If your school participates in the FFEL program, you should make arrangements with participating lenders or another intermediary (such as a guarantor website or Education Loan Management Resources) for the receipt of electronic documents.

In the FFEL program, electronic completion of the MPN does not always include electronic signatures. A school or borrower may demand a "wet" signature even if the MPN is otherwise completed

Paper MPNs

Copies of the Master Promissory Note are provided to borrowers and schools by lenders and guarantors (for FFEL) or the Department (for Direct Loans). Ordering instructions for Direct Loan schools are on the ED Pubs website at http://edpubs.ed.gov.

FFEL: 34 CFR 682.401(d)
DL: 34 CFR 685.402(f) and definition of master promissory note 34 CFR 685.102

For your reference, sample copies of the MPN and related materials are available online :
FFEL Stafford Loan and addenda
http://ifap.ed.gov/dpcletters/FP0608.html
http://ifap.ed.gov/dpcletters/FP0802.html
Direct Stafford and PLUS loans
http://www.ed.gov/DirectLoan/mpn.html
DL MPN on the Web
http://dlenote.ed.gov

Power of attorney and completing the MPN

A third party with power of attorney for the borrower may sign the promissory note if the borrower is unable to sign. Use of a power of attorney when signing an MPN limits the use of the MPN to one loan. If the borrower submits his or her MPN through the school, the school must retain a copy of the original power of attorney and submit a copy with the MPN to the loan holder. A photocopy or a fax of the power of attorney is acceptable.

If the note is signed with a power of attorney, the student must authorize the school in writing to credit the loan funds to his or her account at the school. In addition, the school must pay any remaining balance to the student for living expenses.

See Volume 3 for further discussion of ED approval needed to use a power of attorney for disbursements.

Consumer information for the borrower

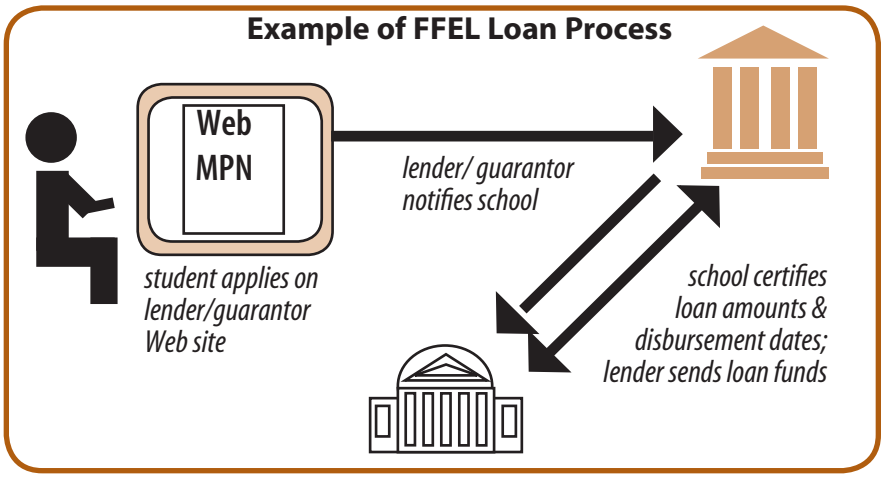
Borrowers need to be fully advised on the costs and responsibilities of borrowing.

Accordingly, the law requires that the borrower receive the following information:
1. At the same time as the MPN, a Borrower's Rights and Responsibilities Statement.
2. At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans (usually provided by the lender or by ED).
3. For any subsequent loans provided under an existing MPN, a Plain Language Disclosure (PLD) provided by the lender or ED. (The PLD is an abbreviated version of the Borrower's Rights and Responsibilities Statement that was provided along with the MPN.)

Some of this information should be reviewed with the borrower as a part of entrance and exit counseling (see Volume 2, School Eligibility and Operations).

electronically. In the Direct Loan Program, a borrower who wishes to complete an electronic MPN must sign the MPN electronically. If a school or borrower does not want an MPN signed electronically, a paper MPN is required.

If a borrower is completing and signing the promissory note on the Web using the Department's PIN or an alternate signature process provided by the intermediary's website, the borrower's rights and responsibilities statement must be included in the process. In most cases the intermediary operating the website will notify you when a student completes the promissory note online and designates your school.



Required borrower information on MPN

The MPN collects identifying information for the borrower, including name, permanent address, date of birth, Social Security number, driver's license number, and two references with U.S. addresses. Some of this information may be preprinted on the MPN. The borrower must read, sign, and date the MPN.

In completing the FFEL MPN, the borrower must also provide the name of a lender. As a convenience, many schools give their borrowers a list of lenders who make loans to students at the school. **However, a borrower has the right to choose her lender, even if that lender is not one that the school previously used, and a school may not refuse to certify a loan based on a borrower's choice of lender or guarantor.**

MULTI-YEAR MPN AND WHEN A NEW MPN IS REQUIRED

When used as a multi-year document, the MPN enables student and parent borrowers to get additional loans without signing a new MPN.

There are several circumstances that require a borrower to complete a new MPN. It is required if the borrower's FFEL lender changes, unless the change is a result of a merger or acquisition. A new MPN is also required in certain transfer situations where:

- the borrower transfers to a school that is not eligible to use, or chooses not to use, the multi-year feature of the MPN.
- the borrower transfers from an FFEL school to a Direct Loan school, and there's no valid Direct Loan MPN on file with ED. Similarly, a borrower needs a new MPN if transferring from a Direct Loan to an FFEL school, unless there is a valid MPN on file with the lender that the borrower uses. (New MPNs are also required if the school itself changes from using DL to FFEL or vice versa.)
- a school's lender requests that a school no longer use the multi-year feature of the MPN.

Also, borrowers may request an annual MPN, or may request that no additional loans be made using their current multi-year MPN. Requests that no additional loans are made using current multi-year MPNs must be in writing.

In some cases, a new MPN has to be executed because the maximum period for use of the MPN has expired. At Direct Loan schools, additional loans may no longer be made under an MPN after the earlier of:

- the date ED or the school receives the borrower's written notification that no further loans be made;
- if no disbursement is made during the 12-month period after the date ED received the MPN; or
- ten years after the date ED received the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

Although the Direct Loan Program regulations allow the second and third expiration conditions to be based either on the date the borrower signed the MPN or the date ED receives the MPN, the COD system currently uses the date the MPN is received.

Using the MPN for multiple loans within an academic year

Note that the MPN may be used to make multiple loans within the same academic year. Even schools that are not authorized or choose not to use the multi-year feature of the MPN can make more than one loan under an MPN within the same academic year.

Lenders declining loans

An FFEL lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or disability. However, a lender may decline to make loans to students who do not meet the lender's credit standards, to students at a particular school because of the school's default rate, or to students enrolled in a particular program of study. A lender may also decline to make FFELs for less than a specified amount, for example, $500.

Special notes about Direct PLUS MPNs for graduate/professional borrowers:

Graduate and professional student borrowers completing a Direct PLUS master promissory note (MPN) electronically should select ***Complete New MPN for Student Loans*** on the left-hand side of the page on the Direct Loan eMPN website (www.dlenote.ed.gov) then choose the Graduate PLUS option.

Graduate and professional borrowers completing a paper Direct PLUS MPN do not have to complete the U.S. Citizenship Status box, Question 7, in Section A of the form.

Lender of Last Resort
A student who is otherwise eligible for a subsidized Stafford loan and, after not more than two rejections, who has been unable to find an FFEL lender willing to make such a loan, should contact the guaranty agency in his state of residence or the guaranty agency in the state in which his school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity and must respond to the student within 60 days. An LLR cannot make a loan that exceeds the borrower's need, and it is not required to make a loan for an amount less than $200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards.

Each guaranty agency is required to develop rules and procedures for its LLR program.

Lender of last resort
34 CFR 682.401(c)

FFEL lender/guarantor approval
The lender or guarantor will match the information included by the school on the certification (electronic or paper) to the MPN by comparing the borrower's identifying information. The lender or guarantor should check the permanent address information on the MPN to see if it has changed. The school must supply the borrower's cost of attendance, EFC, and estimated financial assistance to the lender or guarantor upon request.

The lender will also check to make sure that the school is eligible to use the multi-year feature of the MPN. If a borrower transfers to an eligible foreign school that is not eligible to participate in the multi-year process and continues to use the same lender, the lender is responsible for obtaining a new signed MPN for each loan at the new school.

At FFEL Program schools, additional loans may not be made under an MPN after the earlier of:

- the date the lender receives the borrower's written notification that no further loans be made;
- if no disbursement is made during the 12-month period after the date the borrower signed the MPN; or
- ten years from the date the student signs the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

The confirmation process

A crucial step in multi-year use of the MPN is the confirmation process. Confirmation helps the student or parent maintain control over the borrowing process. The confirmation process may be designed to be part of the required notices and disclosures (discussed in chapter 2), or it may be a separate process that supplements those notices and disclosures.

To help ensure student borrower control over the borrowing process, a student borrower must accept, either actively or passively, the loan amount offered.

- Active confirmation—a school does not disburse the loan until the borrower affirmatively requests or accepts the proposed loan type and amount or requests changes to the proposed loan package.
- Passive confirmation—a school does not disburse the loan until the borrower is notified of his or her proposed loan package, and the time given to the borrower to respond has elapsed. (The notification can come from the school, lender and/or guarantor.) The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

  For example, your school's award letter may be used as part of either an active or passive confirmation process. For active confirmation, the borrower would be asked to confirm the loan amount offered by responding to your school's offer. For passive confirmation, the borrower would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

Declining the use of the multi-year MPN

Schools are not required to use the multi-year feature of the MPN. You may decide that you want some or all of the borrowers at your school to sign a new MPN each year. If this is the case, you should notify your lenders. (Also note that lenders have the option to require a new MPN for each loan.) If you're at a Direct Loan school and don't

want to use the multi-year feature for any of your students, contact the COD School Relations Center. See Direct Loan Bulletin DLB-03-02.

Student loan borrowers may decline to use the multi-year feature of the MPN. Borrowers may also cancel authorization for subsequent loans to be made under an MPN after the first loan is made by notifying the school or lender (for FFEL) in writing. Direct Loan borrowers may send their written notification to the Direct Loan Servicing Center (DLSC) or to their school to forward to COD. The effective date is the date the school, lender, COD, or DLSC receives the written cancellation request. If the borrower cancels the multi-year authorization on a loan that is not completely disbursed, the school may make remaining disbursements on existing loans, unless the borrower tells the school to cancel or adjust the disbursements. To obtain additional loans, the borrower will need to complete a new MPN.

PLUS borrowers
Unless otherwise noted, "PLUS borrower" refers to both parents and graduate/professional students who borrow PLUS loans.

Determination of Stafford eligibility required
34 CFR 682.603(d), 34 CFR 685.301(a)

Initial PLUS loan counseling required
34 CFR 682.604(f)(2) & 34 CFR 685.304(a)(2)

PLUS MPN

Parents and graduate/professional students applying for a PLUS loan must complete a PLUS Application and Master Promissory Note. All student PLUS borrowers must complete a FAFSA. A parent borrower must complete a FAFSA if required by their child's school. All PLUS borrowers must receive the Borrowers' Rights and Responsibilities Statement with the loan application.

At U.S. domestic schools a parent may obtain for a dependent student additional PLUS loans based on the original MPN for up to 10 years after the date the parent first signed it, as discussed in the previous section on the multi-year use of the MPN. A separate PLUS MPN is required for each dependent student or if both parents want to borrow individually on behalf of the same student. A new PLUS MPN would be required under the conditions discussed in the section on when a new MPN is required. A graduate or professional student PLUS borrower may also obtain additional loans under the original MPN for up to 10 years after the date it was signed.

If a graduate or professional student PLUS borrower is also a parent who is borrowing a PLUS loan for one or more dependent students, she must sign one MPN for herself and a separate MPN for each dependent student.

Both parent and student PLUS borrowers may choose to sign a new MPN for each loan even if that would not otherwise be required. A school or lender may require a new MPN for each PLUS loan.

Establishing Grad/Professional Eligibility

Before certifying a PLUS loan application for a graduate or professional student, a school must determine her eligibility for a Stafford loan. If the student is eligible for a Stafford loan but has not requested the maximum amount she can receive, the school must notify her of that and give her the opportunity to request the maximum amount. The school must also provide the student with a comparison of:

Establishing a Confirmation Process for Your Students

As long as regulatory requirements and the Department's guidelines are met, schools, lenders, and guarantors are free to establish their own confirmation process — for example, a process that combines elements of active and passive confirmation and/or a shared responsibility among the school, lender and/or guarantor. Schools and the lending community have considerable discretion in setting up these processes, including the timing of confirmation, provided the goals of the confirmation process are accomplished.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are disbursed or at some other appropriate time. The confirmation process could cover the entire loan for the academic year or loan period or, instead, could require that the student confirm each loan disbursement. DCL GEN 98-25 provides examples of each of these confirmation approaches.

The most effective processes will likely vary among schools. Participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, card technologies and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process for all borrowers. However, in some cases, a school may want to establish more than one confirmation process to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students. For example, a school could have a policy that requires active confirmation for undergraduate students and passive confirmation for graduate students.

Regardless of the process(es) used, schools and FFEL lenders must document their confirmation procedures. A school (and lenders in the FFEL Program) must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely, because it must be submitted to the Department, upon request, if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information just as they do for other school policies, such as refunds and academic progress.

- the maximum interest rate for Stafford and PLUS loans;
- the periods when interest accrues on Stafford and PLUS loans; and
- when Stafford and PLUS loans enter repayment.

A graduate or professional student is not required to accept a Stafford loan as a condition for receiving a PLUS loan, nor can a school require that.

Unless the borrower has received a FFEL or Direct PLUS loan before, a school must conduct initial loan counseling prior to the first disbursement of a graduate/professional PLUS loan. Loan counseling requirements do not apply to parent PLUS borrowers.

PLUS borrower certification

Because a parent or graduate/professional student may borrow up to the student's cost of attendance minus other estimated financial assistance for the loan period, it is important that the borrower specify how much he wants to borrow. Each school and lender must establish and document the process by which one of the parties will collect the requested loan amount from the borrower. A PLUS loan may not be made for more than what the borrower requests.

Your school must collect this information before certifying the PLUS loan and may use various means such as the PLUS Certification form (for FFEL, see the margin note), a borrower response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests, or other means. If your school participates in the FFEL program, you may also make arrangements with the lenders for them to collect this information from borrowers before approving the loan.

Whether your school or the lender collects the information, you must establish and document how the PLUS borrower's loan amount request will be collected. You (or the lender) also must maintain a record of any requests (written, electronic, or by phone) from the borrower for any adjustment to the loan amount.

For parent PLUS applicants, before certifying the loan, you must determine the FSA eligibility of the dependent student for whom the parent is borrowing. Moreover, because a parent may not borrow on behalf of a student who is ineligible for FSA funds, or if the parent is ineligible for FSA funds, for a parent PLUS loan, you must not certify the application until you have obtained the dependent student's complete financial aid history. Also, when certifying a parent PLUS loan, you must certify the parent's and dependent student's enrollment status and anticipated completion/graduation date.

Your school must confirm the student's dependency status when determining whether a parent is eligible to borrow under the PLUS Program or the dependent student is eligible for additional unsubsidized Stafford loan limits.

PLUS MPN approval for foreign schools

Foreign schools must get approval from ED to be able to use the multi-year feature of the PLUS MPN. If the foreign school does not have this approval, the parent will have to sign a new PLUS MPN for each new loan period.

Grad PLUS MPN at foreign schools

A graduate or professional student attending an eligible foreign institution will only be able to use the multi-year feature of the PLUS MPN if the school has been expressly approved by the Department to have its student and parent borrowers do so. No eligible foreign institution is approved for this purpose at the current time. As a result, until the Department approves foreign institutions for this purpose, a graduate or professional student PLUS borrower attending an eligible foreign institution will need to sign a new PLUS MPN for each new loan period.

PLUS Certification Form (FFEL only)

The Department has developed a paper Federal PLUS Loan Information and School Certification (PLUS Certification form) to be used by FFEL schools that do not complete loan certification electronically. This form was approved as part of the PLUS MPN documents package and is printed and distributed by lenders and guaranty agencies.

The PLUS Certification form includes a Borrower and Student Information section. If you elect to secure the loan information and initiate the process, you may send the Certification form to the borrower for completion of the borrower/student information. Alternatively, if the lender or guarantor secures this information, the borrower/student section would be pre-filled and you would only secure the borrower's signature and provide the school certification data.

Adverse Credit History

Adverse credit is defined in the regulations as the applicant being 90 days or more delinquent on a debt or having been subject in the last five years to a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment or write-off of an FSA debt. The absence of any credit history is not considered adverse credit. FFEL lenders may establish more restrictive credit standards for determining adverse credit.

When determining whether a borrower is ineligible for a PLUS Loan based on an adverse credit history, the lender, or the Department for Direct loans, must obtain a credit report on the borrower from at least one national credit bureau. To provide a more accurate determination of adverse credit, the report must be obtained within a timeframe reasonably related to the loan period. If the PLUS borrower requests additional funds for an existing loan period (resulting in a loan amount adjustment, not a new loan), the lender is not required to obtain a new credit report but may do so.

Increased unsubsidized Stafford for independent students and dependent students whose parent can't get PLUS

If at least one of a dependent student's parents has not been able to borrow a PLUS loan, the student may be eligible for higher unsubsidized Stafford borrowing limits. See Volume 3, Chapter 4.

If your school participates in the FFEL program and is eligible to use the multi-year PLUS MPN, the borrower's PLUS loan request for subsequent years is sufficient documentation to make additional loans—there is no separate confirmation process for PLUS loans—but the borrower's PLUS loan amount request must be secured for each loan made using an MPN. Direct Loan schools using the PLUS loan MPN as a multi-year note are required to have an active confirmation process.

Adverse credit history & use of endorser

To borrow a PLUS loan, a person must not have an adverse credit history, but if he has such a history, he may still receive a PLUS loan by using an endorser who does not have an adverse credit history. In these cases a separate endorser addendum is required for each PLUS loan. Any loan that requires an endorser must be made under a new PLUS MPN with a new endorser addendum because the endorser is liable only for the specific loan or loans she agrees to endorse. The addendum includes the requested loan amount; any increase to that amount by the parent borrower must be approved by the endorser and requires a new MPN and endorser addendum.

Introduction

This volume of the Federal Student Aid Handbook discusses the eligibility requirements for students and parent borrowers and your responsibilities to ensure that recipients qualify for their aid awards.

SOURCES OF INFORMATION

There are many factors that you must consider when reviewing a student's application for aid from the FSA programs, such as whether the student is a U.S. citizen or permanent resident, whether the student is making satisfactory academic progress, and whether the student has a defaulted FSA loan. To answer these questions you receive information about the student from several different sources, including the Department of Education's Central Processing System (CPS) for financial aid applications and the National Student Loan Data System (NSLDS).

Throughout the year the Department provides updates to schools in the form of dear colleague letters (DCLs). These and other releases, such as *Federal Register* notices and announcements containing system updates and technical guidance, are available on the *Information for Financial Aid Professionals* (IFAP) website (**www.ifap.ed.gov**).

Schools using software from the Department also receive other materials that explain how the software operates, such as technical references, which are available on the FSA Download website (see the margin). The FSA Handbook doesn't cover the operation of specific pieces of software. Schools using third-party software should consult the vendor's reference materials for technical guidance.

RECENT CHANGES

The Higher Education Opportunity Act (HEOA) of 2008 contained some changes to the Title IV programs that took effect immediately and others that become effective for the 2009–2010 and 2010–2011 award years. This volume contains changes to student eligibility issues through 2009–2010. Changes for 2010–2011 will be covered next year.

On page 5 we described the conditions under which the HEOA permits students with an intellectual disability to receive federal student aid.

Program and systems information online

www.fsadownload.ed.gov

Software:
- Direct Loan Tools
- EDconnect
- EDExpress for Windows
- SSCR for Windows

Technical References and User Guides for:
- CPS (ISIR, Summary of Changes, Renewal FAFSA Process Guides, etc.)
- COD
- Electronic Data Exchange
- EDExpress Packaging

www.ifap.ed.gov
- Federal Registers
- Electronic Announcements
- Dear Partner/Colleague Letters
- FSA Assessment modules:
  Student Eligibility—
  www.ifap.ed.gov/qahome/qaassessments/studentelig.html

  Satisfactory Academic Progress—
  www.ifap.ed.gov/qahome/qaassessments/sap.html

Title IV policy questions

For questions about federal student aid policies, contact the Research and Customer Care Center: fsa.customer.support@ed.gov or 1-800-4ED-SFAP. When referring students to the Department of Education, please have them call 1-800-4-FED-AID.

On page 6 we included the new alternative to having a high school diploma: completing 6 credits of college classes that apply to a degree or certificate program at the school. Also, we noted that students can self-certify on the FAFSA that they were homeschooled.

We received feedback that having SAP guidance in both this volume and Volume 2 was confusing. We therefore consolidated the guidance and placed it on pages 10–13. We also added margin notes about grades for test-based credits, completing a program but not yet having a degree, and retaking a program.

On the top of page 14 we changed the minimum enrollment status requirement for ACG/SMART from full time to half time.

We explained on page 16 the new requirement schools have to notify students who become ineligible for aid due to a drug conviction.

There are a couple changes to the citizenship chapter. On page 23 we added a paragraph about the new passport card, which is acceptable identification for U.S. citizenship. In the margin of page 31 we tell schools to continue to use the G-845 form reproduced in the chapter, which we have also been including in our online (at **www.ifap.ed.gov**) updates regarding secondary confirmation of students.

Occasionally we receive an inquiry about students who are minors signing a promissory note to receive a Title IV loan. Under HEA law, such students do not have a defense of infancy to allow them to not repay the loan. We included a margin note about this on page 51 of Chapter 3. At the end of the chapter we added two new loan status codes to the chart: FX and PZ.

In Chapter 6 we accounted for the changes in the ACG and National SMART programs due to the ECASLA, such as the allowance that students can now be enrolled less than full (but at least half) time.

There are several additions to Chapter 7. There is a new paragraph on page 75 stating that students with a master's degree are ineligible for Pell grants. On page 76 we note that students who lost a military parent or guardian in Iraq or Afghanistan can receive a zero EFC, that students who are sex offenders lose eligibility for Pell if under an involuntary civil commitment, and that there is now an aggregate Pell limit for students who first received the grant on or after July 1, 2008. In the margin of page 79 we mention the temporary waiver of a PLUS denial for some borrowers. There is a new section on LEAP grants as part of state grants on page 83. Homeschooled students may now receive Byrd scholarships; see page 84. We expanded the guidance on TEACH grants based on the regulations released after last year's Handbook.

If you have any comments regarding the FSA Handbook, please contact Research and Publications via e-mail at fsaschoolspubs@ed.gov.

School-Determined Requirements

CHAPTER 1

In this chapter, we discuss student eligibility requirements that don't require information from the Department's systems. The school determines on its own whether the student meets these eligibility requirements. In some cases the financial aid office will need to get information from other school offices, such as the admissions office or the registrar, or from other organizations, such as high schools or testing agencies.

REGULAR STUDENT IN AN ELIGIBLE PROGRAM

A person must be enrolled as a *regular student* in an eligible program in order to receive FSA funds (exceptions are discussed later in this chapter). A regular student is someone who is enrolled or accepted for enrollment in an eligible institution for the purpose of obtaining a degree or certificate offered by the school. The definition of an eligible program is discussed in detail in the *School Eligibility and Operations* volume of the Handbook.

A school must document a student's enrollment in an eligible program at the time of admission, and it must have a system to notify the financial aid office if the student leaves the program. It must also document that an aid recipient is a regular student.

▼ *Conditional acceptance.* Some schools admit students under a conditional or provisional acceptance. For example, a student might be conditionally accepted until he provides further documentation, such as academic transcripts or test scores, or demonstrates an ability to succeed in the program (by receiving acceptable grades in program coursework). Typically the school will limit the student's enrollment, in terms of number of courses or enrollment status, until the student meets the necessary conditions.

Students admitted as conditional are regular students only if the school officially accepts them into the eligible degree or certificate program. The Department does not define official acceptance or admission. If the student is merely allowed to take some courses before being officially admitted to the program, she is not considered a regular student and is not eligible until she is officially admitted.

▼ *Continuing education.* Regular students may receive aid for classes they take in a school's continuing education department as long as the classes apply to their degree or certificate program.

Remedial coursework

Remedial coursework prepares a student for study at the postsecondary level (compare with preparatory coursework, which

Basic student eligibility issues:
➔ must be enrolled as a regular student in an eligible program
➔ cannot also be enrolled in elementary or secondary school
➔ must have a high school diploma or equivalent, pass an approved ability-to-benefit test, or have been homeschooled
➔ must make satisfactory progress
➔ must meet enrollment status requirements
➔ must have resolved any drug conviction issue
34 CFR 668.32
See Volume 2 for more on what is an eligible program.

Regular student citations and example
HEA Sec. 484(a)(1), (b)(3), (4);
34 CFR 668.32(a)(1)

Lem Community College allows anyone with a high school diploma or the equivalent to enroll in any course. Many of LCC's students do not intend to receive a degree or certificate. LCC requires students who want to receive a degree or certificate to complete a form stating which degree or certificate they are studying for and to meet regularly with an academic advisor. LCC considers them to be regular students, while others in the same classes are not regular students.

Conditional acceptance examples

1. Guerrero University allows students to take graduate courses before they have taken the GRE, but it limits them to no more than three courses and does not admit them into its graduate programs until they have submitted acceptable GRE scores. They aren't regular students, and since the school hasn't admitted them, they aren't eligible for Title IV aid.

2. When Park University accepts students into its graduate programs, it requires that the students receive no grade lower than a "B" in the first three courses. During this time the school considers students to be admitted into the program, so they are eligible for FSA. If, however, students receive a grade lower than a B in any of the first three classes, their admittance will be withdrawn and they then will be ineligible for Title IV aid.

Continuing education examples

1. Park University has a continuing education department that offers many online (telecommunications) courses that students in other departments of the school may take and that apply to the degree or certificate program the students are enrolled in. These are regular students who are eligible for FSA funds.

2. Guerrero University has a continuing education department that offers many courses. Some students enroll in these courses without being admitted to the university. They are not regular students and are not eligible for FSA funds.

Remedial coursework

34 CFR 668.20

Teacher certification coursework

34 CFR 668.32(a)(1)(iii)

prepares a student for a given program), and a student enrolled solely in a remedial program is not considered to be in an eligible program. If acceptance into an eligible program is contingent on completing remedial work, a student cannot be considered enrolled in that program until she completes the remedial work.

However, if the student is admitted into an eligible program and takes remedial coursework within that program, he can be considered a regular student, even if he is taking all remedial courses before taking any regular courses. You may count up to one academic year's worth of these courses in his enrollment status for federal aid. For the purpose of this limit, that is 30 semester or trimester hours, 45 quarter hours, or 900 clock hours. If the remedial classes are non-credit or reduced-credit, you must determine how many credit hours they are worth to count in the student's enrollment (see "Enrollment Status" on page 14).

A remedial course cannot be below the educational level needed for a student to successfully pursue her program after one year in that course. Also, remedial courses must be at least at the high school level, as determined by the state legal authority, your school's accrediting agency, or the state agency recognized for approving public postsecondary vocational education. If that agency determines that a remedial class is at the elementary level, the school must abide by that determination, and the class cannot be included for Title IV aid. Nor can Title IV aid be used for a remedial course that uses direct assessment of student learning instead of credit or clock hours.

You can't use noncredit remedial hours to determine a student's enrollment status if the course is part of a program that leads to a high school diploma or its recognized equivalent. A student is never permitted to receive funds for GED training or for coursework prior to the completion of high school, even if the GED or high school training is offered at postsecondary schools or is required for the postsecondary program.

Similar to other remedial coursework, a student may receive FSA funds for ESL courses that are part of a larger eligible program. There are differences though: ESL courses don't count against the one-year limitation on remedial coursework mentioned above, and they need not be at the secondary school level.

If your school permits a student to enroll in ESL or other remedial courses that don't apply to his degree or certificate, be aware that awarding FSA loans over a series of semesters for such work can exhaust his eligibility for FSA loans before he completes his program.

Preparatory coursework

A student not enrolled in a degree or certificate program is eligible for Stafford and PLUS loans for up to one year if she is taking coursework necessary for enrollment in an eligible program. See the discussion under Stafford and PLUS loans on page 77.

Teacher certification coursework

A student may receive Federal Work-Study and Stafford, Perkins, and PLUS loans if he is enrolled at least half time in required teacher certification coursework, even if it does not lead to a degree or certificate awarded by the school. To qualify, the coursework must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach and must be offered in credit or clock hours (courses using direct assessment in lieu of credit or clock hours are not eligible). Optional courses that the student elects to take for professional recognition or advancement, and courses recommended by your school but not required for certification, do not qualify. You should document that the courses are required by the state for teacher certification.

For Stafford loans, such students may borrow up to $5,500, with up to $7,000 more in unsubsidized funds for independent students and dependent students whose parents were denied a PLUS loan. The loan limit is not prorated if the coursework lasts less than an academic year. For Perkins loans, a school establishes in its policy whether a student enrolled in a teacher certification program is an undergraduate or graduate student. That determines which Perkins loan limits apply; refer to *Volume 3: Calculating Awards and Packaging*.

A student with a bachelor's degree who is enrolled in a postbaccalaureate teacher certification program can receive a Pell grant in limited situations. See page 76.

Students with intellectual disabilities

The HEOA permitted students with an intellecual disability[1] to receive funds from the Pell Grant, FSEOG, and FWS programs. They must be enrolled or accepted for enrollment in a comprehensive transition and postsecondary program[1] for students with intellectual disabilities and must maintain satisfactory academic progress as determined by the school for this program. They must meet the eligibility criteria in Section 484(a)(3–6) of the HEA. Except the statutes governing need analysis, the Secretary has the authority to waive any Pell, FSEOG, FWS, or institutional eligibility provisions necessary to ensure that programs enrolling these students are eligible for Title IV funds and that eligible students receive those funds.

ELEMENTARY OR SECONDARY ENROLLMENT

A student enrolled in elementary or secondary school is not eligible for aid from the FSA programs, even if she is simultaneously enrolled in an eligible college program. A student is considered to be enrolled in secondary school if she is pursuing a high school diploma or if she has completed the requirements for a diploma, has not yet received it, and either she is taking college coursework for which her high school gives credit or her high school still considers her to be enrolled there.

An adult pursuing a GED (not a high school diploma) is not considered to be enrolled in secondary school. However, as stated earlier, a student can't get aid for GED training, though he can receive

Elementary/secondary enrollment
HEA Sec. 484(a)(1), 34 CFR 668.32(b)

Secondary school enrollment examples
Lida is a junior in high school and enrolls in an electronics technician program at Lem Community College (she is above the age of compulsory school attendance for her state and so can be admitted as a regular student at LCC). The coursework is offered evenings and weekends, so she can still attend her high school classes. The electronics technician program is an eligible postsecondary program, and Lida will receive a certificate from Lem when she completes the program. However, she is not eligible for aid because she is still enrolled in high school.

Owen, a regular student at Guerrero University, decides to take a driver's education course at the local high school during the summer. This does not mean he is enrolled in secondary school.

Students with intellectual disabilities
HEA Sec. 484(s)

[1] As defined in Section 760 of the HEA

What's a valid high school diploma?
As we note on page 6, students self-certify that they have a high school diploma, so a copy of one is not required for the financial aid office. But with the appearance of high school "diploma mills," you might have concerns about the validity of a diploma from a particular school. One resource to check is the department of education for the state in which the school is located. If the department has jurisdiction over the high school, they can tell you if a diploma from the school (which does not have to be accredited) is recognized by their state.

aid for other college courses if he meets ability-to-benefit, homeschool, or high school equivalent requirements. An adult can take a course offered by a high school, such as a driver's education course, without being considered enrolled there.

Academic qualifications
HEA Sec. 484(d), 34 CFR 668.32(e)

Recognized equivalent of a high school diploma
34 CFR 600.2

*Exception: passing an ability-to-benefit test or having one of the diploma equivalents is not sufficient for establishing eligibility for an academic competitiveness grant (ACG). See Chapter 6.

**Exception: To be eligible for an ACG, a student must receive a high school diploma (or the homeschooling equivalent), which the college must document, whether by collecting a copy of the diploma or some other verifying document from the high school or, for homeschoolers, the parent or guardian.

ACADEMIC QUALIFICATIONS

To receive FSA funds, a student must be qualified to study at the postsecondary level. A student qualifies if she:

- has a high school diploma (this can be from a foreign school if it is equivalent to a U.S. high school diploma);
- has the recognized equivalent* of a high school diploma, such as a general education development or GED certificate;
- has completed homeschooling at the secondary level;
- has passed a Department-approved ability-to-benefit test*; or
- has satisfactorily completed six credits of college work that are applicable to a degree or certificate offered by the school.

A student may self-certify on the FAFSA that he has received a high school diploma or GED or that he has completed secondary school through homeschooling as defined by state law. If a student indicates that he has a diploma or GED, your school isn't required to ask for a copy**, but if your school requires one for admission, then you must rely on that copy of the diploma or GED and not on the student's certification alone.

Diploma equivalent example
Kitty enrolls in the bachelor's degree program at Brandt College. She didn't graduate from high school and doesn't have a GED. Brandt looks at her high school records to see if she excelled academically in high school. Because she had a C average, she doesn't meet Brandt's standard for admitting students who excel academically and therefore doesn't have the equivalent of a high school diploma. If she were enrolled in a two-year program that counted as two years of her bachelor's degree, she'd have the equivalent of a high school diploma when she completed that program and would be eligible for FSA for the last two years of her degree program. However, since Kitty never went to college before, she'll need to pass an approved ability-to-benefit test if she wants to receive FSA.

Equivalents to a high school diploma

The Department recognizes several equivalents to a high school diploma:

- A GED;
- A certificate demonstrating that the student has passed a state-authorized examination that the state recognizes as the equivalent of a high school diploma;
- An academic transcript of a student who has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree; or
- For a student who enrolls before completing high school, a high school transcript indicating the student has excelled in high school. The student must no longer be enrolled in high school, must satisfy your school's written policy for admitting such students, and must be starting a program that leads at least to an associate's degree or its equivalent.

Homeschooled students
HEA Sec. 484(d)(3),
34 CFR 668.32(e)(4)

Homeschooling

Though homeschooled students are not considered to have a high school diploma or equivalent, they are eligible to receive FSA funds if their secondary school education was in a homeschool that state law treats as a home or private school. Some states issue a secondary school completion credential to homeschoolers. If this is the case in the state where the student was homeschooled, she must obtain this credential in order to be eligible for FSA funds. She can include in her homeschooling self-certification (see above) that she received this state credential.

Some students finish homeschooling at an age younger than the age of compulsory school attendance for their state or your school's state. Another part of the federal law defines an eligible *institution* as one that admits as regular students only persons who have a high school diploma or equivalent or are beyond the compulsory attendance age for the school's state. The Department considers a homeschooled student to be beyond the age of compulsory attendance if your school's state would not require the student to further attend secondary school or continue to be homeschooled. See also *Volume 2: School Eligibility and Operations*.

Ability-To-Benefit (ATB) test

If the student does not have a high school diploma or equivalent and did not complete secondary school in a homeschool setting, she can still qualify for aid by passing a Department-approved "ability-to-benefit" test. You don't have to use the same test for all students; you can pick the one most suitable for each student. At the time of publishing, the May 19, 2006 *Federal Register* contained the most recent list of approved tests.

▼ *Arranging for ATB tests.* The regulations also specify testing procedures that your school must follow. You must make arrangements with one or more test administrators, who must be certified by the test publisher. You should contact the test publisher to locate a certified test administrator. Certified test administrators may include high school guidance counselors, test and measurement experts, human resource development professionals, qualified professional educators, or regional Armed Forces Command staff who are experts in education, training, and human resource development.

▼ *Ensuring independent testing.* To be independently administered, a test must be given by an individual or by an organization with no current or prior financial or ownership interest in the school, its affiliates, or its parent corporation other than the interest generated through its agreement to administer the approved test. The test can't be given by a current or former employee, consultant or student of the school, owner, member of the board of directors, or person with a financial interest in the school or by a relative of any of these individuals. In addition, the test administrator cannot score the test but must submit it to the publisher for scoring.

ATB tests
34 CFR Part 668 Subpart J
(Sections 141–156)

Factors for Test Selection
When selecting a test, the school should consider the following:

- **Relevance of the test to the educational program.** Are the skills and abilities assessed important for successful completion of the program of study?
- **Level of difficulty of the test.** Is the overall level of difficulty appropriate to the population of prospective students being assessed and to the coursework required in the program?
- **Native language.** If the student's program will be taught in a language other than English, the student should be permitted to take the test in the language of the program. See 34 CFR 668.149 and 153.
- **Tests for students with physical disabilities.** Students with physical disabilities should receive appropriate assistance in test taking, in accordance with the guidelines developed by the American Educational Research Association, the American Psychological Association, and the National Council of Measurement in Education.

Test approval

The Department evaluates submitted tests according to guidelines published in regulations. To apply for approval, the test publisher must submit its test and documentation specified in the regulations. After reviewing the application, the Department will notify the test publisher of approval or disapproval. If a test is approved, the Department will publish in the Federal Register the name of the test and the test publisher and the passing score required for students taking the test.

The Department will also review all state tests or assessments that are submitted for approval. If a state test meets the criteria for approval, both public and private schools in that state may use the test. At this time, no such tests have been submitted for approval.

Testing ESL and disabled students

34 CFR 668.153

A test is also independently administered if it is given at an assessment center. An assessment center must be located at an eligible degree-granting school or public vocational institution, and must be responsible for evaluating students for multiple purposes, such as course placement. It must not have administering ATB tests as its primary purpose. The assessment center must be staffed by professionally trained personnel and be independent of the admissions and financial aid processes. An assessment center may score students' tests unless its agreement with the test publisher prohibits it.

To be acceptable for FSA purposes, an approved test must be independently administered in accordance with the procedures specified by the test publisher—such as time limits for completion, rules on how often and within what time frame the test may be readministered, whether the test may be given verbally, and so forth. If a test comprises multiple parts, all **relevant** parts, as listed in the approval notice, must be administered in order for the test to be valid. The approval notice published by the Department will show either the approved score for each subpart or an approved composite score.

▼ *Testing non-native English speakers.* Students who are enrolled solely in an ESL program, or who are enrolled in a program that is taught in English and that has an ESL component in which they are also enrolled, can take the CELSA test (see the January 12, 2001 *Federal Register* for more on CELSA) or the ESL Placement Test that was added to the ATB test list in the May 19, 2006 *Federal Register*. If the student is enrolled in a program that is taught in English without an ESL component or the student does not enroll in the ESL component if offered, the student must take an ATB test in English.

As an alternative, you may determine whether these students have the ability to benefit from your program by using the guidelines in the December 30, 1992 *Federal Register* and by using tests approved as of May 19, 2006.

▼ *Testing disabled students.* For students with disabilities, the Department adopted the use of the currently approved ability-to-benefit tests and passing scores (see the May 5, 1999 *Federal Register*) as long as those tests are given in a manner consistent with requirements of Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act. These requirements include giving the test in a manner that is accessible to disabled students and offering additional services such as a longer exam time for students with learning disabilities and Braille or large-print exams for visually impaired students. If your school can't give any of the approved ability-to-benefit tests in an accessible manner, it must use an alternate test as explained in the regulations (34 CFR 668.149).

▼ *Counting previous test results.* A student who has taken an approved, independently administered test must have the test publisher or the assessment center submit the official score to the school to demonstrate the student's ability to benefit. If you accept the results of a previously administered test, you must obtain

Approved Ability-to-Benefit Tests	Publishers
ASSET Program: Basic Skills Tests (Reading, Writing, and Numerical)—Forms B2, C2, D2, and E2 Passing Score: Reading (35), Writing (35), and Numerical (33)	ACT, Inc., 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone: (319) 337-1030, Fax: (319) 337-1790
Career Programs Assessment (CPAT) Basic Skills Subtests (Language Usage, Reading, and Numerical)—Forms B and C Passing Score: Language Usage (42), Reading (43), and Numerical (41)	ACT, Inc., 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone: (319) 337-1030, Fax: (319) 337-1790
Combined English Language Skills Assessment (CELSA): Forms 1 and 2 Passing Score: CELSA Form 1 (97) and CELSA Form 2 (97)	Association of Classroom Teacher Testers (ACTT), 1187 Coast Village Road, Suite 1 #378, Montecito, California 93108-2794, Contact: Pablo Buckelew, Telephone: (805) 965-5704, Fax: (805) 965-5807
COMPASS Subtests: Prealgebra/Numerical Skills Placement, Reading Placement, and Writing Placement Passing Score: Prealgebra/Numerical (25), Reading (62), and Writing (32)	ACT, Inc., 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone: (319) 337-1030, Fax: (319) 337-1790
Computerized Placement Tests (CPTs)/Accuplacer (Reading Comprehension, Sentence Skills, and Arithmetic) Passing Score: Reading Comprehension (55), Sentence Skills (60), and Arithmetic (34)	The College Board, 45 Columbus Avenue, New York, New York 10023-6992, Contact: Technical Support, Telephone: (800) 486-8497
Descriptive Tests of Language Skills (DTLS) (Reading Comprehension, Sentence Structure and Conventions of Written English)—Forms M-K-3KDT and M-K-3LDT; and Descriptive Tests of Mathematical Skills (DTMS) (Arithmetic)—Forms M-K-3KDT and M-K-3LDT Passing Score: Reading Comprehension (108), Sentence Structure (9), Conventions of Written English (309), and Arithmetic (506)	The College Board, 45 Columbus Avenue, New York, New York 10023-6992, Contact: Technical Support, Telephone: (800) 486-8497
ESL Placement Test (COMPASS/ESL) Passing Score: Grammar/Usage (64), Reading (70), and Listening (70)	ACT, Inc., 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone: (319) 337-1030, Fax: (319) 337-1790
Wonderlic Basic Skills Test (WBST)—Verbal Forms VS–1 & VS–2, Quantitative Forms QS–1 & QS–2 Passing Score: Verbal (200) and Quantitative (210)	Wonderlic Personnel Test, Inc., 1795 N. Butterfield Rd., Libertyville, IL 60048, Contact: Mr. David Teuber, Telephone: (877) 605-9499, Fax: (847) 680-9492
WorkKeys Program—Reading for Information Forms A01AA, A02AA, C01AA, and D10AA; Applied Mathematics Forms A01BB, A02BB, C01BB, and D01BB. Passing Score: Reading for Information—Forms A01AA (76), A02AA (75), C01AA (77), and D10AA (77); Applied Mathematics—Forms A01BB (73), A02BB (74), C01BB (73), and D01BB (73)	ACT, Inc., WorkKeys Development, Professional Development Services, 101 ACT Drive, P.O. Box 168, Iowa City, Iowa 52243-0168, Contact: Dr. A. Candace Noble, Telephone (319) 337-1296, Fax: (319) 337-1229

Satisfactory Academic Progress
HEA Sec. 484(c),
34 CFR 668.16(e)
34 CFR 668.32(f)
34 CFR 668.34

Graduated qualitative standard example
Guerrero University requires students to have a minimum 2.0 GPA to graduate, but it can be lower early in the program. Students who have completed up to 30 semester hours must have at least a 1.6 GPA. For 31 to 60 semester hours, they must have at least a 1.8 GPA, and for more than 60 hours, it must be 2.0 or higher.

Owen has been attending Guerrero part time. After two years he has taken 24 semester hours, and his GPA is 1.7. Although Owen has less than a C average or equivalent at the end of his second academic year (Guerrero considers 2.0 to be the equivalent of a C average), he's still making satisfactory progress because he meets the standard required by Guerrero for a student with less than 31 semester hours. However, if his GPA doesn't improve by the time he completes 31 hours, he'll no longer be making satisfactory progress.

Grades for test-based credits
Some schools have developed tests in accord with their academic standards, such as language proficiency tests, that students can take and receive course credit for. If such credits count toward the student's program, the grades for those credits count in the student's GPA for all Title IV purposes.

documentation (usually through the previous school) that the test and its administration met federal requirements. Test scores are valid for ATB purposes indefinitely.

SATISFACTORY ACADEMIC PROGRESS (SAP)

To be eligible for FSA funds, a student must make satisfactory academic progress, and your school must have a published policy for monitoring that progress. The policy explains the qualitative (grade-based) and quantitative (time-related) standards you use to check SAP, and it must apply consistently to all educational programs and all students within categories (e.g., full-time, part-time, undergraduate, and graduate students). It must be at least as strict as your school's standard for students enrolled in the same educational program who are not receiving Title IV aid.

You must check SAP at the end of increments that can't be longer than half the program or one academic year, whichever is less. For example, for a 700-clock-hour program, an increment can't exceed 350 clock hours. For a 2,000-clock-hour program, an increment can't exceed 900 clock hours if your school defines an academic year as 900 clock hours. Increments generally coincide with payment periods.

Qualitative standard

For programs longer than two academic years, students must have a C average or its equivalent by the end of the second year (regardless of how many credits they have accrued) or have an academic standing consistent with the requirement for graduation. If your school does not use letter grades, it must define the equivalent of a C average.

Having an academic standing consistent with the graduation requirement could mean you use an escalating grade point standard instead of a fixed one. For example, a school using a 4-point scale can require students to have a 2.0 average by graduation but allow their average to be lower earlier in their academic career. If your policy permits such a progression and a student falls below a C average, you must be able to document that her average is consistent with the academic standard required for graduation.

You may grant appeals for students who fail this standard due to injury or illness, the death of a relative, or other special circumstances.

For programs of two years or less, you must have a qualitative standard at least as stringent as the one above.

Quantitative standard

To accurately measure a student's progress in a program, more than a qualitative standard is needed. A student who is maintaining a high GPA by withdrawing from every course he attempts after the first year would meet a qualitative standard but wouldn't be progressing towards graduation. Therefore, the SAP policy must also include a quantitative measure to determine the number or percentage of courses, credit hours, or clock hours completed.

To quantify academic progress your school must set a maximum time frame in which a student is expected to finish a program. For an undergraduate program the time frame cannot exceed 150% of the published length of the program measured in academic years or terms, credit hours attempted, or clock hours completed, as determined by your school. For instance, if the published length of an academic program is 120 credit hours, the maximum period must not exceed 180 (120 × 1.5) attempted credit hours.

Maximum time frame for graduate programs
The 150% maximum time frame does not apply to graduate programs. But schools must develop, disseminate, and consistently apply a policy defining the maximum time frame in which graduate students have to complete their program.

To ensure that students complete their program within the maximum time frame, your SAP policy must give the minimum amount of work that they must complete in each increment. This does not have to be a fixed number of hours or credits. Instead, you can require students to complete a certain percentage of the hours or credits they attempt. This allows for variations in enrollment status. You can also use a graduated completion percentage for each year. For instance, your policy can permit students to complete a lower percentage of their classes in the first academic year but require them to complete an increasing percentage in subsequent years so that they finish their program in time.

Completed program, no degree
A student who completes the academic requirements for a program but does not yet have the degree or certificate is not eligible for further Title IV aid for that program.

If your SAP review makes it clear that a student cannot mathematically finish her program within the maximum time frame, she becomes ineligible for aid (though she may request an appeal; see below).

Quantitative standard examples

Four -year program: Students in a bachelor's degree program at Brandt College's are required to complete 120 credits and to enroll in 15 credits each semester. The maximum time frame is six years (150% of the published length of four years), and Brandt reviews a student's academic progress after increments of one year. Students must successfully complete at least 21 credits each year. There is a one-year probationary period.

Quantitative standard example
Lem Community College has a 900-clock-hour program that normally takes 8 months to complete. Lem allows a maximum time frame of 12 months to complete the program, which it divides into increments of 4 months (half the published length of the program). To enable students to finish the program by the end of 12 months, Lem's SAP policy requires them to complete at least 300 clock hours in each increment.

Lydia fails all her courses in her first semester at Brandt. Though she successfully completes all her courses in the second semester, she isn't making satisfactory progress by the end of the first increment because she completed only 15 credits, not 21. She is put on probation for her second year and successfully completes all but one of her courses (27 out of 30 credits), so she is then meeting the SAP standard of 42 credits completed by the end of the second year.

One-year program: Sarven Technical Institute has a 24-semester hour program that a full-time student can complete in one year. Because many students attend part time, Sarven bases the maximum time frame on the number of semester hours attempted. Its policy is that students must complete the program by the time they have attempted 36 (150% of 24) hours. Increments are 12 semester hours, so to successfully complete the program on time, students must complete eight semester hours by the end of each increment.

Allen enrolls in this program one class at a time, and each class is four semester hours. After he has enrolled in three classes (12 hours),

Academic amnesty/renewal
Some schools have academic amnesty/Renewal procedures through which a student can apply to have credits attempted and grades earned in previous semesters excluded from the calculation of the student's grade-point average. The FSA program regulations make no provision for the concept of academic amnesty or academic renewal. Therefore, a school must always include courses applicable to a student's major (whenever taken) in evaluating a student's satisfactory academic progress.

Sarven checks to see if he has completed enough work in that increment to be making satisfactory progress. Allen completed the first and third course but failed the second. Because he completed eight hours (2 courses) in this increment, he's making satisfactory progress.

Percentage completion: Frisson College decides on a maximum time frame of five years for its four-year microbiology program. It uses the semester as the increment for measuring satisfactory progress. To allow students to complete the program within the maximum time frame, Frisson requires students to complete 80% of the work attempted by the end of each increment (4 ÷ 5= 0.8 or 80%).

Andrew and Marie enroll in the microbiology program, in 15 credits per semester for the first year. After one semester Andrew has earned 12 credits and Marie 15 credits. At the end of the second semester, Andrew has a total of 21 credits and Marie a total of 30 credits. To be making satisfactory progress, they must have completed 80% of the credits attempted by the end of each increment. This is 12 credits (80% x 15) per semester, so both students made satisfactory progress in the first semester. By the end of the second semester, they must have completed 24 credits (80% x 30). Marie is still meeting SAP, but because Andrew only completed 21 credits, he is not.

In the second year Marie again enrolls for 30 credits, but Andrew only enrolls for 15. He successfully completes all of them, so he has earned 36 credits of 45 attempted. Marie has earned 51 credits of 60 attempted. By the end of the second year, Andrew must have completed 36 credits (80% x 45); he is again making satisfactory progress. Marie must have completed 48 credit hours (80% x 60); she is still making satisfactory progress.

Retaking a program
Your school may permit a student to receive Title IV aid for retaking a program that she has completed before. Students at a clock-hour or non-term credit-hour school may also receive aid for a program they withdraw from and then reenter after 180 days. See Volume 3, chapters 1 and 3.

Change of major and transfer credits

Generally all periods of the student's enrollment count when judging SAP, even periods in which the student did not receive FSA funds. However, your policy may permit that for students who change majors, credits attempted and grades earned that do not count toward the new major will not be included in the SAP determination. You may limit how many times a student can change majors and "reset" SAP.

Similarly, you must at least count those transfer credits that apply toward the current program, though you may count all credits from the previous school.

You must also establish rules for students who seek to earn additional degrees.

Repetitions, withdrawals, incompletes, remedial and ESL courses

Your school must explain in its written policy how it handles course repetitions, such as whether only the highest or most recent grade counts. While you can exclude grades for prior attempts (repeat/delete) when calculating a student's GPA, you must include the credits from all attempts when assessing if the student meets the quantitative SAP standard.

Your policy must also explain the effect on satisfactory progress of incomplete grades, withdrawals, and remedial and ESL (not part of an ESL program) courses. You may have reasonable rules for students who initially enroll in specific courses but modify that enrollment within a very limited timeframe. However, your policy cannot exclude from the SAP review courses in which a student remained past the drop/add period and earned a grade of "W" (or its equivalent), nor can it routinely exclude certain hours attempted, such as those taken during a summer session.

Probation and appeals

If your academic progress policy permits appeals and probation, it must explain the circumstances and procedures that apply. For example, your school might immediately place all students who fail their SAP check on probation. During that time they may continue to receive Title IV aid, but at the end of the period they must again be meeting your SAP standard. You cannot, however, allow two such periods consecutively.

In addition to or in place of a reasonable "automatic" probation as just described, you may have an appeal process to determine if there are mitigating circumtances that warrant a student to continue to receive Title IV aid even though he is not meeting the SAP standard. Circumstances might include, among other things, the student being ill, employed full time, or out of school for a long while. Previous non-receipt of Title IV aid does not qualify as a circumstance. This kind of probation may occur consecutively with an automatic probation.

When you put a student on probation, you are suspending the academic progress standards for her. You are not eliminating or disregarding grades or credits attempted in the SAP calculation. The student's permanent academic record has not been modified. You are acknowledging that she continues to be FSA-eligible even though she falls below your school's academic progress standard.

Re-establishing academic progress

A student who loses FSA eligibility because she is not meeting your school's satisfactory academic progress standards will regain eligibility when you determine that she is again meeting the standards or when you grant her an appeal. Your written policy must explain the process whereby a student can re-establish that she meets your SAP standards.

Other than when an appeal is granted for special circumstances, a student can regain eligibility only by taking action that brings her into compliance with the qualitative and quantitative components of your school's academic progress standard.

The requirement that a student complete a number of credits or enroll for a number of academic periods without receiving federal student aid, or that he interrupt his attendance for one or more academic periods, may be components of your SAP policy. However, neither paying for one's classes nor sitting out a semester affects a student's SAP standing, so neither is sufficient to re-establish FSA eligibility.

Example: satisfactory academic progress appeal

Steven is attending Brust Conservatory, and at the end of his second year, Brust determines that he isn't making satisfactory progress. He files an appeal in the fall after he realizes he won't receive aid for the term. Brust finally approves his appeal in January, after the fall term is over. Therefore, Steven can't receive Pell or campus-based funds for the fall term but can receive aid for the winter term. Steven can receive a Direct loan or FFEL for the entire academic year because that is his period of enrollment.

If a student's eligibility is restored as a result of an appeal, the school must reevaluate the student's SAP within one year. A school may establish increments that are shorter than one year.

Example: probationary period

As part of its satisfactory progress policy, Lem Community College has a provision for academic probation. The first time a student fails to meet the satisfactory progress standards, she receives a notice from the school and is put on academic probation for one term or payment period. The student can receive aid during this period, but isn't allowed to enroll more than half time. If the student doesn't meet the satisfactory progress standards at the end of the probationary term, she loses eligibility for any subsequent payments until she meets the satisfactory progress standards again. Note that Lem does not have a probationary period that simply requires the student to not attend school for a time; absence does not restore eligibility.

Full-time student definition
34 CFR 668.2(b)

Half-time enrollment
HEA Sec. 428(b)(1)(A),
34 CFR 668.2(b)

Half-time enrollment
A school may choose to define half time as half of the minimum full-time standard established in the regulations even if this is less than half the full-time standard established by the school. For example, if a school sets 14 semester hours as full time, it could use 6 semester hours (one half of the regulatory full-time minimum of 12) as half time instead of 7.

* Except for postbaccalaureate Pell grants for teacher education, second Pell awards in an award year, and Perkins and FWS for students enrolled in a program for a teaching credential.

ENROLLMENT STATUS

A student must be enrolled at least half time to receive aid from the Stafford and PLUS loan programs and the Academic Competitiveness Grant (ACG) and National Science and Mathematics Access to Retain Talent (SMART) grant programs. The Pell, TEACH Grant, and Campus-based programs don't require half-time enrollment,* but the student's enrollment status does affect the amount of Pell a student receives. (Volume 3 explains how enrollment status affects a Pell award.)

To be enrolled half time, a student must be taking at least half of the course load of a full-time student. Your school defines a full-time workload, but it must meet the minimum standards in the FSA regulations. The definition of full time used for FSA purposes (below) can differ from the definition used for other purposes at your school, such as the definition used by the registrar's office.

Your definition of a full-time workload for a program must be used for all students in that program and must be the same for all FSA-related purposes, including loan deferments. You can't accommodate a student with a learning disability or other handicap by allowing her a full-time enrollment status lower than the minimum standard (unless she is enrolled in a program for students with intellectual disabilities).

▼ *Minimum standards for full-time enrollment.* You may include any combination of courses, work, research, or special studies in your school's definition of workload. The regulations specify a minimum standard for undergraduate students but not for graduate students. For undergraduates, full-time status must be at least:

- 12 semester hours or 12 quarter hours per academic term in an educational program using a semester, trimester, or quarter system;
- 24 semester hours or 36 quarter hours per academic year for an educational program using credit hours but not using a semester, trimester, or quarter system, or the prorated equivalent for a program of less than one academic year;
- 24 clock hours per week for an educational program using clock hours;
- a series of courses or seminars equaling 12 semester or quarter hours over a maximum of 18 weeks;
- for a program that measures credit hours and uses nonstandard terms, the number of weeks of instruction in the term divided by the number of weeks of instruction in the academic year, multiplied by the number of credit hours in the academic year;
- the work portion of a cooperative education program in which the amount of work performed is equivalent to the academic workload of a full-time student; or

- for correspondence work, a courseload commensurate with the definitions listed above, and at least half of that load must be non-correspondence coursework that meets half of the school's requirement for full-time students.

Your school must have a written policy stating what enrollment status the work portion of a co-op program is equivalent to. If it equals a full-time academic load, the co-op student is considered full time regardless of how many credits are earned for the co-op work.

A student taking only correspondence courses is never considered to be enrolled more than half time. See Volume 3 for more on Pell and enrollment status and correspondence courses.

If a student is enrolled in courses that do not count toward his degree, they cannot be used to determine enrollment status unless they are noncredit or remedial courses as described in the sidebar. This means you cannot award the student aid for classes that do not count toward his degree or certificate.

Counting non-credit or reduced-credit remedial work

A student can receive aid for a limited amount of remedial coursework that is included as part of a regular program. As long as the student qualifies for aid for remedial courses, you must include the remedial courses in the student's enrollment status.

Some schools give no credit or reduced credit for remedial classes. To determine enrollment status, credit hours for the remedial class should be the same as for the comparable full-credit class. If you're using credit hours, you can compare the number of classroom and homework hours of study that the remedial course requires with the hours required for similar courses offered for full credit. Clock-hour schools should use the number of classroom hours attended in the remedial program.
34 CFR 668.20

STUDENTS CONVICTED OF POSSESSION OR SALE OF DRUGS

A federal or state drug conviction can disqualify a student for FSA funds. The student self-certifies in applying for aid that he is eligible; you're not required to confirm this unless you have conflicting information.

Convictions only count if they were for an offense that occurred during a period of enrollment for which the student was receiving Title IV aid—they do not count if the offense was not during such a period. Also, a conviction that was reversed, set aside, or removed from the student's record does not count, nor does one received when she was a juvenile, unless she was tried as an adult.

Drug convictions

HEA Section 484(r)
34 CFR 668.40

The chart below illustrates the period of ineligibility for FSA funds, depending on whether the conviction was for sale or possession and whether the student had previous offenses. (A conviction for sale of drugs includes convictions for conspiring to sell drugs.)

	Possession of illegal drugs	Sale of illegal drugs
1st offense	1 year from date of conviction	2 years from date of conviction
2nd offense	2 years from date of conviction	Indefinite period
3+ offenses	Indefinite period	

If the student was convicted of both possessing and selling illegal drugs, and the periods of ineligibility are different, the student will be ineligible for the longer period.

Drug abuse hold

The Anti-Drug Abuse Act of 1988 includes provisions that authorize federal and state judges to deny certain federal benefits, including student aid, to persons convicted of drug trafficking or possession. The CPS maintains a hold file of those who have received such a judgment, and it checks applicants against that file to determine if they should be denied aid. This is separate from the check for a drug conviction via question 23; confirmation of a student in the drug abuse hold file will produce a rejected application and a separate comment from those associated with responses to question 23. See the ISIR Guide for more information.

The HEOA established the requirement for schools to provide each student who becomes ineligible for Title IV aid due to a drug conviction a clear and conspicuous written notice of his loss of eligibility and the methods whereby he can become eligible again.

A student regains eligibility the day after the period of ineligibility ends or when he successfully completes a qualified drug rehabilitation program. Further drug convictions will make him ineligible again.

Students denied eligibility for an indefinite period can regain it only after successfully completing a rehabilitation program as described below or if a conviction is reversed, set aside, or removed from the student's record so that fewer than two convictions for sale or three convictions for possession remain on the record. In such cases, the nature and dates of the remaining convictions will determine when the student regains eligibility. It is the student's responsibility to certify to you that she has successfully completed the rehabilitation program; as with the conviction question on the FAFSA, you are not required to confirm the reported information unless you have conflicting information.

When a student regains eligibility during the award year, you may award Pell, ACG, National SMART, TEACH, and Campus-based aid for the current payment period and Direct and FFEL loans for the period of enrollment.

Standards for a qualified drug rehabilitation program

A qualified drug rehabilitation program must include at least two unannounced drug tests and must satisfy at least one of the following requirements:

- Be qualified to receive funds directly or indirectly from a federal, state, or local government program.
- Be qualified to receive payment directly or indirectly from a federally or state-licensed insurance company.
- Be administered or recognized by a federal, state, or local government agency or court.
- Be administered or recognized by a federally or state-licensed hospital, health clinic, or medical doctor.

Incarcerated students
HEA Sec. 401(b)(8) and 484(b)(5)
34 CFR 600.2 and 668.32(c)(2)

If you are counseling a student who will need to enter such a program, be sure to advise the student of these requirements. If a student certifies that he has successfully completed a drug rehabilitation program, but you have reason to believe that the program does not meet the requirements, you must find out if it does before paying the student any FSA funds.

Conflicting information
34 CFR 668.16(b)(3) and (f)

INCARCERATED STUDENTS

A student is considered to be incarcerated if she is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm, or similar correctional institution (whether it is operated by the government or a contractor). A student is not considered to be incarcerated if she is in a half-way house or home detention or is sentenced to serve only weekends.

Incarcerated students are not eligible for FSA loans but are eligible for FSEOGs and FWS. They are also eligible for Pell grants if not incarcerated in a federal or state penal institution. See Chapter 7 for more information on this and on sex offenders who were incarcerated but are now subject to an involuntary civil commitment.

You may accept the student's written self-certification that he is no longer incarcerated.

CONFLICTING INFORMATION

In addition to reviewing data provided by the Department's application system and NSLDS (as discussed in the rest of this volume), your school must have an internal system to share information relevant to the student's eligibility, such as his academic standing. The FSA program regulations require a school to develop an adequate system to ensure the consistency of any data related to a student's application or eligibility for federal student aid regardless of the source of that data. Your school is responsible for reconciling all inconsistencies that it receives with one exception: if the student dies during the award year, you aren't required to resolve conflicting information.

If your school has conflicting information for a student or you have any reason to believe his application is incorrect, you **must** resolve such discrepancies before disbursing FSA funds. If you discover a discrepancy after disbursing FSA funds, you must reconcile the conflicting information and require the student to repay any aid for which he wasn't eligible, unless he is no longer enrolled for the award year and will not re-enroll. Refer to the *Application and Verification Guide* and the *School Eligibility and Operations* volume for more information.

CHANGE IN STATUS

The student's eligibility status can change during the award year, which almost always affects whether the student can be paid. The special rules for changes in satisfactory academic progress status were discussed earlier in the SAP section.

Gaining eligibility

A student who *applies for aid* by filling out a FAFSA is eligible for aid for the entire award year. A student who *gains eligibility* is one who was previously ineligible for some reason. In general, she may receive Pell, ACG, National SMART, TEACH, and Campus-based funds for the entire payment period and Stafford and PLUS loans for the period of enrollment in which she becomes eligible.

Gaining eligibility examples

Allen enrolls in a one-year certificate program at Sarven Technical Institute. Sarven won't officially admit Allen before he provides an academic transcript from his previous school, but it lets him start classes in the fall. Sarven receives Allen's transcript after he's attended for a month and officially admits him. He's still in his first payment period when admitted, so he can receive Pell and campus-based funds for his entire period of enrollment. The school can also use the program length of one year as the period of enrollment for which Allen can receive a loan.

Chavo is finishing his senior year in high school; his classes end June 4. He decides to start classes in the winter at Sarven Technical Institute on January 11. The second payment period begins on May 17. Chavo isn't eligible for aid when he first starts classes at Sarven. However, when he becomes eligible after June 4, Sarven can disburse Pell and campus-based funds to Chavo retroactively for the current payment period that started on May 17 (but not for the payment period that started in January) and a Stafford loan for the current period of enrollment, which does include the payment period that began in January.

Losing eligibility example

George is a student at Guerrero University. At the end of September, after the start of the fall term, he is convicted in a state court for possession of drugs. It is his first offense, and he isn't incarcerated, but he is ineligible for aid. Guerrero gave George his first Direct subsidized loan disbursement at the beginning of the semester in September and was going to disburse a Perkins loan to him in October. Now Guerrero can't disburse the Perkins loan. George doesn't have to pay back the first disbursement of his Direct loan, but he can't receive any more Title IV aid until one year elapses or he successfully completes a qualified drug rehabilitation program.

A student is eligible for Pell, ACG, National SMART, TEACH, and Campus-based aid for the entire award year, not just the payment period, in which he becomes eligible by meeting the requirements for citizenship, valid Social Security number, or Selective Service registration.

Losing eligibility

A student cannot receive any federal student aid after losing eligibility for it, unless he qualifies for a late disbursement.

Eligibility Requirements for Specific Educational Programs

See *Volume 2: School Eligibility and Operations* for more information on the topics below. Note that a school may not refuse to provide FSA funds to a student because he is enrolled in correspondence or telecommunications courses unless the courses are not part of an eligible program.

Correspondence courses

A correspondence or "home study" course is one for which the school provides instructional materials and exams for students who don't physically attend classes at the school and who are studying independently. When a student completes a portion of the materials, he takes the related exam and returns it to the school for grading. If the course uses video cassettes or discs, it is a correspondence course unless the school provides the same instruction to students who physically attend the school that year. Because of the HERA, telecommunications courses are no longer considered correspondence courses.

A student enrolled in a correspondence course can only receive FSA funds if the course is part of a program that leads to an associate's, bachelor's, or graduate degree; if the program leads to a certificate, the student is not eligible for aid for that course. There are also restrictions regarding cost of attendance for correspondence courses; see Volume 3.

HEA Sec. 484(k), 34 CFR 600.2, 34 CFR 668.38

Telecommunications courses

These are courses offered principally through television, audio, or computer transmission through open broadcast, closed circuit, cable, microwave, or satellite; audio conferencing; computer conferencing; or video cassettes or discs. The purpose is to deliver instruction to students separated from the instructor and to support regular and substantive interaction between them. The term does not include a course delivered using video cassettes or discs unless it is delivered to students physically attending classes at a school providing the course during the same award year. If a course does not qualify as a telecommunications course, it is considered to be a correspondence course.

Students can receive Title IV aid for telecommunications courses under these conditions: the courses must belong to an eligible program, and the school must have the capability to effectively deliver distance education programs as determined by an accrediting agency that is recognized by the Department and that has the evaluation of distance education programs within the scope of its recognition. Short-term certificate programs of less than one year offered via telecommunications are eligible for Title IV aid, and they are not considered correspondence programs.

HEA Sec. 484(l), 34 CFR 600.2, 34 CFR 668.38

Students studying abroad

A student in a study-abroad program is eligible for aid if the program is approved for academic credit toward her degree by the eligible home school at which she is enrolled as a regular student. The home school must have a written agreement with the foreign school (or with another U.S. school that contracts with the foreign school) or a single written arrangement with a study-abroad organization to represent an agreement between the home school and the foreign school.

HEA Sec. 484(o), 34 CFR 668.39

Citizenship

CHAPTER 2

A student has to be a citizen or eligible noncitizen to receive FSA. In this chapter we describe how the student's FAFSA information is matched with citizenship records. We also describe immigration documents that you may have to collect to make sure that the student meets this requirement.

ELIGIBLE CATEGORIES

A student must be a citizen or eligible noncitizen to receive aid from the FSA programs. The general requirement for eligible noncitizens is that they be in the U.S. for other than a temporary purpose with the intention of becoming a citizen or lawful permanent resident, as evidenced by the United States Citizenship and Immigration Services (USCIS) in the Department of Homeland Security (DHS). The USCIS was briefly known as the Bureau of Citizenship and Immigration Services or BCIS, and before that it was the Immigration and Naturalization Service or INS. We use DHS throughout this chapter, and we also refer to USCIS since it is the actual agency that handles immigration matters and whose field offices you and your students might have to contact. The eligible statuses are:

- A U.S. citizen or national;
- A U.S. permanent resident;
- Citizens of the Freely Associated States: the Federated States of Micronesia and the Republics of Palau and the Marshall Islands;
- Other eligible noncitizens.

The Department of Education performs matches against the application to verify the student's citizenship status. In addition, there are procedures that you must follow to confirm a noncitizen's status through the DHS and SSA if the CPS matches don't confirm that status. A student's citizenship status only needs to be checked once during the award year; if the status is eligible at that time, it remains so for the rest of the award year.

Students who are eligible because they are citizens of certain Pacific Islands can only receive aid from some of the FSA programs (see "Citizens of the Freely Associated States" on page 38). Students in the other categories may receive any federal student aid an eligible school

Citizenship issues

➔ U.S. citizens matched with Social Security Administration (SSA) database

➔ U.S. permanent residents matched against DHS records

➔ If the match fails after primary verification and automated secondary confirmation, the school must collect documentation and conduct manual secondary confirmation

Citizenship

HEA Sec. 484(a)(5),
34 CFR 668.32(d),
34 CFR 668.33,
and Subpart I of Part 668.

Documenting citizenship
34 CFR 668.33(d)

Data doesn't match example
Allen put in an incorrect number for his SSN when he completed his FAFSA. The number he used isn't in the SSA database. Therefore, his application fails both the SSN match and the SSA citizenship match. Allen will need to fix the problem before he can receive aid. Because the SSN is incorrect, Sarven Technical Institute asks Allen to complete a new FAFSA instead of making a correction (see Chapter 4 for more on fixing SSN problems).

in the United States offers. If they're attending foreign schools that participate in the FFEL Program, they may receive Stafford loans.

If a parent wants to take out a PLUS loan for a dependent undergraduate student, both the parent and the student must be U.S. citizens or nationals or eligible noncitizens.

U.S. CITIZEN OR NATIONAL

A person is a United States citizen by birth or by naturalization. Persons (except for the children of foreign diplomatic staff) born in the 50 states, the District of Columbia, and, in most cases, Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands are U.S. citizens, as are most persons born abroad to parents (or a parent) who are citizens. All U.S. citizens are considered to be U.S. nationals, but not all nationals are citizens: natives of American Samoa and Swain's Island are not U.S. citizens but are nationals and therefore may receive FSA funds.

Citizenship match with Social Security Administration (SSA)

All applications are automatically matched with Social Security records to verify name, date of birth, U.S. citizenship status, the Social Security number, and possible date of death (see Chapter 4). The result of this match is reported under SSA of the match flags on the ISIR and "SSA Citizenship Code" on the SAR.

If the student leaves the citizenship question on the FAFSA blank, the CPS will still attempt the citizenship match with the SSA. If there is a complete match with the student's Social Security number, name, date of birth, and U.S. citizenship, the CPS will determine the student to be a citizen. The CPS will reject the application for insufficient information if one or more of the items are not provided.

Note that U.S. citizens born abroad might fail the citizenship check with the SSA, unless they have updated their citizenship information (see "Updating status for citizens born abroad," page 24).

▼ *Successful match.* The SAR and ISIR won't have a comment if the match is successful, but a match flag will indicate that the student's status was confirmed.

▼ *Data doesn't match.* If the student's SSN, name, or date of birth, doesn't match Social Security records, the citizenship status can't be confirmed. A comment to this effect will be printed on the output document. The student should make the necessary corrections to the SSN, name, or date of birth (see Chapter 4 for a discussion of SSN match problems). When the corrections are sent to the CPS, the CPS performs the match again, and you must check the new results to see if the match confirmed the student's citizenship status.

If you have resolved the student's SSN problem but the match still doesn't confirm her citizenship, she can instead provide documentation of citizenship (see "Other documentation," page 23).

▼ *Citizenship not confirmed.* If the Social Security match doesn't confirm that the student is a citizen, the SAR and ISIR will include a comment explaining that the student either needs to provide documents proving citizenship or make a correction to show that she is an eligible noncitizen.

If the student is a citizen, he must give you documentation of his citizenship status. If it verifies that he is a citizen, you can disburse aid to him. Unlike the case of eligible noncitizens, you don't submit the documents to the DHS or any other agency for verification, but you do need to keep a copy in the student's file. The student should also contact the Social Security Administration to have it update its database—something all naturalized citizens should do—but he doesn't have to do this to receive aid. See "Other documentation" below.

If the student is an eligible noncitizen, she must submit a correction, which must include the Alien Registration Number or A-Number. When the correction is sent in, the CPS will attempt a match with DHS records to confirm the student's status.

Other documentation

If a student must prove his status as a citizen or national, you decide what documents are acceptable. The Department doesn't specify them, but here are documents you might choose to use:

- A copy of the student's birth certificate showing that she was born in the United States, which includes Puerto Rico (on or after January 13, 1941), Guam, the U.S. Virgin Islands (on or after January 17, 1917), American Samoa, Swain's Island, or the Northern Mariana Islands, unless the person was born to foreign diplomats residing in the U.S.

- A U.S. passport, current or expired, except limited passports (which are typically issued for short periods such as a year and which don't receive as much scrutiny as a regular passport when applying). In the case of nationals who are not citizens, the passport will be stamped "Noncitizen National."

  The State Department began issuing in 2008 a wallet-sized passport card that can only be used for land and sea travel between the United States and Canada, Mexico, the Caribbean, and Bermuda. It is adjudicated to the same standards as the passport book and is therefore a fully valid attestation of the U.S. citizenship and identity of the bearer.

- A copy of Form FS-240 (Consular Report of Birth Abroad), FS-545 (Certificate of birth issued by a foreign service post), or DS-1350 (Certification of Report of Birth). These are State Department documents.

- A Certificate of Citizenship (N-560 or N-561), issued by USCIS to individuals who derive U.S. citizenship through a parent.

Example: citizenship not confirmed

Chavo is a U.S. citizen, but SSA doesn't confirm his citizenship status. Sarven Technical Institute asks him to submit documentation of his status. Chavo first submits a Social Security card, but Sarven explains that the card doesn't document his status because noncitizens can have Social Security cards. Chavo then brings in his U.S. passport. Sarven makes a copy of the passport for its files, and tells Chavo his citizenship has been documented. Sarven also advises Chavo to have the SSA correct its database, so that he won't have this problem again.

Social Security card and driver's license

A Social Security card or driver's license isn't acceptable for documenting citizenship or national status, since noncitizens and nonnationals can also have these forms of identification.

- A Certificate of Naturalization (N-550 or N-570), issued by USCIS through a federal or state court, or through administrative naturalization after December 1990 to those who are individually naturalized.

Older versions of the Certificate of Citizenship and of the Certificate of Naturalization instruct the holder not to photocopy them. The USCIS has advised the Department that these documents (and others) may be photocopied if done for lawful purposes (such as documenting eligibility for FSA funds).

Updating status for citizens born abroad

Students born abroad to U.S. citizens are also U.S. citizens, and their status is usually noted in the SSA's database when they receive an SSN. But rarely a student's citizenship might not be correct, and such a student (for example, one born on a military base abroad) will fail the citizenship match even if he has a Social Security number. He can contact the SSA to have its database corrected.

Such students can document citizenship by providing a "Consular Report of Birth Abroad" (Form FS-240, which is *proof* of U.S. citizenship) or a "Certification of Report of Birth" (Form DS-1350, which is *evidence* of U.S. citizenship and equivalent to a birth certificate). If the birth of the student was registered with the American consulate or embassy in a foreign country before he turned 18, he can receive a copy of one of these by sending a written, notarized request to:

U.S. Department of State
Passport Services
Vital Records Section
1111 19th Street, NW, Suite 510
Washington, DC 20522-1705

The student should provide his name given at birth, the date and location of birth, the parents' names, available passport information, a return address, and a daytime phone number. The signature and a copy of valid photo identification of the requester must be included. For form FS-240 the student also has to include the original form (to exchange it) or a signed, notarized affidavit that the original was destroyed or lost. The FS-240 is $30, and the DS-1350 is $30 plus $20 for each additional copy. This should be sent as a check or money order (no cash or foreign checks) payable to "Department of State." It will take four to eight weeks to receive the form. For more information, the Vital Records Section can be reached at (202) 955-0307.

If the student is over 18 and the birth wasn't registered, she can file a self-petition for a "Certificate of Citizenship" to any local USCIS office (Form N-600). Proof of the parents' U.S. citizenship at the time of the student's birth must be provided.

U.S. PERMANENT RESIDENTS AND OTHER ELIGIBLE NONCITIZENS

A lawful permanent resident (LPR) is a noncitizen who is legally permitted to live and work in the United States permanently. Other eligible noncitizens:

- **Refugees** are given indefinite employment authorization. Their status continues unless revoked by DHS or until lawful permanent resident status is granted, which refugees may apply for after one year.

- **Victims of human trafficking** have the same eligibility for federal benefits as refugees, though the Department of Health and Human Services (HHS), rather than the DHS, is responsible for certifying this status. Also, the spouse, child, or parent of such a victim may be eligible for Title IV aid. See DCL GEN-06-09.

- **Persons granted asylum** in the United States are also authorized for indefinite employment, and they can apply for permanent residence after one year. Asylee status continues unless revoked by DHS or until permanent resident status is granted.

- **Conditional entrants** are refugees who entered the United States under the seventh preference category of P.L. 89-236 or whose status was adjusted to lawful permanent resident alien under that category. Note that the DHS stopped using this category on March 31, 1980.

- **Persons paroled into the U.S. for at least one year** must provide evidence (such as having filed a valid permanent resident application) from the DHS that they are in the U.S. for other than a temporary purpose and intend to become a citizen or permanent resident.

- **Some persons under the Violence Against Women Act** will be eligible for Title IV aid. Once more information becomes available, it will be provided on the IFAP website.

- **Cuban-Haitian entrants** as defined by Section 501(e) of the Refugee Education Assistance Act (REAA) of 1980.

Some **non-eligible statuses** are:

- **Family unity status.** Such individuals have been granted relief from deportation under the Family Unity Program. Previously they were eligible for FSA funds.

- **Temporary residents** are allowed to live and work in the U.S. under the Legalization or Special Agricultural Worker program. Previously they were eligible for FSA funds.

- **Persons with non-immigrant visas,** who include those with work visas, students, visitors, and foreign government officials.

The A-Number on the FAFSA and the DHS verification number
When the CPS matches with DHS records, a 15-digit verification number is assigned to the student and printed in the "FAA Information" section of the SAR and ISIR. This number is needed for paper secondary confirmation with the DHS (see "Secondary Confirmation") and is reported in box 5 of the G-845 form. **If the student does not provide an A-Number on the FAFSA, the match can't be made and the student won't receive a DHS verification number.** The student's information should be resubmitted with the A-Number so that a computer match may be attempted because the school won't be able to check the student's status through the secondary process unless it has a DHS verification number.

MATCH WITH DHS RECORDS

To verify the immigration status of U.S. permanent residents and other eligible noncitizens, the Department collects A-Numbers on the FAFSA. (The DHS assigns A-Numbers to all legal immigrants.) If the applicant indicates on the FAFSA that he is an eligible noncitizen and provides an A-Number, identifying information from the FAFSA is automatically sent to the DHS for "Primary Verification."

The results of the match are shown by a match flag in the FAA information section of the output document, under the heading "DHS" on the ISIR or "DHS Match Flag" on the SAR. There will also be a comment about the results on the output document.

Because all applications are matched with SSA records, an application that is matched with DHS records will also be matched with citizenship information from the SSA. Results from the DHS match take precedence over any results from the SSA match, so the latter's citizenship match flags won't appear on the output document. You should follow the usual procedures for resolving any DHS match discrepancies.

If a student leaves the citizenship question blank but provides an A-Number, the CPS will assume the applicant is an eligible noncitizen and will attempt to match the A-Number with DHS records. If the student leaves both the citizenship question and A-Number blank, the CPS won't match with DHS records and will reject the application. The student must submit a correction with the citizenship status and A-Number if he is an eligible noncitizen.

▼ *Successful match.* If the match confirms the student's immigration status, then he can receive aid if the other eligibility criteria are also met. The SAR and ISIR with the successful match results are documentation of the student's eligibility. Of course, if you have other information about his status that seems to contradict the successful match result, you must resolve the conflict before paying the student (see "Conflicting Information" in Chapter 1).

▼ *Not enough information.* If the student said she was an eligible noncitizen but provided either no A-Number or an illegible or invalid one, the match won't be attempted. Instead, the student will receive a C code and a comment stating that there's a question about the A-Number and directing her to provide the school with documentation of her eligibility. Compare the document with the SAR/ISIR; if appropriate, the student should correct the A-Number and resubmit it so that the match can be conducted.

Note that the same will apply to citizens of the Marshall Islands, the Federated States of Micronesia, and Palau because such students won't have A-Numbers to report. However, these students aren't required to provide proof of eligible noncitizen status.

▼ *Status not confirmed.* If the match was conducted but didn't confirm the student's status, the discrepancy must be resolved before

you pay him. (First make sure that his alien registration number and date of birth are correct.) To confirm he is eligible for FSA funds, his record will have to pass through a subsequent process called secondary confirmation.

AUTOMATED SECONDARY CONFIRMATION

If the database match with immigration records doesn't confirm a student's claim to be an eligible noncitizen, the DHS will automatically try to otherwise determine the student's status. If this automated process confirms a student's eligible noncitizen status, it obviates the manual secondary confirmation that uses the G-845 form.

The CPS will wait for up to three days to give the DHS time to conduct the automated secondary confirmation. If after three days the DHS has not been able to confirm the student's citizenship status, the CPS will process SARs and ISIRs with a secondary confirmation match flag value of "P," meaning that the procedure is still in progress. Once the DHS finishes the confirmation, the CPS will generate SARs and ISIRs reporting the results.

The school should wait at least five but no more than 15 business days for the result of automated secondary confirmation. If the result has not been received by that time, the school must begin the paper process.

A correction made while the DHS is conducting the automated secondary confirmation will start the process over, i.e., the correction will be sent through primary confirmation. Though unlikely, if the new primary confirmation match yields a "Y," the transaction can be used to award aid. A correction made to a transaction that contains secondary confirmation results of "Y" or "C" (or a transaction with a primary confirmation result of "Y") will not be sent through the DHS citizenship match again. Otherwise the record will be re-sent for matching.

Automated secondary confirmation comment codes

"Y": citizenship status confirmed. The student is eligible for aid.

"C": in continuance. The DHS has not yet been able to confirm that the student is an eligible noncitizen. The school is encouraged but not required to wait ten business days for another ISIR with an updated match result. If there is no update, the school begins the paper (G-845) secondary confirmation process.

"N": citizenship not confirmed. The DHS did not confirm the student's citizenship status as eligible. The school begins paper secondary confirmation.

"X": DHS needs more information. The school begins paper secondary confirmation.

School policies on secondary confirmation

34 CFR 668.134

PAPER SECONDARY CONFIRMATION

If the student didn't pass automated secondary confirmation or if you have conflicting information about his immigration status, you must use paper secondary confirmation. The student has to give you unexpired documentation showing that he is an eligible noncitizen. If you determine the evidence is not convincing, he isn't eligible for FSA funds. However, if the documentation appears to demonstrate that he is an eligible noncitizen, you must submit it to the USCIS (in the DHS) to confirm it is valid. One exception to this applies to victims of human trafficking, as noted below.

Documents that establish aid eligibility

The standard document for a **permanent resident** of the United States is the Permanent Resident Card (Form I-551 since 1997) or Resident Alien Card (Form I-551 before 1997). Both forms are referred to colloquially as "green cards," though they are not green. Possessors of

Status not confirmed example
On his original application Hector didn't give his A-Number and reported that he was a citizen. When the SSA didn't confirm this, Hector told the FAA at Guerrero University that he was a permanent resident. He made a correction, but the USCIS didn't confirm his status as an eligible noncitizen. He explained to the FAA that he had applied for permanent resident status but didn't have documentation yet. The FAA told him that when he had documentation that his application was approved, he should bring it to Guerrero so that it could be submitted to the USCIS for confirmation.

Conditions requiring secondary confirmation
34 CFR 668.133(a)

Use of copy of I-94 or I-94A
Note that a refugee or an asylee may apply for permanent-resident status. During the period in which the application is being reviewed, the student may have a copy of the I-94 that includes the endorsement "209a (or 209b) pending. Employment Authorized." Students with this form of documentation are eligible for FSA funds as long as the I-94 has not expired.

Documentation for Cuban-Haitian entrants
The I-94 for some Cuban-Haitian entrants who are applying for permanent residence may be stamped "applicant for permanent residence." (Or the student may instead be given a separate document acknowledging the receipt of his or her application for permanent residence.) Because the application for permanent residence is not sufficient to make a student eligible for FSA funds, a student who is a Cuban-Haitian entrant must request documentation of that status from the USCIS.

the older Alien Registration Receipt Card (Form I-151, issued prior to June 1978) should have replaced it with a newer card, but for receiving FSA funds it is acceptable as evidence of permanent residence.

Permanent residents may also present an Arrival/Departure Record (CBP Form I-94) or the new Departure Record (Form I-94A, which is used at land border ports of entry) with the endorsement "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until _____. Employment Authorized." The form will have an A-Number annotated on it and is acceptable if the expiration date has not passed.

The U.S. Department of State issues a machine readable immigrant visa (MRIV) in the holder's passport. The MRIV will have a U.S. Customs and Border Protection (CBP) inspector admission stamp, and the statement "UPON ENDORSEMENT SERVES AS TEMPORARY I-551 EVIDENCING PERMANENT RESIDENCE FOR 1 YEAR" will appear directly above the machine readable section. An MRIV with this statement, contained in an unexpired foreign passport and endorsed with the admission stamp, constitutes a temporary I-551, valid for one year from the date of endorsement on the stamp.

The USCIS now issues the United States Travel Document (mint green cover), which replaces the Reentry Permit (Form I-327) and the Refugee Travel Document (Form I-571). It is used by lawful permanent residents (as well as refugees and asylees) and is annotated with "Permit to Reenter Form I-327 (Rev. 9-2-03)."

For classes of eligible noncitizens other than permanent residents, evidence of their status typically is on the I-94, but other documents are also acceptable.

- **Refugees** may have a Form I-94 or I-94A annotated with a stamp showing admission under Section 207 of the Immigration and Nationality Act (INA). They may also have the old Refugee Travel Document (Form I-571) or the new U.S. Travel Document mentioned above annotated with "Refugee Travel Document Form I-571 (Rev. 9-2-03)."

- **Victims of human trafficking** are entitled to the same benefits as refugees under the Victims of Trafficking and Violence Protection Act (VTVPA). Because this status is certified by the HHS and not the DHS, these students will not pass the DHS match, and the normal paper secondary confirmation does not apply. You must instead review the student's certification or eligibility letter from the HHS and call the Office of Refugee Resettlement at 1-866-401-5510, as noted on the letter, to verify its validity and confirm that the eligibility has not expired. You must note the date, time, and results of the call and retain a copy of the letter. If the student applies for federal student aid in a subsequent year at your school, you must call again to ensure that the student's status is still in force.

The spouse, child, or parent of a trafficking victim might be eligible for aid. He will not have a certification letter but will have a T-visa (e.g., T-2 or T-3). He will also fail the DHS match, so you must call the same office as above, verify the validity of his T-visa as well as the victim's certification letter, note the time and results, and save a copy of both documents.

- **Asylees** will have an I-94 or I-94A with a stamp showing admission under Section 208 of the INA. They may also have the same travel documents described under refugees above.

- **Conditional entrants** will have a stamp indicating the student has been admitted to the United States as a conditional entrant. Because the DHS stopped using this category after March 31, 1980, you should not disburse FSA funds if the student has an I-94 with conditional entrant status granted after that date.

- **Parolees** must have a stamp indicating that the student has been paroled into the United States for at least one year, with a date that has not expired. (Federal student aid cannot be disbursed after the document has expired.)

- **Cuban-Haitian entrants** will have a stamp across the face of the I-94 indicating that the student has been classified as a "Cuban-Haitian Entrant (Status Pending). Reviewable January 15, 1981. Employment authorized until January 15, 1981." Note that a document showing that the holder is a Cuban-Haitian entrant is valid even if the expiration date has passed.

As of January 2005, the above stamps use red and blue security ink: the date of admission is red, and the rest of the stamp is blue. The stamp contains three codes: the first is a two-digit code to the left of the date that designates the field office with jurisdiction over the port of entry. On most stamps this code will be two numbers and no letters. Letters are currently only used on HQ stamps. The three-letter code located under the word "ADMITTED" shows the port of entry. The third code, to the right of the date, is the stamp's unique four-digit number. When referring to a particular stamp, the port of entry code and the stamp's unique number should be used.

You must always examine and copy original documents, and you must keep in the student's file a copy of the immigration documentation he submits, along with the secondary confirmation results received from the USCIS. While copying immigration documents is generally not permitted, you may legally photocopy documents he uses as proof of his immigration status (such as Forms I-551 or I-94) for a lawful purpose such as applying for federal student aid.

The endorsement or stamp can be placed anywhere on the I-94. If the original stamp does not copy well due to the ink color, you should replicate it by hand on the photocopy. Because CBP offices don't have uniform procedures or stamps, you should contact the local office with questions regarding acceptable immigration documents.

Jay Treaty

There is one unusual circumstance where you will need to collect documentation from the student without requiring secondary confirmation. Section 289 of the Immigration and Nationality Act gives persons with at least 50% Native American blood who were born in Canada the legal right to live and work in the United States. This is based on the Jay Treaty of 1794 and subsequent court decisions. Such individuals are not subject to the legal restrictions typically imposed on aliens by the DHS, are not required to obtain documentation from the DHS, and are considered "lawfully admitted for permanent residence." They also are permitted to have an SSN, which they must enter on the FAFSA.

Because few FSA applicants are eligible under the Jay Treaty, the FAFSA does not include a separate response for such students. Therefore, any student eligible for FSA funds through the Jay Treaty should report that he or she is an "eligible noncitizen" and fill in "A999999999" for the A-Number. The student will fail the match and a comment 144 will be printed on the output document. The school must obtain proof that the student has 50% Native American blood and was born in Canada. To do so, the student should provide one or more of the following documents:

- A "band card" issued by the Band Council of a Canadian Reserve, or by the Department of Indian Affairs in Ottawa;
- Birth or baptism records;
- An affidavit from a tribal official or other person knowledgeable about the applicant's or recipient's family history;
- Identification from a recognized Native American provincial or territorial organization.

If the student can provide one of the above forms of documentation, and is otherwise eligible, the school must document the file and can award FSA funds.

Special circumstances

If the student has an I-551 with a baby picture, she should update the I-551 with the USCIS. Permanent residents are expected to get a new picture and be fingerprinted at the age of 14. However, you can submit the documents to USCIS and ultimately pay a student who has an I-551 with a baby picture as long as you can confirm that the I-551 belongs to the student. You can confirm this by comparing the I-551 to a current photo ID that has the student's name, date of birth, and signature. The current photo ID must also be consistent with any identifying information that you keep in the student's file.

A student who has an approved application for permanent residence on file with the USCIS and who is waiting for a permanent resident card may not have proof of her permanent resident status. She should contact her local USCIS office for the passport stamp or I-94 stamp described at the end of this chapter, as these are available to a student before the normal permanent resident documentation is issued. Note that an **application** for permanent resident status is not sufficient for determining eligibility for FSA funds.

The Marriage Fraud Amendments established a two-year conditional permanent resident status for certain alien spouses and their children. The alien spouse of a U.S. citizen or legal immigrant is given conditional permanent resident status if the marriage took place less than two years before the spouse applied for permanent resident status. This status may also apply to any of the spouse's children who are aliens.

An alien who is granted conditional permanent resident status will be given a Form I-551. This is the same I-551 that is issued to regular permanent residents, except that the card for a conditional permanent resident expires in two years, as opposed to ten years for the regular card. A conditional permanent resident must file a petition for removal of this restriction in the 90 days before the end of the two years. The USCIS will review the petition and, if the result of the review is satisfactory, drop the restriction and issue new documents. Conditional permanent residents holding a valid I-551 are eligible to receive FSA funds until the expiration date.

If a person is applying to suspend deportation, she must request a hearing before an immigration law judge who will render an oral or written decision. If the decision is favorable, the USCIS will give the applicant a Form I-551, which will certify her lawful permanent resident status. Therefore, there is no special category for persons who have been granted suspensions of deportation.

Documents showing ineligible statuses

If the document a student submits is for a noneligible status, you shouldn't submit the documentation for secondary confirmation. The USCIS can only confirm whether or not the documentation is genuine; it doesn't determine whether the student is eligible for FSA funds. Unless the student can submit documentation for an eligible status, as described above, the student can't receive aid.

An approved Form I-817, Application for Family Unity Benefits, indicates that the person has been granted relief from deportation under the Family Unity Program. Students with this status are not eligible for aid.

The Immigration Reform and Control Act of 1986 (IRCA) established a legalization program (also called the amnesty program) for certain illegal aliens. The alien might eventually be granted permanent resident status. Although these individuals were given documentation that allowed them to work while their application was being processed, they aren't eligible for aid until their application for permanent resident status is approved. Documents such an individual might have in the interim are the Employment Authorization Card (Form I-688A), Employment Authorization Documents (Form I-688B or the I-766), or the Temporary Resident Card (Form I-688). None of these documents qualifies the student for FSA eligibility.

A student with a nonimmigrant visa isn't eligible for FSA funds unless he or she has a Form I-94 with one of the endorsements listed earlier. Nonimmigrant visas include the F-1, F-2 or M-1 Student Visa, B-1 or B-2 Visitor Visa, J-1 or J-2 Exchange Visitors Visa, H series or L series Visa (which allow temporary employment in the U.S.), or a G series Visa (pertaining to international organizations). Also, someone who has only a "Notice of Approval to Apply for Permanent Residence (I-171 or I-464)" cannot receive FSA funds.

Some students may present Forms I-94 stamped "Temporary Protected Status." This status is used for persons who are from countries that are in upheaval, but the status differs significantly from "Refugee" or "Asylee" because it provides no conversion to permanent resident status. A student with this status is **not** eligible for FSA funds.

Using the G-845 for secondary confirmation

To initiate paper secondary confirmation, you must complete a Form G-845 and send it to the USCIS field office for your area within ten business days of receiving the student's documentation. The G-845 ("Immigration Status/Document Verification Request") is a standard form that asks the USCIS to confirm a noncitizen's immigration status. See the electronic announcement dated June 29, 2009, on the **www.ifap.ed.gov** website for more information and to download a copy of the form.

To complete the G-845, fill in each item on the top half of the form. You must enter the A-Number in box 1. **For box 5 you must provide the 15-digit DHS verification number that is printed on the SAR and ISIR. Secondary confirmation requests without this number will be returned unprocessed.** "Education Grant/Loans/Workstudy" must be marked in box 8, "Benefit." Also, at the bottom of box 8 write "SSN" in the space marked "Other" and the student's SSN in the space next to it. You must write your name as the submitting official and your school's name as the submitting agency.

Contacting the USCIS/DHS

Send the G-845 to the USCIS field office that serves your area. Because the USCIS is consolidating its offices that process the form, the one you send the form to will not necessarily be the closest. It will depend on the state or territory, and sometimes the county, in which your school is located. The USCIS will provide a list at **www.uscis.gov** of the field offices that are processing the G-845 and the states (and occasionally counties) that they serve. As of this publishing, however, the information is not available on that website but is available on the Department's site at **www.ifap.ed.gov**. See the electronic announcement of April 11, 2007, for complete instructions and for a copy of the new G-845 form.

Purpose of the G-845 form

The status verifier at the USCIS field office will note on the G-845 form you submit on behalf of your student what immigration status the student's documentation suggests. **The form does not directly state whether the student is eligible for Title IV aid.** To determine that, you must check the result of the status check as it appears on the G-845 against the information on eligible noncitizen statuses provided in this chapter.

Which G-845 form to use?

You might have noticed that there is a more current version of the G-845 and G-845S forms on the USCIS website. Because the older form we have reproduced here and in our electronic announcements contains useful elements that the new forms lack, such as the checkbox for parolees of one year or longer, you should continue to use it until further notice. The USCIS will process it normally. You can download it from the IFAP website (at **www.ifap.ed.gov**) by going to the electronic announcement dated June 29, 2009.

School policies and procedures on secondary confirmation
34 CFR 668.134–135

Determining eligibility if USCIS response is late
34 CFR 668.136(b)

Photocopies of the front and back sides of the student's immigration document must be attached to the G-845. Be sure to submit each pertinent visa and immigration document along with the form; the G-845 submitted by itself can't be used to determine FSA eligibility. A student who lost documents or surrendered them when entering prison is responsible for getting copies of them before the G-845 is submitted. (See "Replacing Lost DHS Documents" on page 36.) You can request copies of immigration documents directly from penal institutions at the request of the student. Send the completed G-845 and attachments to the field office serving the prison's locale.

Noncitizens may also present other documents, such as marriage records or court orders, that indicate the identity or United States residency of the holder. Although these documents may not serve as adequate proof of immigration status, copies of them should be submitted with the G-845, as they may be useful to the status verifier.

A status verifier at the district USCIS office will search the student's record to confirm his immigration status, complete the "USCIS Response" section, and send the G-845 back to your office, generally within ten working days of receipt. We recommend that you document any mailings to the USCIS and, if you haven't heard back, that you call its office to make sure the G-845 was received. If you don't receive a response from the USCIS after at least 15 business days from the date you sent the G-845, if you have sufficient documentation to make a decision, and if you have no information that conflicts with the student's documents or claimed status, you shall review his file and determine whether he meets the eligible noncitizen requirements. If he does meet the requirements, make any disbursement for which he is eligible and note in his file that USCIS exceeded the time allotment and that noncitizen eligibility was determined without their verification.

When secondary confirmation results in an eligible status, you must keep the G-845. If the confirmation process indicates a discrepancy, you must ask the student to correct the discrepancy with the USCIS. No certification of loans or further disbursement of funds can be made until the discrepancy is corrected. If the discrepancy isn't reconciled, the student must repay all aid except wages earned under FWS. Whenever the student is able to provide new information, it must be submitted to the USCIS on a new G-845.

As long as you have followed the procedures outlined here, including notifying the student of the discrepancy and withholding further payments and loan certifications as soon as a discrepancy is found, your school isn't liable for aid disbursed prior to secondary confirmation. This assumes that you had no other conflicting information prior to making the disbursement and had reviewed the available documentation and concluded that the student was otherwise eligible.

Interpreting the USCIS response

The status verifier will mark one or more of the checkboxes on the G-845. The following list explains whether checking a box means the student is eligible. In reviewing the completed G-845, bear in mind

that it reflects the student's most recent status with the USCIS and may show a different status than the documentation presented by the student. In this case, you should verify that both documents identify the same person. If they do, the status on the G-845 should be used since it is more current.

1. "**Lawful Permanent Resident alien** of the United States." Block #1 is checked when the document submitted is determined to be a valid I-551, I-151, I-94, I-94A, U.S. Travel Document annotated with "Permit to Reenter Form I-327 (Rev. 9-2-03)," or a passport with an MRIV bearing the statement "Upon endorsement serves as temporary I-551 evidencing permanent residence for 1 year." A student with this status is eligible for FSA.

2. "**Conditional Resident alien** of the United States." The document is determined to be a valid I-551, I-94, I-94A, or a passport with an MRIV bearing the statement "Upon endorsement serves as temporary I-551 evidencing permanent residence for 1 year." A student with this status is eligible for FSA.

3. "**Refugee** under Section 207 of the INA." This is checked when an alien has been granted refuge in the United States. Documentation presented may include a Form I-94 or I-94A stamped with "Section 207-Refugee," a Refugee Travel Document (Form I-571), or the new U.S. Travel Document annotated with "Refugee Travel Document Form I-571 (Rev. 9-2-03)." A student with this status is eligible for aid.

4. "**Asylee** under Section 208 of the INA." This is checked when an alien has been granted asylum in the United States. Documentation presented may include a Form I-94 or I-94A stamped with "Section 208-Asylee," a Refugee Travel Document (Form I-571), or the new U.S. Travel Document annotated with "Refugee Travel Document Form I-571 (Rev. 9-2-03)." A student with this status is eligible for aid.

5. "Alien **paroled** into the United States pursuant to Section 212(d)(5) of the INA ..." This is checked for parolees, of which there are a few eligible classes. Documentation may include Form I-94 or I-94A stamped with "Section 212(d)(5)—Parolee." The student is eligible for aid if paroled into the U.S. for one year or more (the corresponding subsidiary box must be checked) and if he has evidence from the DHS (such as having filed a valid permanent resident application) that he is in the U.S. for other than a temporary purpose and intends to become a citizen or permanent resident.

6. "Alien who is a **Cuban/Haitian** entrant as defined by Section 501(e) of the REAA of 1980." This is checked for Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980 and Haitians who entered the

country illegally before January 1, 1981. A student with this status is eligible for aid.

7. "Alien who is a **conditional entrant**." This is checked for conditional entrants under the old provisions of P.L. 89-236. Documents may include Form I-94 stamped with "Section 203(a)(7)." Persons who fall into this category had to have entered the U.S. prior to the enactment of the Refugee Act of 1980. A student with this status is eligible for aid.

8. "Alien who is a **nonimmigrant**." This is checked to indicate an alien who is temporarily in the United States for a specific purpose. This category includes students, visitors, and foreign government officials. Documents presented may include the I-94 or I-94A. Students with this status aren't eligible for aid.

9. "Alien who has an **application pending** for:" This is checked when an alien is waiting for a new immigration status or a change of status. If a change is pending, the block indicating the current status will also be checked elsewhere on the G-845. A pending application for an immigration status doesn't by itself make the student eligible for FSA funds; he must have an eligible status checked on the form or provide other documentation of an eligible status.

10. "**U.S. citizen.**" Because the verification request is used to check the status of immigrants, this box should be infrequently checked, and you should not see this in the financial aid office because, as explained earlier in the chapter, you would have reviewed the student's documentation, and if it showed him to be a U.S. citizen, you would not have submitted it to the USCIS.

11. "Alien **authorized employment** as indicated below:" This indicates the expiration date or that there is no expiration. Employment authorization doesn't make the student eligible for FSA funds. Unless some eligible status is also checked or the student can provide other documentation that can be confirmed by the USCIS, the student isn't eligible for aid.

12. "Alien not authorized employment in the United States." This block is checked when an alien's status prohibits employment in the United States. Students with this status aren't eligible for aid.

Citizenship and Immigration Services will initial and stamp the front of the G-845 in the signature block.

The comments block on the back of the G-845 provides further instructions for boxes that are checked:

OMB No. 1653-0032; Expires 06/30/08

Department of Homeland Security
U.S. Citizenship and Immigration Services

G-845, Immigration Status/ Document Verification Request

Section A. -*To be completed by the submitting agency.*

To: U.S. Citizenship and Immigration Services (USCIS)

Attn: Status Verifier

From: Typed or Stamped Name and Address of submitting Agency

(USCIS may use above address with a No. 20 window envelope.)

1. Alien Registration Number or I-94 Number

2. Applicant's Name (Last, First, Middle)

3. Citizenship/Nationality

4. Date of Birth (mm/dd/yyyy)

5. Verification Number

6. ☐ Photocopy of Document Attached.
(If printed on both sides, attach a copy of the **front and back** .)

7. ☐ Other Information Attached *(Specify documents.)*

8. *(Benefit)*	(Your Case Number)
☐ Education Grant/Loans/Workstudy	
☐ Food Stamps	
☐ Housing Assistance	
☐ Medicaid/Medical Assistance	
☐ TANF	
☐ Unemployment Insurance	
☐ **Other** *(specify)*	

9. Name of Submitting Official

10. Title of Submitting Official

11. Date (mm/dd/yyyy)

12. Telephone Number ( )

For U.S. Department of Labor Use Only: ☐ Provide 18-months of employment authorization document history data under **No. 19,** "Other" on **Page 2**.

Section B. -*To be completed by USCIS.*

USCIS RESPONSES: From the documents or information submitted and/or a review of our records, we find that:

The person identified is a/an:

1. ☐ **Lawful Permanent Resident alien** of the United States.

2. ☐ **Conditional Resident alien** of the United States.

3. ☐ **Refugee** under Section 207 of the INA.

4. ☐ **Asylee** under Section 208 of the INA.

5. ☐ Alien **paroled** into the United States pursuant to Section 212(d)(5) of the INA as indicated below:

a. ☐ For a period of one year or more.

b. ☐ For a period of less than one year.

6. ☐ Alien who is a **Cuban/Haitian** entrant as defined by Section 501(e) of the REAA of 1980.

7. ☐ Alien who is a **conditional entrant**.

8. ☐ Alien who is a **nonimmigrant.**
(Specify type or class and admitted to date.)

9. ☐ Alien who has an **application pending** for:
(Specify USCIS benefit below.)

10. ☐ **U. S. citizen.**

11. ☐ Alien **authorized employment** as indicated below:

a. ☐ No Expiration (Indefinite).

b. ☐ Expires on: _____ (mm/dd/yyyy)

12. ☐ Alien not authorized employment in the United States.

☐ **See Page 2 for additional comments.**

USCIS Stamp

Form G-845 (Rev. 01/06/06) Y

Section B. *(Continued.)*

USCIS Comments

13. ☐ The document is not valid because it appears to be *(Check all that apply.)*:

- ☐ **a.** Expired *(Provide expiration date - mm/dd/yyyy.)* _____
- ☐ **b.** Altered.
- ☐ **c.** Counterfeit.
- ☐ **d.** Revoked *(Provide revocation date - mm/dd/yyyy.)* _____

14. ☐ The attached Form I-551, Permanent Resident Card or Resident Alien Card, has expired. The card does not indicate that the alien's status has expired. The expiration date on the Form I-551 indicates the card has expired and must be renewed. Please refer the applicant to their local USCIS Application Support Center for a replacement card.

15. ☐ Continue to process as legal alien. USCIS is searching indices for further information.

16. ☐ Copy of document is not readable. *(Resubmit request.)*

17. ☐ No determination can be made without seeing a copy of both sides of the document submitted. *(Resubmit request.)*

18. ☐ Unable to process request without an original consent of disclosure statement signed by the applicant. *(Resubmit request.)*

19. ☐ Other (Provide comments. *Attach additional sheet of paper, if necessary.)*

Instructions

- **Submit a copy of the *front and back* of the alien's original immigration documentation.**
- **Make certain a *complete return address* has been entered in the "From" portion of the form.**
- The Alien Registration Number ("A" Number) is the letter "A" followed by a series of seven, eight or nine digits. The number found on Form I-94 may also be recorded in the block. (Check the front and back of the Form I-94 document. If the "A" Number appears, record that number when requesting information, instead of the longer admission number, because the "A" Number refers to the most integral record available.)
- If Form G-845 is submitted without a copy of the applicant's original immigration documentation, it will be returned to the submitting agency without any action taken.
- Address this verification request to the local office of the U.S. Citizenship and Immigration Services.

13. "The document is not valid because it appears to be . . ." This and the appropriate subsidiary box are checked when the document has expired, been revoked, or when it appears to be counterfeit or altered. Notify the student that unless corrective action is taken with the USCIS, the case will be submitted to the Office of Inspector General (OIG). Until this is resolved, no further aid may be disbursed, awarded, or certified. If the student does not take corrective action in a timely manner, you must report the case to the OIG.

14. "The attached Form I-551, Permanent Resident Card or Resident Alien Card, has expired. The card does not indicate that the alien's status has expired. The expiration date on the Form I-551 indicates the card has expired and must be renewed. Please refer the applicant to their local USCIS Application Support Center for a replacement card." Students whose LPR card has expired are still lawful permanent residents, and if there are no other problems, they remain eligible for aid and should not be reported to the OIG.

15. "Continue to process as legal alien. USCIS is searching indices for further information." This block is checked if the USCIS is withholding judgment, pending further investigation on the status or validity of documentation. This statement doesn't imply that the applicant is an illegal alien or the holder of fraudulent documentation. Benefits shouldn't be denied on the basis of this statement.

    The student's documentation should be accepted at face value until the USCIS sends final notification regarding immigration status. If the student appears to be an eligible noncitizen based upon your review of the documents, you may pay the student any FSA funds for which she is eligible. If the USCIS later notifies you that the student's documentation isn't valid, you must cancel further disbursements, but your school isn't liable for the payments already made—the student is.

16. "Copy of document is not readable." Resubmit the G-845 with higher quality copies of the original documentation.

17. "No determination can be made without seeing a copy of both sides of the document submitted." Resubmit the G-845 with copies of both sides of each document.

18. "Unable to process request without an original consent of disclosure statement signed by the applicant." Ignore this comment; it does not apply to FSA applicants.

Student rights

You must allow the student at least 30 days from the time you receive the output document to provide documentation of his immigration status. During this period and until the results of the secondary

Procedures when ineligibility is determined after disbursement
34 CFR 668.136(c)

Lack of response example
Mikko is a refugee and received aid from Guerrero University for the 2008–09 school year. His status wasn't confirmed through the DHS match, so Guerrero had to perform secondary confirmation. The DHS didn't respond in time, so Guerrero paid Mikko without any response. When Mikko applies for 2009–10, the CPS still doesn't confirm his status. Even though Guerrero began secondary confirmation for Mikko last year and his documents haven't expired, because the school never received a DHS response, it must perform secondary confirmation again.

confirmation are received, you can't deny, reduce, or terminate aid to him. If the documentation supports the student's status as an eligible noncitizen, and if at least 15 business days passed since the date on which the documentation was submitted to the USCIS, you can disburse aid to an otherwise eligible student pending the USCIS response.

Your school isn't liable if you erroneously conclude that a student is an eligible noncitizen, provided that you had no conflicting data on file and you relied on:

- a SAR or ISIR indicating that the student meets the requirements for federal student aid,
- a USCIS determination of an eligible immigration status in response to a request for secondary confirmation, or
- immigration status documents submitted by the student, if the USCIS did not respond in a timely fashion.

The student (or parent borrower of a PLUS loan) is liable for any FSA funds received if he is ineligible. If you made your decision without having one of these types of documents, your school is held responsible for repaying FSA funds to the Department.

Your school should establish procedures to ensure due process for the student if FSA funds are disbursed but the aid office later determines (using secondary confirmation) that the student isn't an eligible noncitizen. The student must be notified of his ineligibility and given an opportunity to contest the decision by submitting to your school any additional documents that support his claim to be an eligible noncitizen. If the documents appear to support the student's claim, you should submit them to USCIS using paper secondary confirmation. You must notify the student of your office's final decision, based on the secondary confirmation results.

For every student required to undergo secondary confirmation, you must furnish written instructions providing:

- an explanation of the documentation the student must submit as evidence of eligible noncitizen status;
- your school's deadline for submitting documentation (which must be at least 30 days from the date your office receives the results of the primary confirmation);
- notification that if the student misses the deadline, he may not receive FSA funds for the award period or period of enrollment; and
- a statement that you won't decide the student's eligibility until he has a chance to submit immigration status documents.

CITIZENS OF THE FREELY ASSOCIATED STATES

Students who are citizens of the Freely Associated States—the Federated States of Micronesia and the republics of Palau and the Marshall Islands—are eligible for Pell grants (citizens of Palau are also eligible for FWS and FSEOG under conditions described in the margin note) but are not eligible for FSA loans. They should indicate on the FAFSA that they are eligible noncitizens and leave the A-Number item blank. If the student doesn't have an SSN, he enters 888 and ED will give him a number to use, or if he was given a number in the previous year, he should use that. Because he isn't giving an A-Number, his application won't go through the DHS match. As long as his file contains consistent information on his citizenship, you aren't required to collect documentation.

The Freely Associated States
The Compact of Free Association (P.L. 99-239) created three political entities from the former Trust Territory of the Pacific Islands. Two of these entities, the Marshall Islands and the Federated States of Micronesia, voted in 1986 to end political ties with the United States. The third entity, Palau, voted to ratify the compact in 1994; its independence was effective October 1, 1994. These three entities are the Freely Associated States. 34 CFR 600.2

Citizens of the Freely Associated States whose application was sent through FAA Access to CPS Online may indicate that they are eligible noncitizens, and their state of legal residence will be confirmed. If they are determined to be residents of the Freely Associated States, they won't be required to provide an A-Number.

No FSEOG and FWS
The Compact of Free Association Amendments Act of 2003, or the Compact Act, eliminates eligibility for citizens of the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM) for FSEOG and FWS funds. To mitigate this loss, the Compact Act authorizes Supplemental Education Grants (SEGs) that may be awarded to the FSM and RMI. For more information, students of the FSM and RMI should contact their local education authority. Also under the Compact Act, students who are citizens of the Republic of Palau will continue to be eligible for FWS and FSEOG through the 2009–10 year.

DOCUMENTING IMMIGRATION STATUS IN LATER AWARD YEARS

There are several cases in which you must document a student's immigration status in a subsequent award year if that student again is not confirmed through the application process.

For example, a student who presented a Temporary Form I-551 in a prior award year should have received a permanent I-551 by the next year and shouldn't still have a temporary card. You should refer the student to USCIS to obtain a permanent I-551 or an updated endorsement on the previous card. The documents should also be submitted to USCIS on a G-845.

You must also document the eligible noncitizen status each award year for a conditional permanent resident, a refugee, a Cuban-Haitian entrant, or a person granted asylum. Students in any of these categories may have been redesignated to permanent-resident status or may have had their statuses revoked. You will have to send the documents for secondary confirmation if the student's status isn't confirmed through the USCIS match.

You don't have to document a student's eligible noncitizen status in subsequent award years if you've documented that the student is a U.S. citizen or national, is a citizen of the Freely Associated States, or has a Form I-551 or I-151.

Exclusion from subsequent secondary confirmation
34 CFR 668.133(b)

In addition, you aren't required to perform secondary confirmation if for a previous award year it showed that the student was an eligible noncitizen and the documents used for that secondary confirmation haven't expired. You must also have no conflicting information or reason to doubt the student's claim of having eligible noncitizen status. Also note that you must have **confirmed the status** in a previous

award year. (Although you can disburse aid without the USCIS response if the USCIS doesn't respond in time, you can't count that lack of response as confirmation for the following year.)

REPLACING LOST DHS DOCUMENTS

If a student can't locate his official USCIS documentation, the student must request that the documents be replaced because noncitizens who are 18 years and older must have immigration documentation in their possession at all times while in the United States. Requests for replacement documents should be made to the USCIS District Office that issued the original documents.

The student will be asked to complete a Form I-90, "Application to Replace Alien Registration Card" or a Form I-102, "Application for Replacement/Initial Nonimmigrant Arrival-Departure Document." PDF versions of these forms can be downloaded from the USCIS web site at **www.uscis.gov**. A temporary I-94 may be issued while the replacement documents are pending.

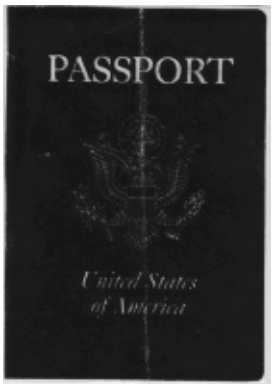
In cases of undue hardship, where the student urgently needs documentation of his status, the Freedom of Information Act (FOIA) allows him to obtain photocopies of the documents from the USCIS District Office that issued the original documents. The student can submit a Form G-639 to make this request or can simply send a letter to the district office. If he is not sure which district office issued the original documents, he can submit the request to the field office nearest to his place of residence.

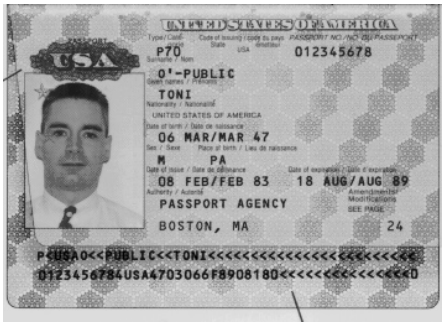
CITIZEN NOT BORN IN U.S./NONCITIZEN NATIONAL

U.S. Passport

Can be used to document citizenship for citizen born abroad.

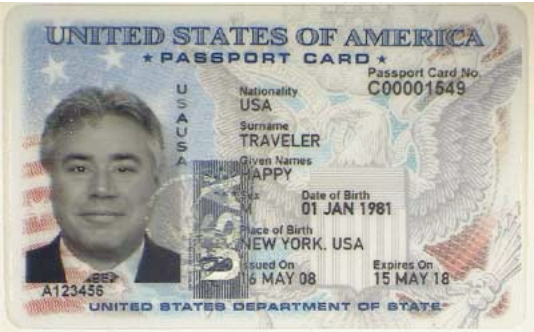
For a noncitizen national, must be stamped "Noncitizen National." (Note that a passport issued by another country may be used to document permanent resident status if it has the endorsement "Processed for I-551" and has a currently valid expiration date.)

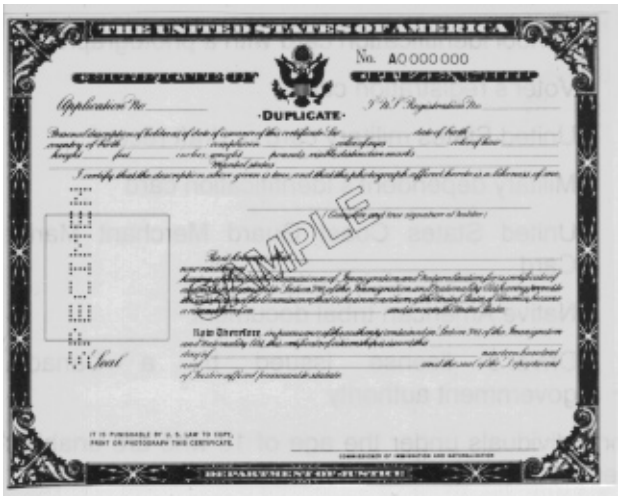




U.S. Passport Card

This resembles a credit card in size and form. Though it cannot be used for international air travel, it is, like the passport book, proof of U.S. citizenship.





Certificate of Citizenship

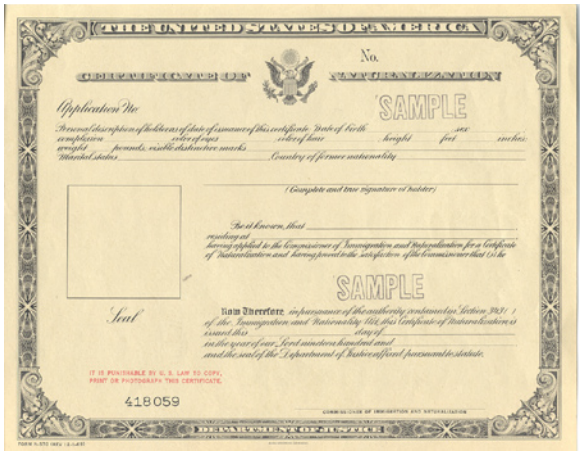
The Certificate of Citizenship is issued to persons who were born abroad of U.S. parent(s), who became citizens when their parents were naturalized, or who were adopted by U.S. parents.

Certification of Birth Abroad

Issued to U.S. citizens born abroad. Must have embossed seal of the State Department.

Certificate of Naturalization

The Certificate of Naturalization is issued to naturalized U.S. citizens.


THE UNITED STATES OF AMERICA

No.

CERTIFICATE OF NATURALIZATION

SAMPLE

Application No.

Personal description of the holder as of date of issuance of this certificate: Date of birth ... sex ... complexion ... color of eyes ... color of hair ... height ... feet ... inches; weight ... pounds; visible distinctive marks ... Marital status ... Country of former nationality ...

(Complete and true signature of holder)

Be it known, that ... residing at ... having applied to the Commissioner of Immigration and Naturalization for a certificate of Naturalization and having proved to the satisfaction of the Commissioner that (1) he ...

Seal

SAMPLE

Now Therefore, in pursuance of the authority contained in Section 338 (a) of the Immigration and Nationality Act, this Certificate of Naturalization is issued this ... day of ... in the year of our Lord nineteen hundred and ... and the seal of the Department of Justice affixed pursuant to statute.

IT IS PUNISHABLE BY U. S. LAW TO COPY, PRINT OR PHOTOGRAPH THIS CERTIFICATE.

418059

COMMISSIONER OF IMMIGRATION AND NATURALIZATION

DEPARTMENT OF JUSTICE

A revised version of the Certificate of Naturalization is issued to citizens who filed for naturalization after October 1, 1991.

THE UNITED STATES OF AMERICA

No. 00000000

CERTIFICATE OF NATURALIZATION

Personal description of holder as of date of naturalization:

Date of birth:

Sex:

Height: feet inches

Marital status:

Country of former nationality:

I.N.S. Registration No.

I certify that the description given is true, and that the photograph affixed hereto is a likeness of me.

(Complete and true signature of holder)

Be it known that, pursuant to an application filed with the Attorney General at:

The Attorney General having found that:

SPECIMEN

then residing in the United States, intends to reside in the United States when so required by the Naturalization Laws of the United States, and had in all other respects complied with the applicable provisions of such naturalization laws and was entitled to be admitted to citizenship, such person having taken the oath of allegiance in a ceremony conducted by the

(SECURELY AND PERMANENTLY AFFIX PHOTOGRAPH HERE)

(A SEAL WILL BE IMPRESSED SO AS TO COVER A PORTION OF THE LOWER EDGE OF THE PHOTOGRAPH)

at: on:

that such person is admitted as a citizen of the United States of America.

IT IS PUNISHABLE BY U. S. LAW TO COPY, PRINT OR PHOTOGRAPH THIS CERTIFICATE, WITHOUT LAWFUL AUTHORITY.

Commissioner of Immigration and Naturalization

DEPARTMENT OF JUSTICE

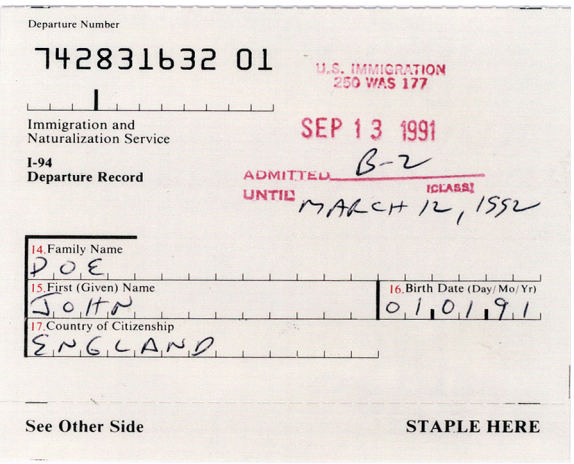
FORM N-550 REV. 4-91

PERMANENT RESIDENT/OTHER ELIGIBLE NONCITIZEN

I-94 Arrival-Departure Record

For permanent resident status, must be stamped "Processed for I-551" with expiration date or "Temporary Form I-551" with appropriate information filled in.

For other eligible noncitizens, must be stamped as Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolee, or Cuban-Haitian Entrant. *See pages 23–25.*


Departure Number

742831632 01

U.S. IMMIGRATION
250 WAS 177

Immigration and Naturalization Service

SEP 13 1991

I-94
Departure Record

ADMITTED B-2
UNTIL (CLASS) MARCH 12, 1992

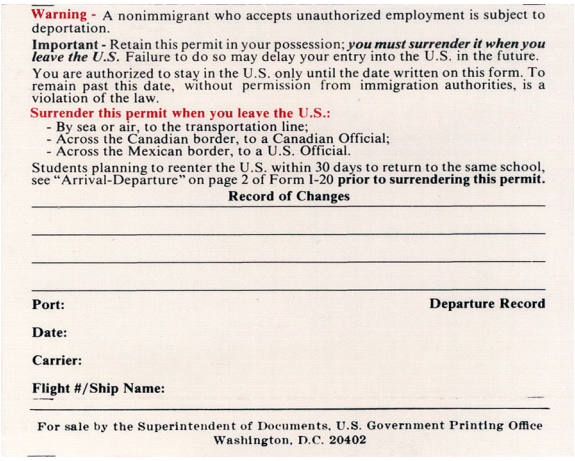
14. Family Name
DOE

15. First (Given) Name
JOHN

16. Birth Date (Day/Mo/Yr)
01 01 91

17. Country of Citizenship
ENGLAND

See Other Side **STAPLE HERE**


Warning - A nonimmigrant who accepts unauthorized employment is subject to deportation.

Important - Retain this permit in your possession; ***you must surrender it when you leave the U.S.*** Failure to do so may delay your entry into the U.S. in the future.

You are authorized to stay in the U.S. only until the date written on this form. To remain past this date, without permission from immigration authorities, is a violation of the law.

Surrender this permit when you leave the U.S.:
- By sea or air, to the transportation line;
- Across the Canadian border, to a Canadian Official;
- Across the Mexican border, to a U.S. Official.

Students planning to reenter the U.S. within 30 days to return to the same school, see "Arrival-Departure" on page 2 of Form I-20 **prior to surrendering this permit.**

Record of Changes

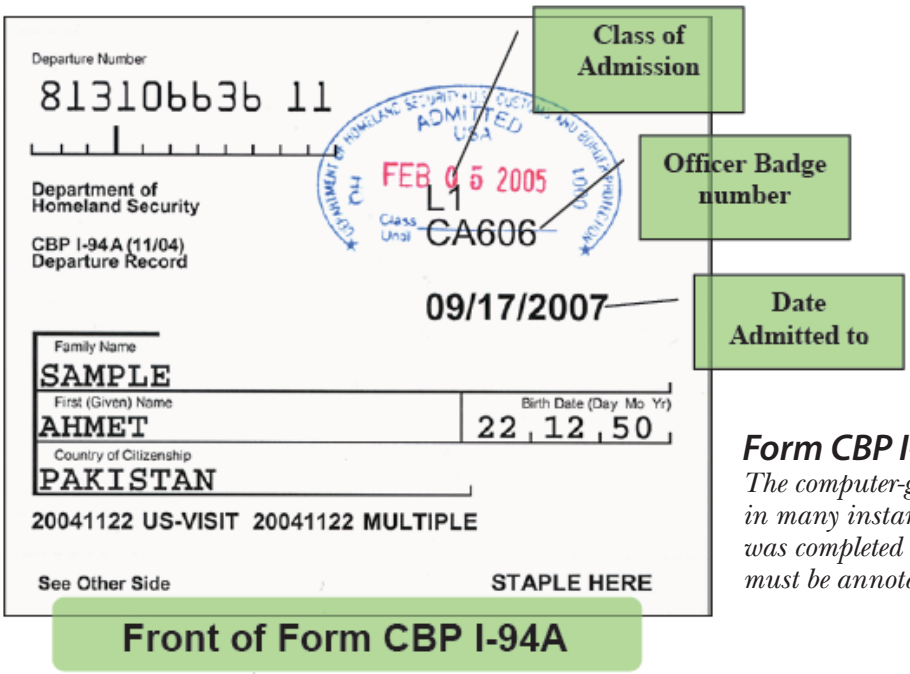
Port: **Departure Record**

Date:

Carrier:

Flight #/Ship Name:

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402



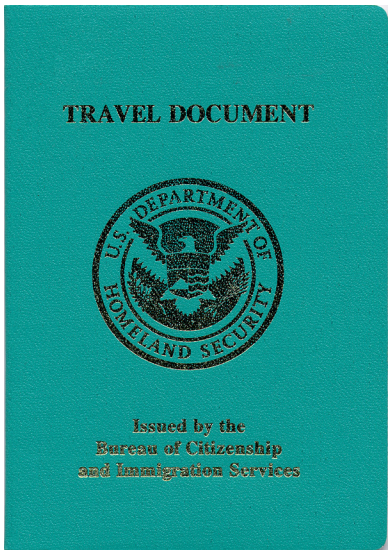
Form CBP I-94A

The computer-generated Form CBP I-94A replaces—in many instances, but not all—the Form I-94 that was completed manually. For eligible noncitizens, it must be annotated as described on pages 23 and 24.

United States Travel Document

(front cover)

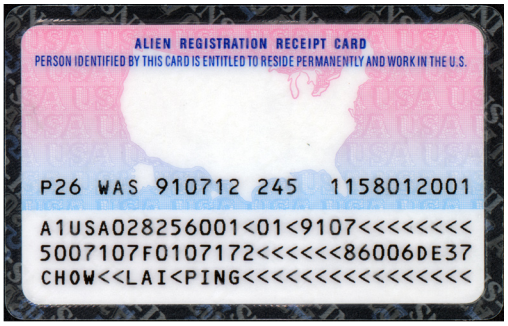
This replaces the Reentry Permit (Form I-327) and the Refugee Travel Document (Form I-571). It is used by lawful permanent residents, refugees, and asylees and will be annotated as described earlier in the chapter.



Machine Readable Immigrant Visa (MRIV)

The MRIV will appear in the holder's (foreign) passport. If the passport is unexpired and endorsed with an admission stamp and the statement "Upon endorsement serves as temporary I-551 evidencing permanent residence for 1 year," it serves as a temporary I-551 and as valid documentation for establishing aid eligibility.

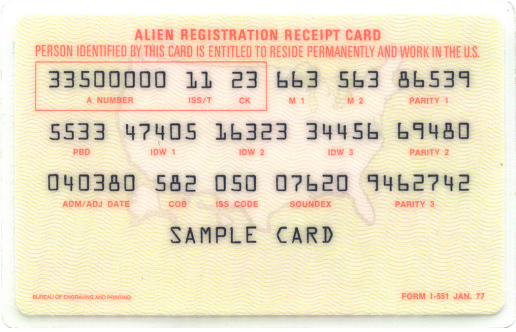
PERMANENT RESIDENT



Alien Registration Receipt Card I-151

(two versions, front and back)

Issued prior to June 1978 to permanent residents. No longer issued but valid indefinitely. Often referred to as a "green card" though it is not always green.

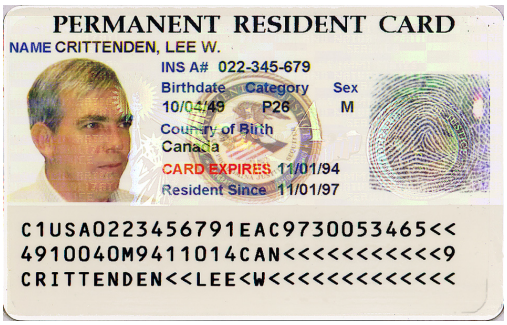


Resident Alien Card I-551

(three versions, front only)

Issued to permanent residents. The I-551 is a revised version of the I-151. Often referred to as a "green card" though it is not always green.

The "Conditional Resident Alien Card" is an I-551 that is issued to conditional permanent residents such as alien spouses. This card is identified by a "C" on the front and has an expiration date on the back.



NSLDS Financial Aid History

CHAPTER 3

Students who have previously attended other colleges may have a financial aid history that affects their eligibility for FSA funds at your school. You can review a student's financial aid history by using the National Student Loan Data System (NSLDS, online at ***www.nsldsfap.ed.gov****; for questions call 1-800-999-8219). NSLDS will also help you track changes to the student's financial aid history through the postscreening and transfer student monitoring processes.*

A person generally isn't eligible for FSA funds if he is in default on an FSA loan or he owes an overpayment on an FSA grant or loan and he has not made a repayment arrangement for the default or overpayment. Also, for a parent to receive a PLUS Loan, neither the parent nor the student may be in default or owe an overpayment on an FSA loan or grant (though a parent in default on a PLUS loan does not make a student ineligible for aid). Exceptions to these general rules are noted in the discussion below.

Any student applying for FSA funds must certify that he isn't in default on any FSA loan and doesn't owe an overpayment on any FSA grant, or that he has made satisfactory arrangements to repay the overpayment or default. This certification statement is printed on the *Free Application for Federal Student Aid* (FAFSA).

A student is also ineligible if she inadvertently exceeded annual or aggregate loan limits. She can regain eligibility by repaying the extra amount borrowed or making arrangements, satisfactory to the loan holder, to repay it. See Volume 5.

A student who has been convicted of, or has pled no contest or guilty to, a crime involving fraud in obtaining Title IV aid must have completely repaid the fraudulently obtained funds to the Department or the loan holder before regaining aid eligibility. Any Perkins, FFEL, or Direct loan so obtained is not eligible for rehabilitation. You can handle this requirement as you would a judgment lien below: you don't need to collect certification from each student but can deal with the situation when you become aware of it.

Finally, a student is ineligible if his property is subject to a judgment lien for a debt owed to the United States, and a parent can't receive a PLUS loan if either the student or parent is subject to such a lien. For example, if the Internal Revenue Service (IRS) had placed a lien on a student's property for failure to pay a federal tax debt or make satisfactory arrangements for repayment, the student would be ineligible for federal student aid.

FSA loans

- ➔ FFEL and Direct Stafford loans, subsidized and unsubsidized
- ➔ FFEL and Direct PLUS loans (for parents)
- ➔ FFEL and Direct graduate/professional student PLUS loans
- ➔ FFEL and Direct consolidation loans
- ➔ Federal Perkins loans (including National Direct Student loans and National Defense Student loans)
- ➔ Loans formerly known as Guaranteed Student loans, Income Contingent loans (ICL), SLS, and FISL

Federal default and debt

HEA Sec. 484(a)(3), 484(f),
34 CFR 668.32(g), 668.35

Loan limits and eligibility

See Volume 3 for loan limits
HEA Sec. 484(f),
34 CFR 668.32(g)(2), 668.35(d)

Financial aid history

34 CFR 668.19
Dear Colleague Letter GEN-96-13;
Federal Register notice
September 16, 1996

Judgment lien example
When Charlotte provides her parents' tax return to the aid administrator at Brandt College, he notices that they've reported business income, but didn't report a business asset on the FAFSA. Charlotte explains that they didn't report the business as an asset because there's a lien against the business for a federal loan. The aid administrator tells her that the asset must still be reported, and also that her parents won't be able to borrow a PLUS Loan as long as they are subject to the lien.

When the FAFSA is processed, the Central Processing System (CPS) matches the student against the National Student Loan Data System (NSLDS) to see if she is in default, owes an overpayment, or has exceeded the loan limits. The CPS doesn't perform any matches to determine whether or not the student is subject to a judgment lien for a federal debt, and you aren't required to check for such liens. However, if you know that she is subject to such a lien, you can't pay her Title IV funds.

NSLDS MATCH

To help you identify students with problems such as defaulted loans or overpayments, the CPS matches the student's FAFSA information with her financial aid history in the NSLDS database. You must resolve any conflicts between NSLDS and other information you have about the student before disbursing Title IV aid, for example, if NSLDS shows that a student isn't in default but you have documentation showing that she is in default.

The results of the NSLDS match are provided on the SAR and ISIR on the NSLDS Financial Aid History page. As with other matches, a "C" next to the student's EFC indicates problems that must be resolved. See Appendix B of the ISIR Guide for the complete tables of NSLDS match results.

Adding a school and the NSLDS match
When a school is added to the FAFSA, the application goes through the NSLDS match again rather than be processed in real time. This ensures that the new school receives the latest financial aid history on the ensuing transaction. This does not affect schools' responsibility to use transfer student monitoring. See page 25 of the Summary of Changes for the Application Processing System posted as an electronic announcement on the IFAP website on 11/25/05.

Successful match

The SAR and ISIR will contain the NSLDS financial aid history only if the student's identifying information matches the database and there is relevant information for the student in the database. If the student has no defaults or overpayments or has made satisfactory repayment arrangements on a defaulted loan, the NSLDS match flag will be 1 and no C code will appear on the output document. A match flag of 2, 3, or 4 indicates that the student has defaulted loans or owes an overpayment or both. You will need to document that the problem has been resolved before disbursing aid, as already noted.

Note that for "real-time" processing—if a student uses Corrections on the Web or an FAA uses FAA Access to CPS Online—the CPS does not match against the NSLDS database (except when a school is added, see the margin note), but the output document will show NSLDS data from the last transaction that did match against NSLDS.

No data from match

There are several reasons why an output document may not have financial aid history information: for example, if the application was rejected for lack of a signature or if identifying information was missing. For other cases, you can check the NSLDS flags reported in the "FAA Information" section.

▼ *Partial match.* If the student's SSN is in the NSLDS database, but the first name and date of birth don't match what the student reported, no financial aid history will be reported and the output document will have an NSLDS match flag of "7" and a C code. There

will also be a comment explaining why the financial aid history isn't given and directing the student to work with the school to resolve any discrepancies. A partial match **requires resolution**; otherwise you won't have information from the Department on defaults and overpayments.

If the student originally reported incorrect identifying information, you can have her submit correct information, which will be sent through the match again.

You can also access NSLDS online and use the reported SSN to determine if the record belongs to the student by considering whether other information you have about the student is consistent with the NSLDS data. For example, if the name reported on the application is a nickname and the name in NSLDS is the actual name, you may assume that the record is the student's and use the NSLDS data to confirm the student's eligibility. Or if you know that the student attended a particular school in a particular award year, and NSLDS shows aid received at that school in that year, you may assume that the record belongs to the student. If you discover the discrepancy is due to the student misreporting the name or date of birth on the FAFSA, you should have the student make a correction. However, you may use the NSLDS record to determine the student's eligibility; you don't need to wait for the corrected data to be reported.

If you find that the financial aid history associated with the student's SSN doesn't belong to the student, you should assume that the student has no relevant financial aid information. You may also contact NSLDS or the agency that reported someone else's data using the student's SSN, but you aren't required to do so. See Dear Colleague Letter GEN-96-13 for further discussion.

▼ *Student not in database.* If a match with NSLDS is completed but there's no information on the student in the database, then no financial aid history can be provided. The output document will have a comment explaining that the student's SSN is not associated with any financial aid history. You can thus assume that she has no financial aid history unless you have conflicting information. If a loan history should exist, help the student by contacting the lender (for FFEL) or the Direct Loan Servicing Center.

▼ *No relevant history.* If a student's SSN matches a record in the NSLDS database but there's no relevant financial aid history information to report, then no information will be on the output document. For example, no data would be reported if the only information for a student was for a Pell grant received in the previous year because that information isn't needed to determine the student's eligibility for aid for the current year. The SAR and ISIR will have a comment explaining that the student's record was matched with NSLDS, but no information was found to print on the NSLDS page.

▼ *Processing problem.* If there was a problem with the match, the SAR and ISIR won't include financial aid history information. The

Example of misreported information on the FAFSA

When Sarven Technical Institute (STI) receives Tod's ISIR, it shows that there was a discrepancy with the NSLDS database, and so no financial aid history information is provided. The FAA asks Tod if he provided the correct name and birth date on the application. Tod says he wrote in the wrong month for his birth date, but his name is correct. The FAA checks the NSLDS database using Tod's first name, SSN, and date of birth. NSLDS shows the correct birth date, but the first name of the student is Warren, not Tod. STI checks again with Tod, and this time he explains that Tod is a nickname and Warren is his real name. STI determines that the financial aid history associated with the SSN belongs to Tod. It could disburse aid without requiring a correction, but Tod has other corrections to make, so Sarven will wait for the correction before disbursing aid.

Example of incorrect NSLDS data

Lydia is a first year undergraduate at Bennet College, and has never attended college before. When Bennet receives Lydia's ISIR, it shows that there was a partial match, and there's some data associated with her SSN. Bennet checks NSLDS directly, and it shows that a lender is reporting a loan made ten years ago (when Lydia was in elementary school) under her SSN, but with a completely different name and birth date. Bennet determines that this isn't Lydia's loan, and so she has no financial aid history in NSLDS. Bennet also suggests to Lydia that she should contact the lender and ask them to correct the NSLDS data so it doesn't cause problems for her later on.

Targeted alert process

The preamble to the November 1, 2001 regulations explains why a separate transfer student monitoring process was developed: if the ISIR were used to provide this information, "every school that the student listed on the FAFSA would be required to receive an updated ISIR every time new disbursements were reported to NSLDS, including the school that reported those disbursements."

Note that transfer student monitoring will not send unnecessary alerts to your school when you report award changes that you have made—it only alerts you about changes to the student's financial aid history at other schools.

See the preamble to November 1, 2001 General Provisions amendments FR Volume 65, No. 212, page 65669.

output document will have a C code and a comment explaining that the CPS couldn't determine whether the student has loans in default and will direct the student to contact the financial aid administrator. You must get the student's financial aid history before disbursing aid. If the student has to make corrections of any kind, the FAFSA information will go through the match again when the corrections are submitted, and you can use the results of that match to determine the student's eligibility.

Postscreening—changes after initial match

Once you have received the financial aid history through NSLDS, you aren't required to check for changes to the data before you disburse funds to the student. However, if you learn from NSLDS or another source that he was not or is no longer eligible, you must not deliver or disburse any more FSA funds and must help make sure he arranges to repay the aid for which he wasn't eligible.

NSLDS uses a postscreening process to let you know when there are significant changes (such as a defaulted loan or an overpayment) to a student's financial aid history. If postscreening identifies changes that may affect the student's eligibility, the CPS will generate new output documents so that schools that are listed for receipt of the student's FAFSA information will automatically be notified. Items that have changed since the last transaction are marked on the output document with a "#" sign, and the reason code for the postscreening will be given.

To help you identify when NSLDS data has changed, the document will include an NSLDS transaction number in the "FAA Information" section with the other match flags. This is the number of the last transaction on which NSLDS data changed, so if you receive an output document on which that number is higher than the one on the document you used to determine the student's eligibility, you must review the NSLDS data on the new document to be sure there are no changes affecting the student's eligibility. There will be postscreening codes to help determine what changed.

CHECKING THE FINANCIAL AID HISTORY FOR TRANSFER STUDENTS

Before disbursing Title IV funds, you **must** obtain a financial aid history for a student who has received aid at another school, and you must inform NSLDS about the transfer student so that you can receive updates through the Transfer Student Monitoring Process. The financial aid history is used to identify students who are ineligible for any Title IV aid due to default or overpayment on an FSA grant or loan, or for aid from a particular Title IV program because they've reached that program's annual or aggregate limit.

▼ *Transfer student monitoring process.* You must send NSLDS identifying information for students transferring to your school so that NSLDS can notify you of changes to their financial aid history. You may send information for students who have expressed an interest in

attending your school even if they have not yet formally applied for admission.

Through transfer student monitoring, NSLDS will alert you to any relevant changes in the transfer student's financial aid history—other than the default and overpayment information reported in the post-screening process—that may affect the student's current award(s). There are three steps: inform, monitor, and alert.

- You **must** identify students who are transferring to your school by creating a list of transfer students on the NSLDS website or by sending the list to NSLDS as an electronic batch file through SAIG. You may use either method, both methods, or alternate between methods. A change in method used does not require prior notification to NSLDS's customer service center. To begin using the "Inform" feature, you must first sign up at **www.fsawebenroll.ed.gov** for the Transfer Student Monitoring/Financial Aid History (TSM/FAH) batch service. Then you must designate a school contact on the School Transfer Profile Page (**www.nsldsfap.ed.gov**) prior to creating any Inform records. The School Transfer Profile tells NSLDS who will be submitting Inform files from or on behalf of your school and how your school wants to receive an alert notice.

- NSLDS will monitor these students for a change in financial aid history that may affect their current awards and alert you when: a new loan or grant is being awarded, a new disbursement is made on a loan or grant, or a loan or grant (or a single disbursement) is cancelled. Note that defaulted loans and overpayment information are not monitored in the Transfer Student Monitoring Process, as they are already covered in the current postscreening process. If the student has not listed your school in Step Six when filing the FAFSA, he has to add your school in order for you to receive the postscreening information.

- Finally, if changes are detected for one or more of your students and NSLDS creates an alert, it will also send an e-mail notification reminder to the address given on the School Transfer Profile setup page. Your school's designated contact person may then either review the alert list on the NSLDSFAP website or download a batch file, if batch alerts were requested, through SAIG in report or extract format.

▼ *Reviewing the student's financial aid history.* If a student transfers to your school during the award year, you'll need to review the student's NSLDS financial aid history on the ISIR or online at the NSLDS website. Using the Financial Aid History, you can determine:

- Whether the student is in default or owes an overpayment on an FSA loan or grant;

- The student's scheduled Pell grant and the amount already disbursed for the award year;

Transfer student monitoring process

Through this process for checking the eligibility of transfer students, you may either check the student's financial aid history on the NSLDS website for professionals, or wait seven days after you've submitted the student's information for monitoring to receive an alert if data has changed. NSLDS issues alerts weekly.

NSLDSFAP
www.nsldsfap.ed.gov

Dear Partner Letters GEN-00-12 and GEN-01-09

How to get the student's financial aid history.

There are several ways for you to get a student's financial aid history from NSLDS. You can:

- use the NSLDS Financial Aid History section of the ISIR,
- log on to NSLDS directly and access the data online for an individual student,
- for multiple students, use the FAT 001 Web report, which you submit on the NSLDS website (you retrieve the results through SAIG), or
- send a batch TSM/FAH Inform file to request aid history data for several students, which will be returned in either extract or report format through SAIG.

The TSM/FAH processes and batch file layouts are posted on the IFAP website at the NSLDS reference materials link.

Resolving grant overpayments
Because Title IV grants have priority in packaging, aid overpayments can often be resolved by adjusting other types of aid in the package. If necessary, you can also adjust later grant payments for the same award year. But if a student receives more grant money than she is eligible for and the excess can't be offset, then she must return the overpayment. As noted at the beginning of the chapter, a student with an outstanding Title IV grant overpayment is ineligible for aid until she repays it or makes satisfactory repayment arrangements. See Volume 5 for a complete discussion.

- ACG and National SMART grants for a student's grade level and the amount already disbursed;
- The student's balance on all FSA loans; and
- The amount and period of enrollment for all FSA loans for the award year.

Usually the financial aid history on the ISIR will be enough, but there are cases where you might check NSLDS for more information. For example, if the student has more than six loans, the ISIR won't have detailed information for some of the loans. If you need that level of detail for those loans, you can get the information from NSLDS. Or, as discussed previously, you might need to use NSLDS to resolve a partial match situation (see "Partial match," page 40).

▼ *Timing of the disbursement.* To pay the student you'll need to have an output document and an accurate EFC. A valid ISIR will include that and the student's financial aid history, and it will also tell you if he is in default or owes an overpayment. The postscreening process will send you another ISIR if he subsequently goes into or out of default or owes or ceases to owe an overpayment.

When you initiate transfer monitoring for a student, NSLDS will alert you to significant award changes since you last received an ISIR or alert for her; this will continue until 90 days after the enrollment begin date. If you start transfer monitoring before you receive ISIRs for a student, NSLDS will track changes in her financial aid history from the date of your request or a future monitoring begin date you choose.

The regulations state that a school may not make a disbursement to the student for seven days following the transfer monitoring request to NSLDS, unless it receives an earlier response from NSLDS or checks the student's current financial aid history by accessing NSLDS directly. Therefore, it's usually a good idea to submit the student's name to NSLDS for monitoring as soon as possible, even if he has not yet decided to enroll at your school.

▼ *Consequences when a transfer student subsequently is found to be ineligible for all or part of an aid disbursement.* If the school has followed the proper procedures for obtaining financial aid history information from NSLDS, it is not liable for any overpayments if the student's situation subsequently changes. However, the student will be liable for the overpayment in this situation, and you may not pay the student further FSA funds until the overpayment is resolved. (See *Volume 5* for information on resolving overpayments.)

EFFECT OF BANKRUPTCY OR DISABILITY DISCHARGE

A student who has filed bankruptcy or had a loan discharged for disability might need to provide additional documentation before receiving aid.

Bankruptcy

A student with an FSA loan or grant overpayment that has been discharged in bankruptcy remains eligible for FSA loans, grants, and work-study (NSLDS loan status code BC for loans that did not default and status code DK or OD for loans that defaulted prior to the bankruptcy discharge). A borrower doesn't have to reaffirm a loan discharged in bankruptcy in order to be eligible. The Bankruptcy Reform Act of 1994 prohibits denial of aid based solely on filing for bankruptcy or having a debt discharged in a bankruptcy.

A borrower who lists a defaulted FSA loan or grant overpayment in an active bankruptcy claim is eligible for further FSA funds if the borrower provides you with documentation from the holder of the debt stating it is dischargeable (NSLDS loan status code DO).

A borrower who includes a non-defaulted FSA loan in an active bankruptcy claim, so that collection on the loan is stayed, is eligible for aid as long as he has no loans in default (including the stayed loan).

Total and permanent disability discharge

Perkins, FFEL, and Direct loan borrowers may qualify to have their loans discharged if they become totally and permanently disabled. Except for certain veterans, borrowers initially receive a conditional discharge for up to three years beginning the date the physician certifies the discharge application. No payments are required during the conditional discharge period. If the borrower meets certain eligibility requirements throughout this period, a final discharge is granted.

If a borrower whose prior loan was discharged due to a total and permanent disability wishes to take out another FSA loan, he must obtain a physician's certification* that he has the ability to engage in substantial gainful activity, and he must sign a statement that he is aware the new FSA loan can't later be discharged for any present impairment unless it deteriorates so that he is again totally and permanently disabled. If the prior loan was conditionally discharged and the conditional period hasn't elapsed, the student must also sign a statement affirming that collection will resume on the conditionally discharged loan (which must begin before receipt of the new loan) and that unless his condition substantially deteriorates, the prior loan can't be discharged in the future for any impairment present when the conditional discharge was granted or when he requested the new loan. If a defaulted loan was conditionally discharged and then returned to repayment status, the student must make satisfactory repayment arrangements before receiving the new loan. A conditionally discharged defaulted loan remains in default until it is permanently discharged at the end of the conditional period.

RESOLVING DEFAULT STATUS

A student in default on an FSA loan can't receive further Title IV aid until she resolves the default, which she can do in a few ways.

Total and permanent disability discharge

Perkins: 674.61(b)
FFEL: 682.402(c)
DL: 685.213
Dear Colleague Letter GEN-02-03

Total and permanent disability

The condition of an individual who is unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death.

Substantial gainful activity

The phrase "substantial gainful activity" generally describes a situation in which a borrower is sufficiently physically recovered to be capable of attending school, successfully completing a program of study, and securing employment in order to repay the new loan the borrower is seeking. If a physician's certification does not appear to support this status, the school should contact the physician for clarification.

* The student only needs to obtain the physician certification once; the school keeps a copy of it in his file. But the school must collect a new borrower acknowledgment from the student each time he receives a new loan.

No defense of infancy

Students who are minors may receive federal student loans, and they may not refuse to repay those loans based on a "defense of infancy," i.e., that they were too young to enter into the contract of signing the promissory note. See HEA Sec 484A(b)(2).

Example: documenting loan "paid in full"

Eddy had a Stafford loan as an undergraduate that went into default while he was out of school. When he applies for financial aid so he can go to graduate school, his ISIR shows that the loan is still in default. Eddy tells the aid administrator at Guerrero University that he paid off the loan last year. The aid administrator asks Eddy to bring in a letter from the guaranty agency documenting that the loan has been paid and advises Eddy that he should ask the guaranty agency to update his status in NSLDS.

Other ways of re-establishing eligibility for Perkins loans

A provision in the Perkins Loan Program reestablishes the borrower's eligibility if she meets any of the conditions that would remove her Perkins loan from the school's cohort default rate. This provision only allows the borrower to regain eligibility for Perkins loans, not the other FSA programs. See Volume 6.

Satisfactory repayment and rehabilitation

HEA Sec. 428F(a) and (b), 464(h)(1) and (2)
General Provisions: 34 CFR 668.35(a)(2)
Perkins: 34 CFR 674.9(j), 674.39
FFEL: 34 CFR 682.200(b), 682.405
DL: 34 CFR 685.102(b), 685.211(f)

Rehabilitation example

Eric makes the nine payments required for rehabilitation of his defaulted loan. His original lender isn't handling student loans anymore, so the guarantor finds another lender to purchase the loan. It takes the guarantor three months to arrange the purchase, and Eric needs to keep making the agreed-on payments on time. Once the new lender has the rehabilitated loan, Eric can apply for an in-school deferment.

▼ *Repayment in full (including consolidation).* A student can resolve a default by repaying the loan in full and thereby regain eligibility for FSA funds (loan status code DP). If the student and the loan holder agree on a compromised amount for settling a loan, or if the school writes off a regulatorily permissible amount, and the student repays the amount, that also counts as paying the loan in full (loan status code DC). If a defaulted loan is successfully consolidated, then it is also counted as paid in full (loan status code DN). However, if the loan holder simply writes off the entire loan, the loan isn't paid in full, and the student remains ineligible for Title IV funds [loan status code DW, though there is no code for a Perkins write-off, which does not make a student ineligible; see 34 CFR 674.47(h)].

The student regains eligibility whether repayment was completed voluntarily or involuntarily (that is, through IRS offset or wage garnishment). A student who has repaid her defaulted loan in full is eligible for aid if the repayment was voluntary. However, you *can* still consider the default to be evidence of a student's unwillingness to repay loans and deny the student Perkins loans. If the repayment was involuntary, you *should* consider the default as such evidence and deny the student Perkins loans (see *Volume 6*).

If a student has paid a defaulted loan in full but the SAR and ISIR have a comment showing that he is ineligible because of the default, he must give you documentation proving that the loan was paid.

▼ *Satisfactory repayment arrangements.* A student in default on an FSA loan can be eligible for Title IV aid if he has made repayment arrangements that are satisfactory to the loan holder. After he makes six consecutive, full, voluntary payments on time, he regains eligibility for Title IV funds (loan status code DX). Voluntary payments are those made directly by the borrower and do not include payments obtained by federal offset, garnishment, or income or asset execution. A student may regain eligibility under this option only one time.

You can pay the student as soon as you have documentation that she has made satisfactory repayment arrangements. For example, the lender may update the code for the loan in NSLDS to DX once six payments have been made; you could then use that as confirmation of the repayment arrangement. You may also use a written statement from the loan holder indicating that the student has made satisfactory repayment arrangements as documentation of the arrangement.

▼ *Loan rehabilitation.* Although a student can regain eligibility for all FSA funds by making satisfactory repayment arrangements, the loan is still in default. After the student makes more payments, the loan may be rehabilitated, that is, it won't be in default anymore, and the student will have all the normal loan benefits, such as deferments. The HERA changed rehabilitation so that now a loan is rehabilitated once the borrower makes nine full, voluntary payments on time (no later than 20 days after the due date) within 10 consecutive months. See *Volume 6* for more information on rehabilitation in the Perkins/NDSL program.

NSLDS Loan Status Codes

2009–2010 SARs & ISIRs

Code	Status	Eligible for FSA funds
AL	Abandoned Loan	Yes
BC	No Prior Default Bankruptcy Claim, Discharged	Yes, because loan was not in default and was discharged
BK	No Prior Default Bankruptcy Claim, Active	Yes, because loan was not in default
CA	Cancelled (For Perkins means Loan Reversal)	Yes
CS	Closed School Discharge	Yes
DA	Deferred	Yes
DB	Defaulted, then Bankrupt, Active. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13)	No, unless debtor can show that loan is dischargeable. See Dear Colleague letter GEN-95-40, dated September 1995
DC	Defaulted, Compromise	Yes, because compromise is recognized as payment in full
DD	Defaulted, Then Died	No, because if borrower is reapplying, then loan status is in error
DE	Death	No, because if borrower is reapplying, then loan status is in error
DF	Defaulted, Unresolved	No
DI	Disability	Yes
DK	Defaulted, Then Bankrupt, Discharged. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13)	Yes, because defaulted loan has been totally discharged
DL	Defaulted, in Litigation	No
DN	Defaulted, Then Paid in Full Through Consolidation Loan	Yes
DO	Defaulted, Then Bankrupt, Active, other. (FFELP and Direct Loans in Chapters 7, 11, and 12)	No, unless debtor can show that loan is dischargeable. See Dear Colleague letter GEN-95-40, dated September 1995
DP	Defaulted, Then Paid in Full	Yes, because loan was paid in full
DR	Defaulted Loan Included in Roll-up Loan	Yes, because the loan was combined with other loans and subrogated to the Department, which reported the same information to NSLDS in one loan. The status of that record will determine eligibility
DS	Defaulted, Then Disabled	Yes, because loan debt is cancelled
DT	Defaulted, Collection Terminated	No
DU	Defaulted, Unresolved	No
DW	Defaulted, Write-Off	No
DX	Defaulted, Satisfactory Arrangements, and Six Consecutive Payments	Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA

Code	Status	Eligible for FSA funds
DZ	Defaulted, Six Consecutive Payments, Then Missed Payment	No, loan is back in active default status
FB	Forbearance	Yes
FC	False Certification Discharge	Yes
FR	Loans obtained by borrowers convicted of fraud in obtaining Title IV aid	No
FX	Loan once considered fraudulent but is now resolved	Yes
IA	Loan Originated	Yes
ID	In School or Grace Period	Yes
IG	In Grace Period	Yes
IM	In Military Grace	Yes
IP	In Post-Deferment Grace (Perkins only)	Yes
OD	Defaulted, Then Bankrupt, Discharged, other (FFELP and Direct Loans in Chapters 7, 11, and 12)	Yes, because defaulted loan has been totally discharged
PC	Paid in Full Through Consolidation Loan	Yes, because it does not matter if the consolidation loan was a FFEL or Direct Loan, nor whether underlying loans were in default
PF	Paid in Full	Yes
PM	Presumed Paid in Full	Yes
PN	Non-defaulted, Paid in Full Through Consolidation Loan	Yes
PX	Identity Theft—Loan Discharged	Yes
PZ	Parent PLUS loan for a student who has died	No for the student, yes for the parent
RF	Refinanced	Yes, because defaulted loans cannot be refinanced
RP	In Repayment	Yes
UA	Temporarily Uninsured—No Default Claim Requested	Yes
UB	Temporarily Uninsured—Default Claim Denied	Yes, because the loan is not a federal loan while temporarily uninsured
UC	FFEL: Permanently Uninsured/Unreinsured—Non-defaulted Loan. Perkins: Non-defaulted Loan Purchased by School	Yes
UD	FFEL: Permanently Uninsured/Unreinsured—Defaulted Loan. Perkins: Defaulted Loan Purchased by School	Yes, because the loan is no longer a federal loan
UI	Uninsured/Unreinsured	Yes, does not matter if the loan was in default
XD	Defaulted, Satisfactory Arrangements, and Six Consecutive Payments	Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA

Social Security Number

CHAPTER 4

To be eligible to receive FSA funds, each student must provide a correct Social Security number (SSN). To confirm the student's SSN for schools, the Department conducts a match with the Social Security Administration. In this chapter, we discuss the SSN requirement and the match process.

The FAFSA collects the student's SSN (and parents') so that the Central Processing System (CPS) can validate it through a match with the Social Security Administration (SSA). The CPS verifies that the name and birth date associated with the SSN match the name and birth date on the application. For the full list of SSN match results, see Appendix B of the 2008–09 ISIR Guide (**www.ifap.ed.gov**).

The CPS won't process an application without an SSN. A student who doesn't have an SSN or doesn't remember it must contact the local Social Security office for help. For more information (in English and Spanish), a student should call the SSA at 1-800-772-1213 or go to its website (**www.ssa.gov**). There is one exception to the requirement to provide SSNs, as discussed below (see "Exception for Micronesia, Marshall Islands, Palau").

The SSN is a key identifier for the student's records, so you must be sure the Department knows the right SSN if you find out it's wrong on the application or output document. We discuss correcting such errors later.

SSN requirement
Higher Education Act
Sec. 484(p)
Student Assistance General Provisions
34 CFR 668.32(i), 668.36

SSN doesn't match

Student reported wrong SSN
➔ Correct FAFSA data

FAFSA processing error
➔ Call 1-800-4-FED-AID

Error in SSA database
➔ Contact SSA office; resubmit SSN as correction after SSA change is made

Other match problems
➔ SSN matches, but name and date of birth don't match
➔ Missing FAFSA information: student didn't report a name or birth date, or didn't sign the FAFSA
➔ SSN record includes date of death

SSN MATCH

The CPS prints the SSN match result in the "FAA Information" section of the output document as the SSN Match Flag. If the match is successful, the CPS doesn't match the student's data against the Social Security database on subsequent transactions. However, the CPS will attempt the match again if the student makes corrections to the name, birth date, or SSN.

Successful match

If the CPS match with the Social Security Administration confirms the student's SSN, and the Social Security records have the same name and birth date as reported on the FAFSA, you may disburse aid to the otherwise eligible student. No comment is provided on the output document when the SSN match is successful. Of course, if you have any conflicting information about the SSN, you must resolve the conflict before disbursing FSA funds to the student.

Once a student's SSN is confirmed and there is no discrepancy on the name or birth date, the student can't change the SSN. If a student whose match data have been confirmed subsequently tries to change his SSN, the CPS won't accept the change. Instead, the student's SAR will have a comment telling the student to contact his financial aid administrator for help. In the unlikely event that the confirmed SSN is wrong, the student must correct it by filing a new FAFSA.

No match on the Social Security number

You must resolve any problems with the match before disbursing aid. If the SSN is not found in the Social Security Administration database, the student's application will be rejected. The student will also receive a comment that instructs her to correct her SSN or contact the SSA if she believes the number reported is correct. If it is wrong on the application, the student will have to correct it with the CPS and get a successful match result before she can receive aid.

▼ *Student reported wrong SSN on the FAFSA.* If the student's application is rejected because she reported an SSN that is not in the Social Security Administration's database, the student must provide the correct SSN to the CPS. This will change the current SSN in the CPS, but it will not change the original, identifying SSN. Previously the Department recommended that a student file a new FAFSA to correct the original SSN, but now that Common Origination and Disbursement (COD) will use the current SSN to process records, changing the original SSN is not always necessary (but see Applicants Using Same SSN later in this chapter).

COD and SSN changes
See the electronic announcements on the IFAP website at **www.ifap.ed.gov** for information about COD. See the January 7, 2004 announcement for SSN corrections in CPS.

COD replaced the Direct Loan and Pell (RFMS) reporting systems, but there are other systems, such as EDExpress and possibly some mainframe and servicer systems, that will still use the original SSN to identify records. These systems will be able to interface with COD but might still need the original SSN to process records.

▼ *FAFSA data entry error.* If a student provided the correct SSN on the FAFSA, but the SSN on the output document is wrong, the student can contact the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). If the Information Center confirms that there was a data entry error, it will refer the error to the Department for correction—the student does not need to submit a correction. After the data entry error is corrected, the CPS will produce new output documents. See Chapter 5 of the *Application and Verification Guide* for general information on data entry error corrections.

▼ *Error in Social Security database.* If the SSN on the FAFSA is correct but isn't in the Social Security database, the student must contact a local or regional Social Security Administration office to correct the database, which is updated daily with information from local and regional offices. The student must report the correct SSN and provide verifying documentation. He must also contact a Social Security office directly—the Department of Education cannot correct SSA records. Once the database is updated, the student can submit a correction by re-entering the SSN originally reported as if it is a correction. The CPS

will then do another SSN match. The student can't simply verify that the SSN is correct; the application will be rejected until the SSA database is updated.

No match on name or birth date

The student's application will be rejected if her or a parent's SSN is in the Social Security database but the name there differs from the one she gave. Misspellings or name changes due to marriage are common reasons for a non-match. The student should make sure that the name on the application matches the one on the Social Security card.

This reject is verifiable, which means that the name is questionable but not necessarily wrong. The student can eliminate the reject by entering the right name. If the name was correct on the application, she reenters it on the paper SAR, or she chooses "Data is Correct" for both the first and last name on Corrections on the Web. If her name is incorrect in the SSA database, we strongly recommend that she contact the SSA to correct it.

Example: Incorrect name on application

When Sarven Technical Institute receives Tod's ISIR, the SSN match shows the name on the application isn't the one associated with the SSN in the database. The FAA asks Tod to bring in documentation showing his correct name and SSN. He brings in his Social Security card, and the first name on the card is Warren, not Tod. He also has a driver's license showing his first name is Warren. The FAA tells Tod to correct his name on the application to Warren.

If the student's (or parent's) name and SSN match the SSA's database but the date of birth does not, the application will also be rejected, and the student must correct the application. If the error is with the SSA's database, he should contact the SSA to correct the record. He can override the reject by reentering the date on the paper SAR or, on Corrections on the Web, by choosing "Data is Correct" for the date of birth. The application will be sent through the match again, and if the SSA's record has been corrected, the match flag will be cleared and no further action is needed. If there is still a disagreement with the SSA record, the student will need to provide the aid office with documentation of his date of birth.

Example: Correct name not in database

Elizabeth's ISIR shows that her name doesn't match the one the SSA has on file for her SSN. When the FAA talks to Elizabeth, she explains that she recently got married and changed her last name. Elizabeth gives the FAA a copy of her marriage certificate. The FAA plans to disburse aid to Elizabeth and tells her to reenter her current name and advises her to contact SSA to have its database updated to prevent future problems.

If the student reported the current or a later year as her birth date, her application will be rejected and she must correct the error.

Missing information

No match is performed if the student doesn't sign the FAFSA or provide a last name or birth date. The student's FAFSA will be rejected and the student must submit the missing information.

Although the CPS doesn't conduct the match, it will check to see whether the reported SSN falls within a range of valid numbers. If it does, the student will receive a comment explaining that the match could not be conducted without the name, birth date, or signature. The student must submit a correction providing the missing information. When the correction is sent, the information will be sent to the Social Security Administration for matching, and you should check the new output document for match results.

If the SSN is not within the valid range, the student will receive a comment and reject P stating that the reported SSN does not appear to be valid. In addition to submitting the missing name, birth date, or signature on a correction, the student must either contact the Social Security Administration to correct its records (if the reported SSN is

Example: Students using same SSN

Hector completes an application in January, but uses his brother Eddy's SSN instead of his own. When Hector gets his SAR, he realizes that he used the wrong SSN, corrects the SAR, and mails it back to the processor. He gets a new SAR with the correct SSN, but it has the same identifier as the first SAR. Eddy files an application in April, and is surprised to receive a SAR that doesn't match what was on his application because it has Hector's information instead. Eddy goes to the financial aid office at Guerrero University, where a counselor tells him he'll need to file a correction application. Hector is also attending Guerrero, so the counselor contacts Hector to explain why he'll need to file a new application even though he already has a SAR with the correct information.

correct) or correct the SSN she reported. Again, you should check the new output document for match results.

Date of death

If the Social Security Administration's database shows a date of death associated with the SSN the student reported, the student's application will be rejected. Students resolve this problem in the same way as problems matching the SSN. The student must either contact Social Security Administration to get the records corrected, or must submit a change with the correct SSN (see "No Match on the Social Security Number," page 52).

MASTER DEATH FILE

The CPS will verify that student SSNs do not appear on a master death file the Department obtains from the SSA. This will be in addition to the date of death match above. The CPS will regularly compare its records with those in the master death file. If a match is found, the CPS will resend the student record to SSA. If the SSA does not confirm a date of death for the applicant, the CPS will do nothing further. If the SSA does confirm a date of death, the CPS will send an ISIR to the schools listed on that transaction but will not send a SAR to the student.

Also, the CPS will disable PINs and will not generate renewal applications for individuals found in the death file. Their record will not be deleted from the CPS database. If an applicant wrongly appears in the death file, he will need to apply for a PIN again and receive a clean match before a new PIN will be issued.

APPLICANTS USING SAME SSN

When one student uses another's SSN, the duplicate SSN flag will be set in the ISIR, and the student's application will likely fail the SSN match, but it will be processed. She will have to make a correction as described earlier in this chapter.

If a student uses the same SSN **and** first two letters of the last name (together these data are the record identifier) as another student, the CPS will not accept her application because it will assume it to be a duplicate application of the first student. If she is using FAFSA on the Web, she will receive an immediate message telling her the proper way to make a correction or, if her record identifier is correct and she is trying to apply for aid, how she can proceed. If she is submitting a paper FAFSA, she will receive a letter giving her the same information and stating that the application was not processed.

If the student using the correct SSN applied after the other student, she must submit a special "correction application" that she can only get from the Department of Education. It will enable the CPS to accept her data instead of treating her application as a duplicate. The first student, who used the wrong SSN, **must** correct the error by filing a new FAFSA because the CPS uses the record identifier for students

for the entire award year, even if they later change their SSN or last name. If the student simply corrected her SSN, her record identifier would still be wrong.

If the student using the correct SSN applied first, the CPS will have her data, so a correction application isn't necessary. The second student will need to submit a new application.

Both students should keep copies of all output documents, including those from the first FAFSAs filed. When a student files a correction application or a new FAFSA, the application receipt date is changed. Because some schools and agencies use this receipt date to determine if the student met a deadline, she should keep the output documents to show the original receipt date and to show why a later application was necessary.

Contact the Department at (703) 284-5666 if you believe that a correction application may be needed; one can be mailed to your office or to the student.

EXCEPTION FOR THE FREELY ASSOCIATED STATES: MICRONESIA, MARSHALL ISLANDS, AND PALAU

Students from the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau might not have SSNs. The CPS will assign an identification number to students who indicate on their FAFSA that their state of legal residence is one of the above Pacific island nations and who do not provide a Social Security number. These applications don't go through the SSN match with the SSA. If the students are using FAFSA on the Web, there is an edit that allows them to enter in the SSN field their identification number, which will begin with 888.

Selective Service

CHAPTER 5

Any man required to register with Selective Service at any time must have done so to receive aid. The Department performs a match with Selective Service to confirm a student's registration status. In this chapter we discuss that match and the registration requirement.

GENERAL INFORMATION

Men aged 18–25 are required to register with the Selective Service System. This requirement covers men residing in the United States who are U.S. citizens or noncitizens, except that a man who is in the U.S. as a lawful nonimmigrant isn't required to register as long as he maintains that status (see the exceptions to the registration requirement under "Exemptions" below). Students who are required to register with the Selective Service must do so to be eligible for FSA funds, but parents who want to borrow a PLUS loan aren't required to have registered.

The student has several ways to register, which include using the application process. There's a question on the FAFSA that asks if the student wants Selective Service to register him. By answering "yes," the student gives the Department of Education permission to submit his registration information to the Selective Service so that he may be registered. He can also ask to be registered by changing the answer to this question on the SAR to "yes" and submitting the correction (of course, the answer to the question "Are you male?" must be yes too). The student may also register at the post office with a form available there, or he can register online at the Selective Service website **(www.sss.gov)**.

In some cases, a student will not be able to register using the FAFSA or SAR. Generally, however, a male student who is 18–25 and who has not registered previously may use this method. Students who have questions about Selective Service registration may contact the Selective Service at (847) 688-6888 or on the Web.

Selective Service requirement
General Provisions
34 CFR 668.32(j), 668.37
PLUS exemption 682.201(b)(1)(v)

Age and registration
The student can be registered with Selective Service as early as 30 days before his 18th birthday. If the student is too young, Selective Service will hold the registration until the student is within 30 days of his 18th birthday. Students 26 and older can't be registered.

Gender and registration
Only males are required to register. Whether a person is male or female is a matter for medical determination. If a school needs to determine whether a student is male or female for Selective Service purposes, the school should tell the student to contact the Selective Service for a Status Information Letter.

EXEMPTIONS

Men exempted from the requirement to register include:

- males currently in the armed services and on active duty (this exception does not apply to members of the Reserve and National Guard who are not on active duty);

Exemptions
34 CFR 668.37(a)(2)

Exemption examples
Tod has been on active duty in the Army from the time he was 18 and didn't register with Selective Service before he joined the Army. He's now 24, is planning to leave the Army, and wants to receive financial aid. If he applies while he's still on active duty, he doesn't need to be registered with Selective Service. Once he leaves, he must be registered, or else he won't be able to receive aid in later years. In most cases, when someone completes an enlistment contract he is automatically registered, so Tod is probably already registered even though he didn't complete a separate registration form.

George was enrolled in an officer procurement program at the Virginia Military Institute, which he started a month before he turned 18. When he was 22, he had a serious accident and was hospitalized; he officially dropped out of school a month after he was hospitalized. Due to his injuries he was hospitalized for four years. Because he qualified for a waiver for the entire time he was 18–25, he was not required to register with Selective Service.

- males who are not yet 18 at the time that they complete their applications (an update is not required during the year, even if a student turns 18 after completing the application);
- males born before 1960;
- citizens of the Republic of Palau, the Republic of the Marshall Islands, or the Federated States of Micronesia*;
- noncitizens who first entered the U.S. after they turned 26;
- noncitizens who entered the U.S. as lawful *nonimmigrants* on a valid visa and remained in the U.S. on the terms of that visa until after they turned 26.

There are certain less common situations in which registration isn't necessary. Students who weren't required to register prior to meeting one of these criteria and who meet a criterion for the entire time through the age of 25 qualify for the waiver if:

- they are unable to register due to being hospitalized, incarcerated, or institutionalized;
- they are enrolled in any officer procurement program at The Citadel, North Georgia College and State University, Norwich University, Virginia Military Institute, Texas A&M University, or Virginia Polytechnic and State University; or
- they are commissioned Public Health Service officers on active duty or members of the Reserve of the Public Health Service on specified active duty.

If the student isn't required to register, you must document the student's status. If the student isn't clearly exempt from the requirement to register, you should ask the student to document the exemption by providing the school with a Status Information Letter from the Selective Service.

As mentioned above, noncitizens who first enter the U.S. after the age of 26 aren't required to register. Only those immigrant men who enter and live in the U.S. at ages 18–25 are required to be registered. If a male immigrant can show proof that he first entered the U.S. when he was past registration age, he is clearly not required to be registered, and no Status Information Letter is needed. The student's entry documentation is enough to show whether he was required to register.

*A citizen or national of the Republic of the Marshall Islands or the Federated States of Micronesia who lives in the United States for more than one year for any reason except as a student or employee of the government of his homeland must register.

SELECTIVE SERVICE MATCH

To check that students who must be registered actually are registered, the CPS performs a match with the Selective Service System. The CPS provides a match flag showing the results in the FAA Information section of the output document. In addition, the output document has a comment about the match results.

Successful matches

If the match shows that the student is registered or exempt, a comment confirming this fact will be on the student's output document. The student is then eligible for aid.

The student is also eligible for aid if the match shows that the student is still too young to register. If the student asks to be registered, Selective Service will hold onto that registration request until 30 days before the student's 18th birthday and will then register the student.

Finally, the student is also eligible if the CPS successfully forwards the student's name to Selective Service for registration.

Unsuccessful matches

If the match doesn't confirm the student's registration or the student can't be registered, the output document will have a comment about the problem. A "C" flag will also be printed next to the student's EFC. Until the student resolves the registration problem, you can't pay FSA funds to the student or certify or originate a loan.

▼ *Registration not confirmed.* If the match shows that the student isn't registered, he must either register or provide evidence that he is registered or is exempt from registration. His Selective Service Registration Acknowledgement or letter of registration shows that he is registered. You can also go to the Selective Service System website at **www.sss.gov** and check on the student's status—a printout of the webpage is acceptable documentation that the student is registered. If he doesn't have an acknowledgement or letter of registration and the website doesn't confirm his registration, he'll have to contact Selective Service to resolve the problem. If the conflict is resolved in his favor, he'll receive a letter from the Selective Service documenting that he is registered or is exempt from registering.

▼ *Unsuccessful registration.* The CPS won't be able to forward the student for registration if certain information—first and last name and date of birth—is missing. The student should submit a correction with the required information, and you can check the match results from this correction to see if the student is eligible.

If the student is 26 or older, the CPS cannot register the student but will send his record through the data match. If the student is not registered, he can no longer do so, and you will have to determine if he is eligible for aid despite failing to register.

FAILURE TO REGISTER

Some students have been denied aid because they failed to register with the Selective Service before their 26th birthday. The Selective Service will register only males age 18–25, leaving older students with no way to remedy their situation if they failed to register. However, the student may still be eligible to receive aid if he can demonstrate that he did not knowingly and willfully fail to register.

Status information letter codes

The Selective Service has different status information letters, which are indicated by a code that appears in the lower left-hand corner. Determination of aid eligibility for a man who failed to register with Selective Service should not be based solely on these letter codes. Financial aid administrators are obliged to review all evidence presented by a student to determine if he has shown "by a preponderance of evidence" that his failure to register was neither willful nor knowing. The codes are:

- **E1–E8:** These codes indicate that the student was not required to register or was exempt the entire time he could have registered (ages 18–25).
- **NM:** The student did not register although he was on active duty in the armed forces only for a portion of the time when he could have registered (between ages 18–25) and was, therefore, required to register.
- **NR:** The student was born before 1960 and is therefore not required to register.
- **RD:** The student gave a reason for not registering or documentation to show he was exempt from the requirement, but the Selective Service determined the reason or documentation to be invalid. Therefore, the student was required to register but did not. No requests to comply with the registration requirement were sent.
- **RH:** The student was sent one or more letters requesting that he register during the required period, but all letters were returned by the post office as undeliverable.
- **RL:** The student was required to register, but the Selective Service has no record of his registration and their records show he was sent one or more letters requesting that he register.
- **RR:** The student said he attempted to register, but Selective Service has no proof of the attempt.

Unsuccessful registration example

On his FAFSA, Hector asks the CPS to forward his information to the Selective Service for registration. However, he's over 26, so the Selective Service can't register him. His output document comes back with a blank match flag and comment 33. Hector didn't enter the U.S. until after his 26th birthday, so he doesn't have to be registered. Guerrero University already has information about his citizenship status, including the date he arrived in the U.S., so it has documentation that he is exempt from registration. The FAA explains to Hector why he wasn't required to register.

Failure to register

34 CFR 668.37(d), (e)

Veteran Status Match

See the Application and Verification Guide for information on the veteran match and dependency status.

Appeals

The school's decision is final and cannot be appealed to the Department except in one limited instance. The regulations state that the Department will hear appeals from students who have provided their schools with proof that they are in compliance (i.e., that they are registered or exempt from registration) but who are still being denied federal student aid based on the registration requirement. 34 CFR 668.37(f)

A student who served on active duty in the armed forces but who did not register before turning 26 is still eligible to receive FSA funds because it's reasonable to conclude that he was not trying to avoid registering for the draft. Ask the student to provide a copy of his DD Form 214, "Certificate of Release or Discharge from Active Duty," showing military service in the armed forces—other than the reserve forces, the Delayed Entry pool, and the National Guard.

Students without military service who knew of the registration requirement but chose not to register are considered to have knowingly and willfully failed to register and are therefore ineligible for FSA funds. Your school's decision in this case is final and cannot be appealed to the Department except as noted in the margin.

Determining if non-registration was knowing and willful

Unless you can document that the student meets one of the registration exemptions or that he served on active duty in the armed forces (with a character of service other than dishonorable), he must write to the Selective Service to get a status information letter addressing his failure to register. He may also download a request form from **www.sss.gov** to print out, complete, and mail. The student should provide as complete a description about his situation as possible: where he was living during the period when he should have registered, whether he was incarcerated or institutionalized, his citizenship status during the period, if applicable, and so on.

If the student receives a "general exemption letter" (codes E1-E8) or a "DOB before 1960" letter (code NR), he is exempt from registration and may receive FSA funds. If he receives any other type of letter, you must determine based on all relevant evidence whether he knowingly and willfully failed to register. The letter from Selective Service may provide information that is crucial to your decision. For example, if the student received a letter indicating a compliance letter had been sent (code RL), this would be a negative factor when you make the determination. If the student received a "Military Service: Noncontinuous" letter (code NM), you might reasonably determine that the student did not knowingly and willfully avoid registration.

Most of the status information letters state that the final decision regarding the student's eligibility rests with the agency awarding funds. For the purposes of the FSA Programs, the decision is made by your school, which represents the Department of Education. If you determine that the student's failure to register was knowing and willful, the student loses FSA eligibility.

When deciding whether the student had knowingly and willfully failed to register, you should consider the following factors:

- **Where the student lived when he was age 18–25.** For example, if a student was living abroad, it is more plausible that he would not come into contact with the requirement for registration.

- **Whether the student claims that he thought he was registered.** Mistakes in recordkeeping can occur. Correspondence indicating an attempt to register could form a basis for determining that the student did not knowingly and willfully fail to register. On the other hand, a letter from Selective Service stating that it received no response to correspondence sent to the student at a correct address would be a negative factor.

- **Why the student claims he was not aware of the widely publicized requirement to register when he was age 18–25.**

ACG and National SMART Grant Eligibility

CHAPTER 6

The Higher Education Reconciliation Act (HERA) established two federal student aid grants for undergraduate students: the Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (National SMART) Grant. These are need- and merit-based grants for students who meet additional criteria to those explained in preceding chapters.

ACG and National SMART Grant Programs
34 CFR 691

The ACG and National SMART Grant programs are intended to encourage, respectively, rigorous academic study in high school and enrollment in college majors in the physical, life, and computer sciences; engineering; technology; mathematics; and certain foreign languages. Accordingly, the eligibility criteria relate to those goals.

These grants differ from other Title IV aid. A student may receive only two ACG awards, one for the first and the second years of undergraduate education, and only three National SMART Grant awards, one for the third, fourth, and fifth (for programs that have five full years of coursework) years of undergraduate education. Also, both grants have a set value: an ACG is $750 for the first year and $1,300 for the second year; a National SMART grant is $4,000 for each year.

These amounts may only be reduced in limited circumstances: if a school needs to avoid overawarding a student or if there is a nationwide ratable reduction because there are insufficient funds for all eligible students in a given award year. If there is a ratable reduction, the Department expects to announce it well in advance of the award year.

Do not confuse the eligibility criteria between the two grants: rigorous program of secondary school study only applies to the two years of ACG, and eligible postsecondary school major only applies to the three years of National SMART grants.

ACG ELIGIBILITY

To receive an ACG, students must:

- receive a Pell grant in the same award year;

- be enrolled at least half time in an associate's, bachelor's, or combined undergraduate/graduate (if it includes at least three years of undergraduate education) degree program, in a two-year program acceptable for full credit toward a bachelor's degree, or in a one- or two-year certificate program;

High school student enrolled in college classes examples

The summer before and during her senior year in high school, Hilda completed three classes at Kampfer University. Because she was not enrolled as a regular student in an ACG-eligible program of study, her prior enrollment does not make her ineligible for an ACG when she starts classes full time at Kampfer the fall after she graduates from high school.

Hilda's twin sister Gilda enrolled during her senior year of high school in an associate's degree program at Frisson Community College. Although this is an ACG-eligible program, the English 101 and trigonometry classes she took at Frisson counted as her senior-year English and math classes at her high school, so she will be eligible for a first-year ACG when she starts full time at Frisson.

*This is checked one time only, at the end of the first year. Subsequent changes to the student's GPA do not affect ACG eligibility for the second year. The grades for all the hours in the payment period in which a student completes the first year are included when computing this GPA, even if the student surpassed the number of hours that defines the school's year.

- be enrolled in the first or second year of a program of study at an eligible two-year or four-year degree-granting institution;

- have successfully completed a rigorous secondary school program of study and graduated after January 1, 2006, for first-year students and after January 1, 2005, for second-year students;

- if first-year students, not have been enrolled previously as regular students in an ACG-eligible college program when they were still in high school, or if they were in such a program, the courses must have been part of their high school program as well; and

- if second-year students, have successfully completed their first year and have a cumulative GPA* of at least 3.0 on a 4.0 scale.

Rigorous secondary school program of study

For qualifying for an ACG, any one of the following programs meet the "rigorous secondary school program of study" requirement:

1. For students who graduate on or after July 1, 2009, a program that prepares a student for college, is recognized by a designated official in accord with state law, and is reported to the Secretary as he or she requires.

2. Advanced or honors secondary school programs established by states.

3. A secondary school program in which a student completes, at a minimum:

- four years of English;

- three years of math, including algebra I and a higher level class such as algebra II, geometry, or data analysis and statistics;

- three years of science, including one year each of at least two of the following courses: biology, chemistry, and physics;

- three years of social studies; and

- one year of a language other than English.

4. Secondary school programs identified by a state-level partnership recognized by the State Scholars Initiative of the Western Interstate Commission for Higher Education (WICHE) of Boulder, Colorado.

5. A program for a student who completes at least two courses in the International Baccalaureate (IB) Diploma Program with a score of four or higher on the course examinations or at least two Advanced Placement (AP) courses with a score of three or higher on the College Board's exams for those courses.

6. Rigorous secondary school programs designated by state education agencies (SEAs) and state-authorized local education agencies (LEAs) and recognized by the Secretary of Education after January 1, 2005, but before July 1, 2009.

Other considerations

Some high schools comprise only grades 10–12. In those cases, a college should use its normal procedure for ensuring that classes taken in the ninth grade are included. Also, if a transcript shows that a student completed three years of English in grades 10–12, she may be assumed to have taken English in ninth grade. A college can assume the following classes as well, which apply not only to ninth grade, but to grades 6–8: the first year of a foreign language if a transcript shows completion of a second year; algebra I if a transcript shows algebra II or geometry and the college knows that algebra I was a prerequisite for geometry at the student's high school.

English as a second language (ESL) counts toward the English requirement if the state or the high school allowed it to count towards its English graduation requirement.

If a student's high school or college admissions office categorizes a class as social studies, then it counts as social studies for ACG eligibility.

Computer languages do not count as a foreign language, but American Sign Language does.

For each calendar year the Secretary publishes a list of all rigorous secondary school programs of study. The webpage at **http://www.ed.gov/admins/finaid/about/ac-smart/state-programs.html** links to separate pages for each year of graduation.

Identifying potentially eligible ACG students

The Central Processing System (CPS) will send comments on the SAR and ISIR identifying students who might be eligible for an ACG. Students who apply for aid via FAFSA on the Web or (with FAA help) FAA Access to CPS Online will be screened for potential eligibility and will have the option to provide ACG information. Paper FAFSA filers who are potentially eligible will receive a comment on their SAR directing them to provide information to the Federal Student Aid Information Center (FSAIC) over the phone.

If a student self-certifies through the application process or directly to the school that he completed a rigorous program of study, the school must attempt to collect documentation of that, either from the cognizant authority or from the authority via the student. The *cognizant authority* includes, but is not limited to, an LEA, SEA or other state agency, a public or private high school, a testing organization such as the College Board or a state agency, or, for homeschooled students, the parent or guardian. If the school has reason to believe documentation from the student is inaccurate or incomplete, it must get documentation directly from the authority.

Diplomas and transcripts for homeschooled students
The parents or guardians of a homeschooled student can provide a diploma or certification of completion of a secondary school education. Likewise, they can also provide a transcript or equivalent, such as a detailed course list of the secondary school courses the student completed.

If students do not self-certify through the application process or to the school that they completed a rigorous program of study, the school is not required to determine their ACG eligibility. It is, however, a good practice for a school to make an effort to find out if any students in this group would be eligible for ACG funds.

Documenting completion of a rigorous program

A student must have successfully completed one of the above types of programs. Successful completion entails: (1) receiving a high school diploma and (2) meeting the academic qualifications for a rigorous program, including receiving credit for all the coursework that makes up the program. A single document like a high school transcript can show that both these requirements were fulfilled, but if it does not show that a student received a high school diploma, then the college needs to document that the student met that requirement, for example, by obtaining a copy of the diploma. A student's self-certification on the FAFSA of receipt of the diploma is not sufficient.

For the rigorous program no qualitative standard other than passing grades is required, though an SEA or LEA may include such a standard (for example, a minimum GPA) in the requisites for completion of its rigorous program. Neither a general education development (GED) certificate nor a passing score on an ability-to-benefit test qualifies as completing a rigorous secondary school program.

For a transfer student, a school may rely upon the determination by the student's former school that he completed a rigorous program. As evidence of such a determination, a school can use documentation that the former school provides or that shows the student received an ACG disbursement at the former school.

NATIONAL SMART GRANT ELIGIBILITY

To be eligible for the National SMART Grant, students must:

- receive a Pell grant in the same award year;
- be enrolled at least half time in a bachelor's or combined undergraduate/graduate (if it includes at least three years of undergraduate education) degree program;
- be enrolled in the third, fourth, or fifth (for programs that require a fifth year)* year of their program of study at an eligible four-year degree-granting institution;
- have successfully completed the previous year;
- have a cumulative GPA of at least 3.0 on a 4.0 scale for all the courses in their program (not only those in the major) through the most recently completed payment period; and
- be majoring in physical, life or computer science, engineering, mathematics, technology, or a critical foreign language. Third- and

* The fifth-year SMART grant is for the final year of eligible programs that comprise five full years of coursework; it is not for students who take five years to complete a four-year program.

fourth-year grants—but not fifth-year grants—are available to students attending a college that only offers a single liberal arts curriculum leading to a bachelor's degree and that does not permit students to declare a major in a subject area. The curriculum must have been offered prior to February 8, 2006, and the Secretary must determine either (1) that it is at least equal in its requirements to a bachelor's degree program in a SMART-eligible major as offered by another college or (2) that the curriculum requires a rigorous course of study in mathematics, biology, chemistry, and physics, including at least 3 years of study in the sciences, with a lab in each of those years, and 4 years of study in mathematics. Schools must request and receive designation of the liberal arts curriculum as an eligible major from the Department when it invites such requests.

Declaring and intending to declare a major
34 CFR 691.15(c)(2) and 691.15(d)

College programs of study are categorized according to their Classification of Instructional Programs (CIP) code. These codes accompany the list of majors eligible for National SMART grants at **http://www.ifap.ed.gov/dpcletters/GEN0706.html**. This list will be reviewed each year, and any updates will appear on Department websites.

A student must be in a major with a code on this list. A student in a teacher education program may receive a National SMART grant as long as his major is an eligible one; a teacher education major with a concentration in math or science, for example, is not eligible. In the same manner, a student with a double major is eligible for the grant if one of his majors is on the accepted CIP code list.

Adding eligible majors
Each year the Secretary of Education will publish the list of SMART grant-eligible majors and establish the deadline for schools to request that a program be added to the list. A request must include the CIP code and program title of the major, the reasons the school believes it should be on the list, and documentation that the school has awarded or intends to award a bachelor's degree in the major. There are additional criteria for schools requesting designation of a liberal arts curriculum as an eligible major. See GEN-09-03 and the text in the body of the page.

Declaration, monitoring, and change of a major

A student must declare a major to receive a National SMART grant unless your school does not permit declaration of a major until after the start of the third year. In those cases the student must intend to declare an eligible major and provide a signed certification of that intent that you keep on file. She must also enroll in classes that lead toward a degree in that field and later declare a major as soon as possible under your school's academic requirements.

You must document each payment period a student's progress toward completing the declared or intended major. This may include written confirmation from a counselor, advisor, or academic department (signed by a departmental representative) that the student is progressing in the coursework leading to a degree in the eligible major, or it may include other written documentation of coursework that affirms the student's progress and demonstrates periodic monitoring of that.

You must check a student's major before each disbursement. If he has a double major, you must document that he is pursuing completion of the eligible major by enrolling in coursework leading to degree completion. Typically the registrar's office tracks CIP codes and will have information about the student's current major.

If a student changes *from* an eligible major to an ineligible one in the middle of a term or year, he does not have to return the grant he has received, but he may not receive another disbursement. If he

Incompletes
If a student has an incomplete but his GPA would be at least 3.0 even if the incomplete were an "F," the school may make a disbursement without assuming liability for it.

changes *to* an eligible major and is otherwise eligible for a National SMART grant, he may then receive a grant—for the following payment period if the change occurred between payment periods or for the same payment period if the change came during the period.

GRADE POINT AVERAGE IN BOTH GRANTS

As written above, there are common eligibility criteria for both grants: eligible students must be enrolled at least half time and must receive a Pell grant in the same award year. But there are significant differences in other criteria, among them the way GPA is monitored.

For an ACG, the student's GPA is checked only at the end of the first year. That average, which includes all the grades in the payment period in which the student completes the first year, determines whether a student can receive a second-year grant at all. If a student has a GPA below 3.0 at the end of the first year, no improvement of his average to above 3.0 will make him eligible for any part of a second-year ACG. Conversely, if his cumulative GPA is 3.0 or better at the end of the first year, a decline in his GPA will not make him ineligible for the second-year ACG.

The cumulative GPA covers the most recently completed payment period prior to any disbursement of a National SMART grant. This allows for a change of eligibility status for SMART grant funds. A student who is ineligible for an initial grant at the beginning of his third year because his GPA isn't high enough can become eligible later that year or next year if he raises his cumulative GPA to 3.0 or higher. If his average is already 3.0 and it drops below that, he becomes ineligible for a SMART grant disbursement until his GPA is at least 3.0 again.

For the first payment period of a student's ACG for the second year and for any payment period for which a student will receive a National SMART grant, a school can make an interim disbursement if final grades from the previous period are not yet available. If the grades once posted lower the student's GPA below 3.0, then the school must cancel the disbursement and it is liable for that disbursement.

To determine ACG eligibility for a student who transfers between one and two years' worth of hours, the current school must calculate GPA using grades for courses accepted from any prior institution toward the student's ACG-eligible program. For a student who transfers hours that constitute less than one year, the GPA is calculated using grades for all courses accepted into the eligible program and for courses earned at the current school.

When a school determines National SMART grant eligibility for transfer students and calculates the students' GPA, it must, for at least the first payment period, include grades for courses accepted for transfer into the National SMART grant-eligible program. For subsequent payment periods, the school must follow its academic policy regarding the calculation of the GPA, whether that is to include grades for courses that transfer or to exclude them.

There is no GPA appeal process for ACGs and SMART grants.

Schools without a traditional GPA

Schools that do not use a standard 4.0 GPA scale for a program must have a written equivalency policy with a numeric scale and must make it available upon request. The policy must clearly differentiate student performance so that it can support a determination that a student has performed at a level commensurate with at least a 3.0 GPA on a 4.0 scale. Generally a grading scale that includes **only** "pass/fail," "satisfactory/unsatisfactory," or some other non-numeric evaluation will not meet this requirement unless it can be shown that a "pass" or "satisfactory" grade has a numeric equivalent to a traditional 3.0 GPA (or higher) or that a student's performance on tests and assignments yielded such a numeric equivalent.

Such a policy must be consistent with other grading scales that the school has developed for academic and other (including Title IV) purposes—e.g., graduate school applications, scholarship eligibility, insurance certifications—to the extent that such scales distinguish between levels of student academic performance.

School without traditional grades

At Chisos Basin University instructors submit at the end of the semester an evaluation that the work a student does in a class is "satisfactory" or "unsatisfactory." The catalog indicates that the evaluation is never translated into a grade by the registrar's office. Neither the catalog, the faculty handbook, nor any other CBU publication differentiates levels of satisfactory student performance. Even though the state scholarship program accepts a "satisfactory" as the equivalent of a "B," the university may not make such an assumption for the ACG and National SMART Grant programs.

CHAPTER 7

Other Program-related Eligibility Requirements

Most of the student eligibility requirements we have discussed so far apply to all or most of the FSA programs, but there are additional factors that are program-specific.

PELL GRANTS

In general, a student must be enrolled in an undergraduate course of study to receive a Pell grant, though there are teaching certification exceptions (see the next page). A student who has earned a baccalaureate degree or a first professional degree cannot receive a Pell grant.

Undergraduate student definition and requirement
34 CFR 668.2(b)
HEA Sec. 401(c)

An undergraduate course of study usually doesn't exceed four academic years or is a program of four to five academic years designed to lead to a baccalaureate or first professional degree. If the program is longer than five years (for example, a six-year pharmacy program), then students are considered undergraduates only for the first four academic years of the program unless the school designates that the graduate program begins after the end of the third academic year; see the definition of graduate or professional student in 34 CFR 668.2(b).

Professional degree
A degree that signifies both completion of the academic requirements for beginning practice in a given profession and a level of professional skill beyond that normally required for a bachelor's degree. Professional licensure is also generally required. Some examples are pharmacy (Pharm.D.), dentistry (D.D.S. or D.M.D.), and law (L.L.B. or J.D.).

A student who completes a master's program but not a bachelor's program has earned in many instances a professional degree and in all instances a degree beyond the baccalaureate level, making her ineligible for a Pell grant even if she subsequently enrolls in an undergraduate program.

A student who has received an associate degree—or any certificate or diploma below the baccalaureate level—and who enrolls in another undergraduate program continues to be considered an undergraduate student until she has completed the curriculum requirements for a first bachelor's degree.

Wrong grade level on the FAFSA
When an undergraduate student incorrectly reports on the Free Application for Federal Student Aid (FAFSA) that he will be a graduate student or has a bachelor's degree, he must correct that information. Because the application shows that the student isn't an undergraduate, the Department's records will show that he is ineligible for Pell. If the application isn't corrected, the school won't be able to pay him a Pell grant.

A student with a baccalaureate or professional degree is ineligible even if the degree is from an unaccredited school or is not recognized by your school. Similarly, a student with a baccalaureate or professional degree from a foreign school usually isn't eligible for a Pell grant. But because a foreign degree often won't translate neatly into the American classification, the school must judge whether it equates to a U.S. bachelor's degree. If the student provides written documentation that the foreign degree is not equivalent to a bachelor's degree awarded in the United States, your school may determine that he does not have a bachelor's degree. The documents may include informa-

Eligible postbaccalaureate program and the FAFSA
34 CFR 690.6(c)
Normally a student who indicates on the FAFSA that he has a bachelor's degree won't be listed in the Department's records as a Pell-eligible student, and the school won't be able to receive Pell funds for the student. However, in order to allow students who are eligible under the postbaccalaureate program provision to be paid, students who correctly report that they have a bachelor's degree but also indicate on the FAFSA that they're in a teaching credential program will be listed as Pell-eligible students. Of course, you must determine whether the student actually falls under the eligible postbaccalaureate provision.

tion about the type of school the student attended and total years of education leading to the degree.

Occasionally a student will complete all the requirements for a bachelor's degree but will continue taking undergraduate courses without accepting the degree. Your school must decide whether and at what point the student completed the baccalaureate course of study. If your school determines that the student did complete a bachelor's program, then he is no longer eligible to receive a Pell grant.

Incarcerated students and sex offenders

Students incarcerated in federal and state penal institutions aren't eligible for Pell grants, but students incarcerated in local penal institutions are. Students incarcerated by jurisdictions defined as a state in the law, such as the District of Columbia, are considered to be in a state penal institution and aren't eligible for Pell grants. A student isn't considered incarcerated if she is in a halfway house or home detention or is sentenced to serve only on weekends.

Incarcerated Students and Pell
HEA Sec. 401(b)(8), 34 CFR 668.32(c)(2)(ii), "Dear Colleague" Letter P-94-7
Costs for incarcerated students
HEA Sec. 472(6)

The cost of attendance for students who are incarcerated in local penal institutions is limited to tuition and fees and the price of books and supplies specifically related to the student's course of study. For more information on the cost of attendance, see Volume 3.

The Higher Education Opportunity Act (HEOA) disqualifies from receiving Pell grants students who are subject to an involuntary civil commitment following incarceration for a sexual offense (as determined under the FBI's Uniform Crime Reporting Program).

Duration of eligibility

The HEOA also established a limit on how many Pell grant awards a student can receive. All students who first received a Pell grant on or after July 1, 2008 (the limit does not apply to students who received their first Pell grant before then), may receive Pell grants for up to 18 semesters or the equivalent. This means students can receive no more than nine scheduled awards; less-than-full-time students are assessed accordingly.

Zero EFC for dependents of Iraq and Afghanistan war dead
Students who qualify for a Pell grant have their EFC reduced to zero if their parent or guardian was a member of the U.S. Armed Forces who died in Iraq or Afghanistan after September 11, 2001, and if the students were less than 24 years old or were enrolled in college when the parent or guardian died.

Eligible postbaccalaureate program

A student who is enrolled at least half time in a postbaccalaureate teacher certification or licensure program is eligible to receive a Pell grant for the period necessary to complete the program if:

- the program does not lead to a graduate degree;
- the school offering the program does not also offer a bachelor's degree in education;
- the student is pursuing an initial teacher certification or licensing credential within a state; and
- the program consists of the courses required by a state to receive a professional certification or licensing credential necessary for

employment as a teacher in an elementary or secondary school in that state.

Under this very limited provision, a postbaccalaureate program is defined as a program that generally requires a student to have a bachelor's degree before being admitted to the program. Accordingly, a program in which undergraduate students are routinely allowed to enroll would not meet the definition of a postbaccalaureate program for this purpose, nor would a program that is generally open to undergraduates but that also admits students with bachelor's degrees.

For FSA purposes, a school must treat a student who receives a Pell grant under this provision as an undergraduate student enrolled in an undergraduate program. The student is eligible for fifth year undergraduate (not graduate student) Stafford loan limits. However, the student would not be eligible for an FSEOG.

STAFFORD AND PLUS LOANS

Some Stafford and PLUS loan rules, such as those for defaults and total and permanent disability discharges, have already been discussed in Chapter 3. One point may be added here: neither a parent nor a student may borrow the same type of loan—PLUS for parents, PLUS or Stafford for students—from both the FFEL and DL programs for the same period of enrollment at the same school. The student and parent do not have to borrow from the same program [see 34 CFR 685.300(a)(8)], and a graduate student can borrow a PLUS and Stafford loan from different programs.

To be eligible for Stafford loans, undergraduate students attending a school that participates in the Pell Grant Program must first receive a determination of their eligibility for Pell grants.

Generally a student must be enrolled or accepted for enrollment in a degree or certificate program to receive FSA funds, but there are exceptions that apply to DL and FFEL Stafford and PLUS loans.

Preparatory coursework

A student may apply for a Stafford or PLUS loan for coursework the school has documented is necessary for him to enroll in an eligible program. The courses must be part of an eligible program otherwise offered by the school, though the student does not have to be in that program. If enrolled at least half time in these prerequisite courses, he is eligible for loans for one consecutive 12-month period (not per program) beginning on the first day of the loan period. If the period of preparatory courses spans more than one academic year, the student may receive multiple loans.

Students may borrow up to $2,625 of Stafford funds if they are preparing to enter an undergraduate degree or certificate program or $5,500 for a graduate or professional program. Independent students and dependent students whose parents were declined a PLUS loan may borrow up to $6,000 more in unsubsidized funds for undergradu-

Members of a religious order

Members of any religious order, society, agency, community, or other organization aren't considered to have financial need if the order

(1) has as a primary objective the promotion of ideals and beliefs regarding a Supreme Being,
(2) requires its members to forego monetary or other support substantially beyond the support it provides, and
(3) directs the member to pursue the course of study or provides subsistence support to its members.

Members of these religious orders can't receive subsidized Direct loans, subsidized FFELs, Pell grants, or campus-based aid. They are eligible, however, for unsubsidized FFELs and unsubsidized Direct loans.
34 CFR 674.9(c), 675.9(c), 676.9(c), 682.301(a)(2), 685.200(a)(2)(ii), 690.75(d)

Preparatory coursework example

Eddy has a bachelor's degree, with a major in mathematics. He wants to enroll in a graduate computer science program at Guerrero University. He needs 12 more semester hours of computer science coursework to meet Guerrero's admission requirements. He enrolls in courses that are part of Guerrero's undergraduate degree program, but because he is not enrolled for the purpose of receiving an undergraduate degree, he is not a regular student. However, because the coursework is necessary for his enrollment in the graduate program, he may receive a FFEL or Direct loan for this coursework.
34 CFR 682.204(a)(6) and 685.203(a)(6)

Preparatory coursework at a different school

A student may take the preparatory courses at School A to prepare for enrollment at School B. Also, School A may require documentation from School B that these courses are required for the student's enrollment.

Medical internships and residencies

A student is ineligible to receive a Stafford loan or a Perkins loan while in a medical internship or residency program unless it is part of the school's degree program. This restriction does not apply to students in dental internship programs.

Refusing or reducing loans

HEA Sec. 479A(c):
"On a case-by-case basis, an eligible institution may refuse to certify a statement that permits a student to receive a loan under part B or D [the FFEL and DL programs respectively], or may certify a loan amount or make a loan that is less than the student's determination of need (as determined under this part), if the reason for the action is documented and provided in written form to the student. No eligible institution shall discriminate against any borrower or applicant in obtaining a loan on the basis of race, national origin, religion, sex, marital status, age, or disability status."

Student credit checks

Financial aid administrators may not perform credit checks on students in connection with awarding them federal aid.

ate (or $7,000 for graduate) preparatory coursework. These loan limits are not prorated if the coursework is less than an academic year.

To be eligible for loans under this exception, the student must be taking classes that are a prerequisite for admission. If he is only taking them to raise his GPA in order to be admitted, he would not qualify.

Teacher certification coursework

Chapter 1 explains when a student may receive a Stafford or PLUS loan, among other aid, for courses necessary for an elementary or secondary school teaching credential or certification.

Parent borrower eligibility

To borrow a PLUS loan for a student, the parent must be the student's biological or adoptive mother or father. Both parents may get a PLUS loan as long as the total aid package does not exceed the student's cost of attendance. A stepparent is also eligible to borrow a PLUS loan if her income and assets would be taken into account when calculating the dependent student's EFC. A legal guardian is not considered a parent for FSA purposes.

A parent may receive a PLUS loan only to pay for the educational costs of a dependent undergraduate student who meets the eligible student definition.

A parent must meet the same citizenship and residency requirements as a student. Similarly, a parent who owes an overpayment on an FSA grant or is in default on an FSA loan is ineligible for a PLUS loan unless he has made satisfactory arrangements to repay the grant or loan. Yet the parent's ineligibility for a PLUS loan does not affect the student's eligibility for FSA funds.

Under the FFEL program, if the parent borrower has previously borrowed a Stafford or PLUS loan on which collection activity has ceased, she must reaffirm the loan in the same way that is described in 34 CFR 682.201(a)(4) for student borrowers.

Under both the FFEL and DL programs, if the parent had a prior Stafford loan that was cancelled for total and permanent disability, he must adhere to the same eligibility requirements outlined for Stafford borrowers in Chapter 3.

Finally, a parent is not eligible for a PLUS loan if the federal government holds a judgment lien on her property.

Adverse credit history for PLUS

A parent or graduate/professional student with an adverse credit history is prohibited from obtaining a PLUS loan unless he meets additional criteria. The lender or the Department obtains a credit report on each applicant for a loan from at least one national credit bureau. An applicant is considered to have an adverse credit history if:

- he is 90 days or more delinquent on any debt, or

- during the five years preceding the date of the credit report, he has been determined to be in default on a debt, his debts have been discharged in bankruptcy, or he has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an FSA debt.

A FFEL lender is permitted to establish a more stringent definition of adverse credit history than these regulatory criteria. However, under both the FFEL and DL programs, an applicant cannot be rejected for a PLUS loan because she has no credit history—i.e., the absence of a credit history cannot be construed as an adverse credit history.

Someone with an adverse credit history can qualify for a PLUS loan by securing an endorser who doesn't have an adverse credit history. For a parent borrower, the endorser may not be the dependent student for whom he is borrowing. Instead of securing an endorser, an applicant may appeal a determination of adverse credit history to the lender (for FFELs) or ED (for DLs) by documenting extenuating circumstances. The lender or ED has the final decision on whether to make a loan to the person.

If your school participates in the PLUS program but a student's parent cannot obtain a PLUS loan, the student is allowed to borrow additional unsubsidized Stafford money (see Volume 3, Chapter 5).

Extenuating circumstances for adverse credit history

If a parent or student PLUS applicant is 180 days or less delinquent on mortgage or medical bill payments during the period from January 1, 2007, through December 31, 2009, but does not otherwise have an adverse credit history in accordance with the FFEL and Direct Loan program regulations, the loan holder may consider the applicant to have extenuating circumstances that are sufficient to support eligibility for a PLUS loan.

CAMPUS-BASED AID GENERAL REQUIREMENTS

Unlike the Stafford and PLUS loan programs, a student does not have to be enrolled at least half time to be eligible to receive aid through the campus-based programs unless the student is seeking aid to attend a teacher certification or professional credential program.

A student enrolled as an undergraduate, graduate, or professional student is eligible to receive assistance from the Federal Perkins Loan and Federal Work-Study (FWS) programs. Only undergraduate students who do not have a baccalaureate or first professional degree are eligible to receive Federal Supplemental Educational Opportunity Grants (FSEOGs). This means that a student who has earned a bachelor's or first professional degree may receive a Perkins loan or FWS wages to pursue a graduate or additional undergraduate degree, but he may not get an FSEOG.

See the margin note on page 39 about how the Compact Act affects FSEOG and FWS eligibility for students from the Republic of the Marshall Islands and the Federated States of Micronesia.

Perkins loan eligibility

34 CFR 674.9

Medical internship or residency
HEA 464(c)(2)(A)(i)

Incarceration
34 CFR 668.32(c)(2)(ii)

Default
HEA 464 (b)(1)

Teacher certification programs
34 CFR 668.32(a)(1)(iii)

Teacher certification programs

As with Stafford loans, a student may receive a Perkins loan or FWS for coursework that doesn't lead to a degree or certificate from the school but that is required by a state for an elementary or secondary school teaching credential or certificate. See Chapter 1.

Previous disability cancellation

34 CFR 674.9(g) and (h)

Willingness to repay
34 CFR 674.9(e)

PERKINS LOANS

Both undergraduate and graduate students may receive loans under the Federal Perkins Loan Program, but students with *exceptional need* (as defined by your school) have priority. To be eligible for a Perkins loan, a student must meet the general student eligibility requirements and must not have borrowed the maximum amounts. A student who has earned a bachelor's or first professional degree may receive a Perkins loan to pursue an additional undergraduate degree.

A student is ineligible to receive a Perkins loan while in a medical internship or residency program unless it is a dental internship or is part of the school's degree program.

A borrower who is in default on an FSA loan is not eligible for a Perkins loan unless she has regained eligibility. However, a borrower who satisfies any of the conditions that remove her defaulted Perkins loan from the school's cohort default rate becomes eligible for additional Perkins loans.

As with Stafford loans, if a borrower has obtained a discharge of a Perkins loan or NDSL due to total and permanent disability and is applying for another Perkins loan or NDSL, she must follow the procedure explained in Chapter 3.

As mentioned above, a school may award Perkins loans or FWS to students for enrollment in an eligible teacher certification or professional credential program; see Chapter 1.

Willingness to repay

In selecting Perkins loan recipients, a school must consider evidence of a borrower's willingness to repay the loan. Previous delinquency, default, or other failure to meet repayment obligations on a previous loan is evidence that the borrower is unwilling to repay other loans. For example, if a borrower has previously satisfied a defaulted student loan involuntarily (such as by garnishment of the borrower's wages), a school should consider this as evidence of unwillingness to repay and should deny further loan assistance to the borrower.

Previous Perkins loan discharged in bankruptcy

As a result of the Bankruptcy Reform Act of 1994, a student or parent may not be denied FSA loans solely on the basis of a bankruptcy filing or discharge. They also may not be required to repay a previously discharged loan in order to reestablish eligibility for new loans. However, FAAs have somewhat more latitude in making awards under the Perkins program than under DL and FFEL because they may consider a student's willingness to repay. If a student has filed for or received a discharge in bankruptcy, has had an FSA loan determined dischargeable by a court of law, or has had an FSA loan discharged in bankruptcy, the bankruptcy may be considered when determining a student's willingness to repay provided it is not the sole basis for the determination and for a denial of a Perkins loan. Schools may also, of course, consider the student's post-bankruptcy credit history in determining willingness to repay.

FEDERAL WORK-STUDY (FWS)

FWS eligibility
34 CFR 675.9

To be eligible for a Federal Work-Study (FWS) job, a student must meet the usual eligibility criteria and must have financial need, that is, his cost of attendance (COA) must be greater than his expected family contribution (EFC). Also, a financial aid administrator may not award FWS employment to a student if that award, when combined with all other resources, would exceed the student's need. However, unlike the other two campus-based programs, the FWS Program does not require that priority be given to students who have *exceptional* financial need. In choosing students for FWS employment, schools must follow the selection procedures discussed in Volume 3.

Additional FWS criteria
For information on eligible FWS jobs, see Volume 6, The Campus-Based Programs.

A student can be employed in an FWS job during a period of non-attendance, such as a summer term. He must be planning to attend school during the next period of enrollment and must have financial need for that period—his current FWS earnings must be used to cover expenses for it. See Volume 6 for more information.

FSEOG

FSEOG eligibility
34 CFR 676.9
34 CFR 668.32(c)(1)

To receive a Federal Supplemental Educational Opportunity Grant (FSEOG), a student must meet the general eligibility requirements discussed in the other chapters of this volume. An eligible recipient must also be an undergraduate student and have financial need, and students with the lowest EFCs who will also receive Pell grants for the award year have primary consideration for FSEOG money. See the volume on calculating awards.

An undergraduate student is defined under the FSEOG Program as a student who is enrolled in an undergraduate course of study at an institution of higher education and who:

- has not earned a bachelor's degree or first professional degree; and

- is in an undergraduate course of study that usually does not exceed four academic years or is enrolled in a four- to five-academic-year program designed to lead to a first degree.

A student who has earned a bachelor's or first professional degree is not eligible to receive an FSEOG to pursue an additional undergraduate degree based on the above definition of undergraduate student. A school must make FSEOG funds reasonably available (to the extent that funds remain) to all eligible students.

LEAP PROGRAM

To be eligible for assistance under the Leveraging Educational Assistance Partnership (LEAP) Program, all students must meet the general eligibility requirements for the FSA programs and the additional eligibility criteria that state higher education agencies establish. The student must also demonstrate *substantial financial need*, as defined by the state agency and approved by the Department. The definition

Federal eligibility rules and LEAP funds

The requirement that a student must meet the general FSA program eligibility criteria applies to all the components of a state's LEAP program: the annual federal allotment of funds and all the state matching funds, including the maintenance of effort match.

may be in terms of income, expected family contribution (EFC), or cost of attendance minus available resources. Regardless of how it defines need, the state agency is responsible for developing a consistent method for approving individual student recipients. States may decide whether to make individual LEAP awards that vary according to student need or to give a set amount to all students who meet the established need criteria.

The maximum award is the lesser of $12,500 or a student's cost of attendance, though states may have lower maximums. They also determine what costs can be covered; some states limit awards to cover only tuition and fees, while others include allowances for commuting, room, board, and other costs.

Many states exclude students who attend schools outside the state, but some have reciprocal arrangements with neighboring states so that students may receive LEAP funds from their home state even though they are enrolled in another state. LEAP funds may be awarded to students participating in study-abroad programs that are approved for credit by the home school.

Most states limit LEAP awards to undergraduates attending at least half time, but each state may choose to allow graduate, less-than-half-time, and other nontraditional students to also receive LEAP awards.

If a student owes a refund on a LEAP overpayment, she would still be eligible to receive additional FSA funds as long as she meets all other eligibility requirements and as long as the school can eliminate the overpayment by adjusting financial aid payments (other than Pell grants) in the same award period in which the overpayment occurred.

Application, need, and dependency status

In states that have *centralized* administration of the LEAP Program, the student applies directly to the state higher education agency, which receives and processes applications, notifies students of awards, verifies attendance, makes disbursements, and keeps records of all student awards. In states that have *decentralized* administration, the student applies indirectly through the school, to which the state agency has delegated certain functions of the program, such as awarding funds (though these funds are still considered state—not institutional—aid). The school recommends potential recipients to the state agency, which then approves individual awards. Every award requires the agency's formal approval, based on a determination of need. You can find a list of the state agencies on the Department's website at **www.ed.gov**.

Most states measure need as determined by the processing of the FAFSA. However, in decentralized programs LEAP applications may be processed according to need as determined by the school. Either way, the state agency has final authority for selecting recipients according to its standards.

The Department may approve on a case-by-case basis a state's criteria for determining dependency status if they vary from the established

criteria that are listed in the *Application and Verification Guide*. The state must show that it has good reason to use different criteria, yet its definition of an independent student might not differ totally from the federal definition. For example, a state might use all the federal criteria but delete the professional judgment provision.

Cost of applying

To award a student LEAP aid, a state may require him to fill out a FAFSA or another free form. The state may also require him to provide more information on a supplemental form. If there is a fee for submitting and processing this supplemental form, the fee must be payable to the state regardless of whether the information from it may also be used for institutional aid.

LEAP funds that are part of state grants

A school must consider all or a portion of a state grant to be LEAP funds subject to LEAP student eligibility requirements if a state agency provides written information to the school as described below:

1. If the state agency specifies the exact amount or percentage of LEAP funds included in an individual student's state grant, that amount or percentage up to the lesser of $12,500 or the student's cost of attendance (the maximum LEAP award) is considered LEAP funds.

2. If the state agency identifies a specific student's state grant as containing LEAP funds but does not give an exact amount or percentage, the amount of the grant up to the lesser of $12,500 or the student's cost of attendance is considered LEAP funds.

3. If the state agency identifies the percentage of LEAP funds in the entire amount of state grant funds provided to the school rather than specifying the amount of LEAP funds in an individual student's grant, the school must apply this percentage to the student's total state grant to determine the amount up to the lesser of $12,500 or the student's cost of attendance to be considered LEAP funds.

4. If the state agency states that LEAP funds are included in all students' state grants but does not provide an exact amount or percentage, an amount of all grants up to the lesser of $12,500 or the student's cost of attendance is considered LEAP funds.

These policies also apply to the Special Leveraging Educational Assistance Partnership (SLEAP) Program except that there is no maximum award.

The Department does not require states to notify institutions of federal and state matching funds that are part of state grants. However, starting in the 2009–2010 award year, states must identify and notify students that grants are LEAP grants funded by the federal government, the state, and, where applicable, other contributing partners. Depending on how the state notifies students, this information does not necessarily constitute identifying whether a student's grant includes federal and state matching funds.

LEAP examples

A Title IV-eligible student receives a $10,000 state grant, and the state notifies the school in writing that the grant includes an indeterminate amount of LEAP funds. All of the grant is considered LEAP money.

Another student receives a $4,000 grant, but the state does not notify the school of its composition. None of the grant is considered to be LEAP funds.

A student receives an $8,000 state grant, and the state specifies that 25 percent of all the state grant funds provided to the school are LEAP funds. $2,000 of the student's grant is considered LEAP funds.

Byrd Program on the Web
The Department gives information on the Byrd Program at
www.ed.gov/programs/iduesbyrd/index.html
This site has contact information if you have questions (the program is not administered by FSA).

States are now able to use funds other than their appropriated funds to meet their match of the federal funds. If, for example, this includes public institution tuition revenue disbursed as need-based grant aid to students, these matching funds would be considered part of the federal LEAP and SLEAP programs and subject to compliance with those programs and any additional state program.

ROBERT C. BYRD HONORS SCHOLARSHIP PROGRAM

Byrd scholarships are awarded on the basis of outstanding academic achievement and the promise of continued achievement, through procedures established by the state education agency (SEA, the department of education or other agency in the state that is primarily responsible for the supervision of public elementary and secondary schools) in the state where the student is a legal resident. A student attending an out-of-state secondary school, such as a boarding school or a U.S. Department of Defense school overseas, must apply for a Byrd scholarship through the SEA of her state of residence.

The SEA develops its selection procedures after consulting with school boards and administrators, teachers, counselors, and parents. Before each state's selection criteria and application procedures are implemented, they are reviewed and approved by the Department.

Students can receive up to $1,500 for one year of study, which is the period during which a full-time student is expected to complete one year of coursework as defined by the school.

Initial student eligibility

The eligibility criteria for receiving a Byrd scholarship are similar to those for the FSA programs but not identical. A student must meet the criteria listed below during the same secondary academic year in which he submits the scholarship application. The student must:

- graduate from a public or private secondary (high) school (students at military schools are not eligible for Byrd scholarships) or a homeschool (the HEOA made homeschooled students eligible regardless of how the homeschool is treated under state law), or receive the recognized equivalent of a high school diploma (a GED certificate or a certificate that is earned by passing a state-authorized examination and that the state recognizes as a diploma equivalent);

- have applied to or been accepted for enrollment as a full-time student (one who carries a full-time academic workload as determined by the school for a given program) at an institution of higher education;

- be a legal resident of the state to which he is applying for a scholarship;

- be a U.S. citizen or national or provide evidence from the U.S. Citizenship and Immigration Services (USCIS) that he is

– a permanent resident of the United States;

– in the United States for other than a temporary purpose, with the intention of becoming a citizen or permanent resident; or

– a citizen of the Freely Associated States (Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau);

- is not ineligible to receive assistance as a result of default on a federal student loan or other obligation, as provided under 34 CFR 75.60; and

- is registered with the Selective Service, if so required, in accordance with the regulations in 34 CFR 668.33.

Continuing eligibility criteria

Awards can be renewed for up to three additional years provided that funds are appropriated and students remain eligible. A student remains eligible for the scholarship as long as she continues to:

- meet the citizenship/permanent resident requirements given previously;

- avoid loan default, as outlined above;

- meet Selective Service obligations;

- maintain the satisfactory academic progress standards of the school in accordance with the provisions of 34 CFR 668; and

- be enrolled as a full-time student (though see the exception below) at an institution of higher education.

Byrd scholarships are awarded for not more than four years. If the student completes his undergraduate program in three years, then he is eligible to receive the scholarship for only those three years.

Part-time enrollment after the first year

Byrd scholars must be enrolled full time for the first year of study. If after the first year the SEA determines that unusual circumstances justify waiving the full-time requirement, the student may enroll part time and continue to receive the scholarship, but the SEA must prorate her payments according to her enrollment status.

Scholarship suspension

A scholar who fails to meet any of the eligibility requirements within an award year will have her scholarship suspended by the SEA. The scholar's eligibility remains suspended until she is able to demonstrate to the satisfaction of the SEA that she again meets the requirements. Once the suspension period reaches 12 months, her eligibility for that scholarship is terminated.

Part-time attendance example

Wendy is a student at Frisson University who received a Byrd scholarship as a freshman. For her sophomore year she enrolls full-time for the fall semester and half-time for the spring semester since she will be working part-time in a co-op job related to her field of study. Because of this, the SEA waives Wendy's full-time enrollment requirement for spring and prorates the $1500 scholarship. Wendy would still receive half the scholarship for the fall term ($1,500 x 0.5 years = $750), and because she is attending half time in the spring, she will be eligible to receive half of the remaining $750 ($750 x 0.5 = $375).

The SEA may define exceptional circumstances under which it will extend the 12-month suspension period without ending the student's eligibility.

Scholars may postpone or interrupt enrollment

A state agency may permit a scholar to interrupt or postpone his enrollment at a postsecondary school for up to 12 months. For a postponement this begins on the date the student would have enrolled in the school after the state agency awarded him the scholarship.

Each state agency establishes standards that determine when it will approve a postponement or interruption. If the SEA does approve the postponement or interruption, it must document the scholar's subsequent enrollment.

A scholar who postpones or interrupts her enrollment is not eligible to receive scholarship funds until she is again enrolled at the school. Note that for a student whose scholarship has been suspended, a postponement or interruption does not count against her in calculating the 12 months of suspension.

Scholarship limited to domestic schools

A Byrd scholar may not use his scholarship to attend a foreign school. He must attend an eligible postsecondary school located in one of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, American Samoa, or the Freely Associated States (the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau).

However, a scholar studying abroad through an eligible institution (the homeschool) that is located in a state or one of the other regions listed in the previous paragraph is eligible to receive funds as long as she is enrolled at the homeschool and receives credit from it.

TEACH Grant Program
34 CFR 686

TEACH GRANTS

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program provides $4,000 annual grants to students who plan to become teachers. In exchange for the grant, candidates must agree to serve as full-time teachers at certain schools and within certain high-need fields for at least four academic years within eight years of completing the course of study for which a grant was received. If a grant recipient does not carry out that obligation, the TEACH grant funds he received convert to a Direct unsubsidized loan that must be repaid with interest.

Amounts of grant funds available

A full-time teacher candidate may receive one scheduled award of $4,000 each year for four years, or a total of $16,000, for her *first* (those after the first are not eligible) baccalaureate and postbaccalaureate programs combined. A graduate student may receive a total of two scheduled awards, or a total of $8,000, for a master's degree program. Students who are enrolled less than full time have the same

maximums, though the annual awards will be smaller: for example, a student enrolled half time in a master's program could receive an annual award of $2,000 for each of the four years it would take her to complete her program. A TEACH grant in combination with other assistance the student receives cannot exceed the cost of attendance; if it does, her aid package must be reduced.

TEACH grant-eligible program
This is an eligible program as defined in 34 CFR 668.8 that prepares one to be a highly qualified teacher in a high need field and that leads to a bachelor's or master's degree or is a post-baccalaureate program. A two-year program acceptable for full credit toward a bachelor's degree is considered a program that leads to a bachelor's degree.

Receiving a TEACH grant

To qualify for a TEACH Grant, a student fills out not only a FAFSA but an agreement to serve (explained later) and must be enrolled in a program and at a school that are both TEACH-grant eligible.

Students must adhere to an academic standard: they must have a grade point average of at least 3.25 on a 4.0 scale, or the numeric equivalent, or must have scored above the 75th percentile on at least one of the batteries on a nationally-normed standardized undergraduate, postbaccalaureate, or graduate school admissions test. An undergraduate student uses for the first year her final high school GPA or the GPA for all the classes she has taken at college through the most recently completed payment period; after the first year she uses the latter GPA. A graduate student uses her undergraduate GPA for the first payment period and her cumulative graduate school GPA thereafter.

You must have documentation of the GPA from the cognizant authority or from the student. For high school grades the authority is typically the high school or, in the case of homeschooled students, the parents or guardians. If the student provides the document and you have reason to question its accuracy, you must obtain documentation directly from the cognizant authority.

The above academic requirements do not apply to certain graduate students. This group comprises current teachers or retirees from another occupation with expertise in a high-need field who are seeking a master's degree, as well as current or former teachers who are completing a high-quality alternative certification, such as Teach for America.

When you determine TEACH grant eligibility for transfer students and calculate their GPA, you must, for at least the first payment period, include grades for courses accepted for transfer into the TEACH grant-eligible program. For subsequent payment periods, follow your academic policy regarding the calculation of the GPA, whether that is to include grades for courses that transfer or to exclude them.

Agreement to serve

To receive a TEACH grant, a student must sign an agreement to serve. This document explains that the student will:

- Serve as a full-time teacher for a total of at least four academic years within eight calendar years of completing or ceasing to be enrolled in the course of study for which the TEACH grant was received;

TEACH grant definitions

High-need field—
1. Bilingual education and English language acquisition
2. Foreign language
3. Mathematics
4. Reading specialist
5. Science
6. Special education
7. Another field documented as high-need by the federal government, a state government, or an LEA, and appearing on the Department's annual Teacher Shortage Area Nationwide Listing.

Numeric equivalent—See the discussion under "Schools without a traditional GPA" at the end of Chapter 6. The same principles apply here, except the requisite GPA for TEACH grants is 3.25, not 3.0.

Post-baccalaureate program—a program for those who have completed a bachelor's degree and that:
1. does not lead to a graduate degree,
2. consists of courses required by a state for a credential necessary for teaching at an elementary or secondary school in that state (this does not include any program offered by a TEACH grant-eligible school that offers a bachelor's degree in education), and
3. is treated as an undergraduate program for Title IV.

Scheduled award—the maximum amount of a TEACH grant that a full-time student could receive for a year.

School serving low-income students (low-income school)—an elementary or secondary school that:
1. is in the school district of a local education agency that is eligible for assistance under Title I of the Elementary and Secondary Education Act (ESEA),
2. has been determined by the Secretary to have more than 30 percent of its children qualify for services under Title I of the ESEA, and
3. is listed in the Department's annual Teacher Cancellation Low Income Directory; see **www.tcli.ed.gov**.

- Teach at a school serving low-income students (see the definition in the margin);

- Comply with the requirements for being a highly qualified teacher as defined in Section 9101(23) of the Elementary and Secondary Education Act or Section 602(10) of the Individuals with Disabilities Education Act;

- Teach (in the majority of classes) in a high-need field (see the definition in the margin), which includes subjects on the nationwide shortage area list at http://www.ed.gov/about/offices/list/ope/pol/tsa.doc that is updated each year by the Department;

- Upon completion of each year of service, provide certification of that from a chief administrative officer of the school; and

- If she fails or refuses to carry out her service obligation in the time noted above, repay as an unsubsidized Direct loan the total amount of the TEACH grants received, with interest accrued as of the date of disbursement of each grant.

A person must complete a service obligation for each program of study for which he receives TEACH grants. This obligation begins when his enrollment in the program ends. Teaching may apply to more than one obligation: for example, a student who completes a bachelor's and a master's program consecutively and receives TEACH grants for both would have two service obligations. He could receive a suspension for the first obligation because he is enrolled in the master's program. Once that is done, four years of teaching would apply to both service obligations. However, if he completed his service after finishing the bachelor's program and then enrolled in the master's program, he would later need to complete another four-year service obligation.

For a person to satisfy the service obligation, the high-need field she teaches in must appear under her state on the above nationwide list when she begins teaching. The HEOA added the provision that if a student acquired a degree or expertise in a field that was designated as high-need when she applied for the TEACH grant but is no longer so designated, the student can still fulfill the service obligation by teaching in that field.

CHAPTER 1

Institutional Eligibility

This chapter discusses the three types of institutions that are eligible to participate in the Federal Student Aid (FSA) programs. If circumstances change and a participating school no longer qualifies as an eligible institution, it must notify the Department and carry out the closeout procedures described in Chapter 12 of this Volume.

A school that wishes to participate in the FSA programs must demonstrate that it is eligible to participate before it can be certified for participation. A school must apply to and receive approval from the Department of its eligibility to participate. Some schools apply only for a designation as an eligible institution (they do not seek to participate) so that students attending the school may receive deferments on FSA program loans, or be eligible for the HOPE/Lifetime Learning Scholarship tax credits or other non-FSA programs that require that the school be FSA-eligible. The same application is used to apply for both eligibility and certification for participation (see Chapter 2).

THE THREE DEFINITIONS OF ELIGIBLE INSTITUTIONS

The regulations governing institutional eligibility define three types of eligible institutions—institutions of higher education, proprietary institutions of higher education, and postsecondary vocational institutions. Under the three definitions, a school is eligible to participate in all the FSA programs provided the school offers the appropriate type of eligible program (see chart on next page). This section covers the key elements of the three definitions, giving special attention to those requirements that affect the definition of an eligible program.

Although the criteria for the three types of institutions differ somewhat, the definitions are not mutually exclusive. That is, a public or private nonprofit institution may meet the definition of more than one type of eligible institution.

INSTITUTIONAL CONTROL

The *control* of an institution distinguishes whether the institution is public or private, nonprofit or for-profit. Under the institutional definitions, an *institution of higher education* or a *postsecondary vocational institution* can be either public or private, but is always nonprofit. A *proprietary institution of higher education* is always a private, for-profit institution.

CHAPTER 1 HIGHLIGHTS

Three definitions of eligible institutions
- → institution of higher education
- → proprietary institution of higher education
- → postsecondary vocational institution

Basic requirements
- → Legal authorization by a state
- → Accreditation (and alternatives)
- → Admissions standards (high school diploma, recognized equivalent, homeschooling)

Additional institutional eligibility factors
- → 90/10 Rule
- → Correspondence courses/students limitation
- → Incarcerated students limitation
- → Limitation on students admitted without HS diploma or equivalent
- → Bankruptcy
- → Crimes involving FSA funds

Foreign schools eligible for FFEL programs

Related information
- → Applying to participate, *New School Guide*
- → Closeout procedures, Volume 2, Chapter 12
- → Eligible program—Volume 2, Chapter 2
- → Eligibility of ability-to-benefit students, home-school students, and correspondence students—Volume 1, Chapter 1.

Assessing your school's compliance

To assess your school's compliance with the provisions of this chapter see the FSA Assessment module for "Institutional Eligibility," at: **ifap.ed.gov/qahome/qaassessments/institutionalelig.html**

Type and Control of Eligible Institutions

Institution of Higher Education	*Proprietary Institution of Higher Education*	*Postsecondary Vocational Institution*
A public or private nonprofit educational institution located in a state	A private, for-profit educational institution located in a state	A public or private nonprofit educational institution located in a state

Program offered:

(1) Associate, bachelor's, graduate, or professional degree, or

(2) At least a two-year program that is acceptable for full credit toward a bachelor's degree, or

(3) At least a one-year training program that leads to a degree or certificate (or other recognized educational credential) and prepares students for gainful employment in a recognized occupation.

Program offered: must provide training for gainful employment in a recognized occupation, and must meet the criteria of at least one category below.

(1) Provides at least a 15-week (instructional time) undergraduate program of 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. May admit students without an associate degree or equivalent.

(2) Provides at least a 10-week (instructional time) program of 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. Must be a graduate/professional program, or must admit only students with an associate degree or equivalent.

(3) Provides at least a 10-week (instructional time) undergraduate program of 300–599 clock hours. Must admit at least some students who do not have an associate degree or equivalent, and must meet specific qualitative standards. Note: These programs are eligible only for FFEL and Direct Loan participation.

"Two-Year Rule" (applicable to proprietary and postsecondary vocational institutions) — Legally authorized to give (and continuously has been giving) the same postsecondary instruction for at least two consecutive years.

Special rule (applicable to proprietary institutions) — Derives no more than 90% of its revenues from FSA funds.

HEOA Changes NEW

Changes to institutional eligibility

The Higher Education Opportunity Act makes several changes to the definitions of an eligible institution.
The HEOA amends the definition of "institution of higher education"—

- to allow institutions to enroll homeschooled students who do not have a high school diploma or GED as regular students,
- to permit eligible institutions to dually enroll secondary students as regular students, and
- to allow the Department to approve the eligibility of institutions that offer a degree that is acceptable to a graduate or professional degree program (but do not offer a bachelor's degree or a two-year degree).

The definition of "proprietary institution" has been amended to include institutions that provide a program leading to a baccalaureate degree in liberal arts. (The program must have been provided since January 1, 2009 and the institution must have been accredited by a recognized regional accreditation agency or organization since October 1, 2007, or earlier.) See DCL 08-12 for interim guidance on the definition of "liberal arts," pending negotiated rulemaking.

HEOA section 101(a)(1) and 102(d)(1) HEA section 102(a) and 102(b)
Effective date: July 1, 2010

ELIGIBLE INSTITUTION

To be eligible, an institution must adhere to the following requirements:

- It must be *legally authorized* by the state where the institution offers postsecondary education to provide a postsecondary education program,
- It must be *accredited* by a nationally recognized accrediting agency or have met the alternative requirements, if applicable, and
- It must *admit as a regular student* only individuals with a high school diploma or its recognized equivalent, or individuals beyond the age of compulsory school attendance in the state where the institution is located.

These requirements are discussed in the following sections.

Definitions of eligible institutions of education cite
34 CFR 600.4, 600.5, and 600.6

Nonprofit institution
A school that is
• owned and operated by one or more nonprofit corporations or associations whose net earnings do not benefit any private shareholder or individual,
• legally authorized to operate as a nonprofit organization by each state in which it is physically located, and
• determined by the Internal Revenue Service (IRS) to be eligible for tax-deductible contributions in accordance with the IRS Code (26 U.S.C. 501(c)(3)).

State
"State" includes not only the 50 states, but also American Samoa, Puerto Rico, the District of Columbia, Guam, the U.S. Virgin Islands, and the Northern Mariana Islands. A "state" also includes the Freely Associated States, which include the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

LEGAL AUTHORIZATION BY A STATE

With the exception of foreign schools, an eligible institution under any of the three definitions must be located in a state. Generally, the determining factor is the physical location of the main campus or place of instruction.

To qualify as an eligible institution under any of the three institutional definitions, a school must be legally authorized by the state in which it offers an educational program to provide the program. The state's legal authorization is the legal status granted to a school through a charter, license, or other written document issued by an appropriate agency or official of the state in which the school is located. It may be provided by a licensing board or educational agency. In some cases, the school's charter is its legal authorization.

A school must have evidence that it has the authority to operate in a state at the time of the school's certification to participate in the FSA programs. For more information on applying for participation in the FSA programs, see the *New School Guide* (to be available in Spring 2009).

Authorization by a state cite
34 CFR 600.4(a)(1)

ACCREDITATION

Generally, a school must be accredited or preaccredited by a nationally recognized accrediting agency or association (both referred to here as agencies) to be eligible. The procedures and criteria for recognizing accrediting agencies are found in Chapter 12.

Except as provided below, a school must be accredited by an agency that has the authority to cover all of the institution's programs. An agency such as this is referred to as the school's primary accrediting agency. A school can have only one primary accreditor.

Nationally recognized accrediting agency or association

An accrediting agency or association which the Department has recognized to accredit or preaccredit a particular category of institution, school, or educational program in accordance with the provisions in 34 CFR Parts 602 and 603.

Obtaining a list of recognized accrediting agencies

The Department periodically publishes a list of nationally recognized accrediting bodies in the Federal Register, based on criteria given in 34 CFR Part 602. The list of accrediting agencies recognized for FSA purposes can be found on the Department's Website at: **www.ed.gov/admins/finaid/accred/index.html**

The list of accrediting agencies recognized for their preaccreditation categories is in section 7. Information about national recognition of states approval agencies is in Section 10.

School required to be licensed and accredited cites

34 CFR 600.4(a)(3) & (5)
34 CFR 600.5(a)(4) & (6)
34 CFR 600.6(a)(3) & (5)

Preaccredited:
A status granted by a nationally recognized accrediting agency or association to a public or private nonprofit institution that is progressing towards accreditation within a reasonable period of time.

Institutions of Higher Education (IHE)
34 CFR 600.4(a)(5)(i)
Postsecondary Vocational Institutions (PVI)
34 CFR 600.6(a)(5)(i)

Alternatives to accreditation cites

Institutions of Higher Education (IHE)
34 CFR 600.4(a)(5)(i)
Postsecondary Vocational Institutions (PVI)
34 CFR 600.6(a)(5)(ii)

A school may also be accredited by one or more programmatic accrediting agencies. A programmatic accrediting agency is one that accredits only individual educational programs that prepare students for entry into a profession, occupation, or vocation.

If a school is seeking to change primary accreditors it must first provide the Department (and the agencies) all materials documenting the reasons and causes for making the change. (Information on changes in accreditation can be found in Chapter 5.)

Alternatives to regular accreditation

The law provides two statutory alternatives to accreditation by a recognized accrediting agency. First, a public, or private nonprofit institution may be preaccredited by an agency or association that has been approved by the Department to grant such preaccreditation. Second, public postsecondary vocational educational institutions may be eligible for FSA funds if accredited by a state agency that the Department determines to be a reliable authority.

Primary accreditor

The primary accreditor typically is an accrediting agency whose scope is institution-wide rather than only programmatic. A participating institution must advise the Department which accrediting agency it wants to serve as its primary accrediting agency for the purpose of FSA eligibility. If a school offers only programs of a singular nature, the school's primary accreditor may be an agency that accredits only those specific educational programs.

Dual accreditation

If a school is accredited by two agencies at the same time, the school must designate which agency's accreditation will be used in determining institutional eligibility for FSA funds and must inform the Department via the E-App. Further, the school must provide to the Department (and to both agencies) all materials documenting the reasons and causes for dual accreditation before the school adds the additional accreditation. See Chapter 5 for more on changes in accreditation and loss of eligibility.

ADMISSIONS STANDARDS

An eligible institution may admit as regular students only persons who have a high school diploma or its recognized equivalent, or persons who are beyond the age of compulsory school attendance in the state in which the school is located. (Admissions standards also play a role in student eligibility, as discussed in *Volume 1, Chapter 1.)*

High school diploma

Unless required by its accrediting or state licensing agency, the school is not required to keep a copy of a student's high school diploma or GED (the recognized equivalent of a high school diploma, *see below*). Rather, the school may rely on the student's certification (including that on the FAFSA) that he or she has received the credential and a copy of the certification must be kept on file. This certification need not be a separate document. It may be collected on the school's admissions application. The school may also require the student to provide supporting documentation.

Recognized equivalent of a high school diploma

Generally, a recognized equivalent of a high school diploma is either a GED or a state certificate (received after the student has passed a state-authorized test) that the state recognizes as being equivalent to a high school diploma. However, the Department recognizes that there are special cases:

- If a student has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree, the student's academic transcript is considered equivalent to a high school diploma.
- A student without a high school diploma who is seeking enrollment in a program of at least the associate degree level, and who has excelled academically in high school and met formalized written admissions policies of the school, is also considered to have the equivalent of a high school diploma.

Criteria for ability-to-benefit and homeschool students

To be eligible for FSA funds, students who are beyond the age of compulsory attendance but who do not have a high school diploma or its recognized equivalent must meet ability-to-benefit criteria or meet the student eligibility requirements for a student who is home-schooled. (For more information on this student eligibility requirement, see *Volume 1, Chapter 1.*)

For purposes of student eligibility, a student who does not have a high school diploma or equivalent is eligible to receive FSA funds if the student completes a secondary school education in a homeschool setting that is treated as a home school or private school under state law (see *Volume 1, Chapter 1* for *student* eligibility rules). However, a student must be enrolled in an eligible institution to receive FSA funds, and an eligible institution may admit as regular students only

Admissions standards cite

34 CFR 600.4(a)(2)
34 CFR 600.5(a)(2)
34 CFR 600.6(a)(2)

Ability-to-benefit limitation
- 34 CFR 600.7(a)(1)(iv)

Approval of ATB tests
- 34 CFR 668, Subpart J

Homeschooling cites
- HEA 484(d)(3)
- 34 CFR 668.32(e), and
- DCL: GEN-02-11 and GEN 08-12

Regular student

A person who is enrolled (or is accepted for enrollment) in an eligible program for the purpose of obtaining a degree, certificate, or other recognized educational credential. Note that if an individual is not yet beyond the age of compulsory school attendance in the state in which the institution is physically located, the institution may only enroll the individual as a "regular student" if he or she has a high school diploma or its equivalent. 34 CFR 600.2

Admissions standards as a student eligibility issue

To be eligible for FSA funds, a student who does not have a high school diploma or its recognized equivalent must not only be beyond the age of compulsory attendance, but must also meet the criteria for home-schooled students or demonstrate "ability-to-benefit." See *Volume 1, Chapter 1.*

High school diploma

By high school diploma we mean one recognized by the state in which the high school is located. See *Volume 1, Chapter 1* for more information.

Readmission Requirements for Servicemembers NEW

A school may not deny readmission to a service member of the uniformed services for reasons relating to that service.

HEOA section 487 HEA section 484C
Effective date: August 14, 2008

students with a high school diplomas or equivalent, or students who are beyond the age of compulsory school attendance in the state in which the institution is located.

The Department considers that a home-schooled student is beyond the age of compulsory school attendance if the state in which the eligible institution is located does not consider the student truant once he or she has completed a homeschool program. You may rely on a homeschooled student's self-certification that he or she completed secondary school in a homeschool setting, as discussed in *Volume 1, Chapter 1*, under "Academic Qualifications."

Homeschooling example

If your state requires children to attend school until age 17, you may admit as a regular student a homeschooled student who completes the secondary curriculum at age 16 if your state would not consider the student truant and would not require that student to go back to high school, or continue a home-school education until age 17.

Limitation on students admitted without HS diploma or equivalent

A school that admits students who do not have a high school diploma nor its recognized equivalent has some additional considerations. A waiver of this limitation is possible for some schools. See the discussion under *Limitation on students without HS diploma or equivalent.*

"TWO-YEAR" RULE

To be eligible as a proprietary institution or a postsecondary vocational institution, a school must be legally authorized to give (and have continuously been giving) the same postsecondary instruction for at least two consecutive years prior to its application. The educational program(s) offered must remain substantially the same in length and subject matter, except for changes made because of new technology or requirements of other federal agencies. A school subject to the two-year rule may not award FSA funds to a student in a program that is not included in the school's approval documents.

If a school is subject to the two-year rule, during the school's initial period of participation in the FSA programs the Department will not approve additional programs that would expand the institution's eligibility. An exception would be considered if the school demonstrates that the program has been legally authorized and continuously provided for at least two years prior to the date of the request.

Branch campus

A branch campus is a location of a school that is geographically apart and independent of the main campus of the school. A location is considered to be independent of the main campus if the location:

- is permanent in nature;
- offers courses in educational programs leading to a degree, certificate, or other recognized educational credential;
- has its own faculty and administrative or supervisory organization; and
- has its own budgetary and hiring authority.

Branch campus cite
34 CFR 600.2 and 600.8

A branch campus of an eligible proprietary institution or postsecondary vocational institution seeking status as a main campus or freestanding institution is subject to the two-year rule. A branch campus must be designated as such by the Department for two years after certification as a branch campus before the branch can seek certification as a main or freestanding school.

Additional location cite

34 CFR 600.32

An additional location must obtain approval from the Department to become a branch campus. A branch campus then must operate as a branch campus for two years (satisfy the two-year rule) before it may be considered for status as a freestanding institution. Time as an additional location of an eligible proprietary institution or postsecondary vocational institution does not count toward the two-year rule.

ADDITIONAL INSTITUTIONAL ELIGIBILITY FACTORS

An otherwise eligible institution becomes an ineligible institution if the school violates, among other requirements—

- the correspondence course limitation or the correspondence student limitation,
- the incarcerated student limitation, or
- the 50% limit on students without a high school diploma or equivalent.

In addition, a school is not eligible if it (or its owner) files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving FSA program funds. A school that becomes ineligible because of one of these factors must immediately stop awarding FSA program funds and must comply with the requirements in 34 CFR 668.26 for a school that has lost its FSA participation. For more information on requirements when a school's FSA participation ends, see Chapter 12.

Demonstrations of compliance

All of the *limitation* requirements and the 90/10 Rule involve certain percentage calculations that are performed by the school either to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. For each of the tests enumerated above, a calculation performed by the school must be attested to by the independent auditor who prepares the school's audited financial statement or its FSA compliance audit (for more information on audits, see Chapter 12). If a school's initial or previous calculation was in error, the auditor's report must be part of the audit workpapers and must include a recalculation. The auditor's attestation report must indicate whether the school's determinations (including any relevant waiver or exception) are accurate. Requirements for demonstrating compliance with the 90/10 Rule are discussed below.

For each of the limitation requirements, the school must notify the Department (via Section G of the E-App) of the school's failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued waiver, as applicable. The school's notification must occur by July 31 following the end of an award year. A school that fails to meet any of these requirements loses its eligibility to participate in any FSA program as of the last day of the most recent award year for which the school failed to meet the requirement.

If a school loses its eligibility because it failed to meet one or more of the limitation requirements, the school cannot regain eligibility until it can demonstrate that it was in compliance with all of the limitation requirements for the most recently completed award year. Once this has occurred the school may apply to regain its eligibility. In addition, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.

Notification cite

34 CFR 600.7(h)

If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Electronic Application (E-App) (which deal with enrollment thresholds in these areas), the school must notify the Department via the E-App. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (Waivers are available for the correspondence student limitation, the incarcerated student limitation, and the ATB limitation.)

Conditions of institutional ineligibility

34 CFR 600.7

Disqualified individuals and the PPA

In its PPA, a school agrees to not knowingly employ in a capacity involving the administration of FSA funds, anyone who has pled *nolo contendre* or guilty or has been administratively or judicially determined to have committed fraud or any other material violation of the law involving federal, state, or local government funds.
(34 CFR 668.14(b) (18)(i)).

90/10 Rule NEW

The 90/10 Rule was formerly discussed as as a part of the definition of an eligible school. The HEOA of 2008 moved the 90/10 Rule to the Program Participation Agreement from Title I of the HEA..
See Chapter 3 for further discussion of the 90/10 rule.

90/10 cite
Sec. 102 of the HEA
34 CFR 600.5

For schools using a calendar year
as their fiscal year, their most recently completed fiscal year is the one that ended on December 31, 2004. For those schools using the award year as their fiscal year, their most recently completed fiscal year will be the one that ends on June 30, 2005.

Financial statement notification
A school must send notice of its failure to satisfy the 90/10 Rule to the Department by U.S. Mail to the following address:

U.S. Department of Education
School Eligibility Channel
Data Management and Analysis Division
Document Receipt and Control Center
830 First Street, NE
Room 71-I-1
Washington, DC 20002-5402

Phone: (to confirm receipt only)
(202) 377-3161 or (202) 377-3155.

Correspondence limitations cite
Sec. 481(a)(3)(A) and (B) of the HEA
34 CFR 600.7(a)(1)(i) and (ii)

Correspondence student eligibility
For information about a student's eligibility for FSA funds while enrolled in a correspondence course and cost of attendance information for correspondence courses, see *Volume 1, Chapter 1 and Volume 3, Chapter 2*.

If a school becomes ineligible because it files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving FSA program funds, the school must notify the Department of the change within 10 days. The loss of eligibility is effective as of the date of the bankruptcy, or the date the school or individual pleads to or is found responsible for the crime, as applicable. A loss of eligibility for these two reasons is permanent. The institution's eligibility cannot be reinstated.

Correspondence course and correspondence student limitation

In general, a school does not qualify as eligible to participate in the FSA programs if, for the latest complete award year—

- more than 50% of the school's courses were correspondence courses (correspondence course limitation).

  (This limitation does not apply to a school that mainly provides vocational adult education or job training (as defined under Sec. 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act).)

- 50% or more of the school's regular enrolled students were enrolled in correspondence courses (correspondence student limitation).

  This limitation may be waived for a school that offers a two-year associate degree or four-year baccalaureate degree program if the school demonstrates to the Department that in that award year, the students enrolled in its correspondence courses receive no more than 5% of the total FSA program funds received by all of the school's students in the award year.

For additional information on the effects of correspondence courses and students on institutional eligibility, see chapter 8.

Incarcerated student limitation

A school is not eligible for FSA program participation if, in its latest complete award year, more than 25% of its regular students are incarcerated. A public or private nonprofit school can ask the Department to waive this limitation (see sidebar for details). If granted, the waiver is effective as long as the public or private nonprofit school continues to meet the waiver requirements each award year. For information on the eligibility of incarcerated students for FSA assistance, see *Volume 1, Chapter 1*.

Limitation on students admitted without HS diploma or equivalent

Unless a school provides a four-year bachelor's degree program, or a two-year associate degree program, the school will not qualify as an

eligible institution if, for its latest complete award year, more than 50% of its regular enrolled students had neither a high school diploma nor its equivalent.

If a public or private nonprofit institution exceeds the 50% limit because it serves significant numbers of these students through contracts with federal, state, or local government agencies, the Department may waive the limitation.

The waiver will only be granted if no more than 40% of the public or private nonprofit regular students not served through contracts with federal, state, or local government agencies to provide job training do not have a high school diploma or its equivalent. If granted, the waiver may be extended in each year the public or private nonprofit school continues to meet the requirements. The public or private nonprofit school's calculation must be attested to by an independent auditor.

Bankruptcy

A school is not an eligible institution if the school, or an affiliate of the school that has the power, by contract or ownership interest, to direct or cause the direction of the management of policies of the school, files for relief in bankruptcy or has entered against it an order for relief in bankruptcy.

Crimes involving FSA program funds

In order to safeguard FSA funds, schools are prohibited from having as principals or employing or contracting with other organizations that employ individuals who have engaged in the misuse of government funds. Specifically, a school must not knowingly—

1. employ in a capacity that involves the administration of the FSA programs or the receipt of funds under those programs, an individual who has been convicted of, or has pled *nolo contendere* or guilty to, a crime involving the acquisition, use, or expenditure of federal, state, or local government funds, or has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds;
2. contract with a school or third-party servicer that has been terminated from the FSA programs for a reason involving the acquisition, use, or expenditure of federal, state, or local government funds, or that has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds; or
3. contract with or employ any individual, agency, or organization that has been, or whose officers or employees have been:

Incarcerated student defined

An "incarcerated student" is a student who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm, or other similar correctional institution (does not include detention in a halfway house, home detention, or weekend-only sentences).

Waiver of incarcerated student limitation

➔ For a public or private nonprofit school offering only two-year or four-year programs that lead to associate or bachelor's degrees, the waiver applies to all programs offered at the school.

➔ However, if the public or private nonprofit school offers other types of programs, the waiver would apply to any of the school's two-year associate degree programs or four-year bachelor's degree programs, and also to any other programs in which the incarcerated regular students enrolled have a 50% or greater completion rate. (The calculation of this completion rate is specified in Section 600.7(e)(2) of the Institutional Eligibility regulations and must be attested to by an independent auditor.)

➔ A nonprofit school may request the waiver using the E-App, by answering the questions in "Section G" and explaining in "question 69."

(see **http://www.eligcert.ed.gov**).

Incarcerated student limitation cite

34 CFR 600.7(a)(1)(iii) and 600.7(c)

Foreign School Information

You can find additional information about foreign school eligibility in "The Student Financial Aid Handbook for Foreign Schools" on the IFAP Web site located at **http://ifap.ed.gov**

a. convicted of, or pled nolo contendere or guilty to, a crime involving the acquisition, use, or expenditure of federal, state, or local government funds; or

b. administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds.

FOREIGN SCHOOLS ELIGIBLE FOR FFEL PROGRAMS

In general, by law, a foreign school can participate in the FFEL programs if the foreign school is comparable to an institution of higher education (as defined earlier in this section) and has been approved by the Department. Additionally, the regulations set out specific requirements for foreign medical schools and foreign veterinary schools.

APPLYING AS AN ELIGIBLE NONPARTICIPATING SCHOOL

Some schools choose to establish their eligibility for FSA programs but elect not to participate in them, because designation as an eligible institution qualifies a school or its students to apply to participate in non-FSA programs, such as the HOPE and Lifetime Learning Tax Credit. In addition, only students attending eligible institutions qualify for in-school deferments of payments on their federal education loans

A nonparticipating eligible institution wishing to be designated an eligible nonparticipating institution may submit an E-App to the Department at any time. The application must be materially complete.

Following submission of an application, the Department will contact the school if it has additional questions about the application. Generally, this will be within 90 days of the Department receiving an application. After completing its review, if a school's application has been approved, the Department will send an electronic notice to the president and financial aid officer notifying them that the school is eligible and that its approval letter and ECAR must be printed and maintained. If the school's application has not been approved, the Department will notify the school and explain why.

Program Eligibility

CHAPTER 2

Many of the program eligibility requirements are derived from the institutional definitions that we discussed in Chapter 1. However, bear in mind that institutional eligibility does not mean that all programs at the school are eligible. A financial aid office should have a process to confirm the eligibility of an educational program before paying any FSA funds to students enrolled in that program, and should promptly report any changes to the Department (see Chapter 5).

DETERMINING PROGRAM ELIGIBILITY

Because a school's eligibility does not necessarily extend to all its programs, the school must ensure that a program is eligible before awarding FSA ~~program~~ funds to students in that program. The school is responsible for determining that a program is eligible.

In addition to determining that the program meets the eligible program criteria given in this chapter, the school should make certain that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not require that particular programs be accredited). The school should also make certain that it is authorized by the appropriate state to offer the program (if the state licenses individual programs at postsecondary institutions). (Please see the chart on *Eligible Institutions* and the discussion under *Legal authorization by a state* in *Chapter 1*.)

A school's eligibility extends to all eligible programs and locations that were identified on the school's E-App, unless the School Participation Team (SPT) determines that certain programs or locations did not meet the eligibility requirements or it has not approved the expansion for purposes of FSA eligibility. In general, the school's eligible nondegree programs and locations are specifically named on the *Eligibility and Certification Approval Report* (ECAR). Additional locations and programs may be added later. Once the SPT has approved the program/location, it will notify the school and you can print out the updated ECAR.

If a program offered through telecommunications or continuing education meets the definition of an eligible program, students enrolled in that program must be considered for FSA program assistance on the same basis as students enrolled in eligible programs offered through traditional modes. With some limitations, if a program offered through correspondence meets the definition of an eligible program, students enrolled in that program will be considered eligible (*see Chapter 8*).

CHAPTER 2 HIGHLIGHTS

- Program eligibility requirements
  - → Determination of program eligibility
  - → Eligible programs at public or private nonprofit institutions of higher education
  - → Eligible programs at proprietary or postsecondary vocational institutions
- Additional eligibility requirements
  - → ACG/National SMART programs
  - → ESL programs
  - → Study-abroad programs
  - → Direct assessment programs
  - → Flight school programs
- Clock-hour/credit-hour conversions

- Related information
  - → Student eligibility for specific educational programs—Volume 1, Chapter 1
  - → Types of educational programs defined for eligible institutions—Volume 2, Chapter 1
  - → Updating the E-APP for changes to programs and locations—Volume 2, Chapter 5

Program eligibility cite

34 CFR 668.8
34 CFR 691.2(b)

Program eligibility and school & student eligibility

To qualify as an eligible institution, a school must offer at least one eligible program. Not all programs at an eligible institution must be eligible, but at least one of the programs at the school must meet the eligible program requirements. Except for students enrolled in certain preparatory or teacher certification courses, a student must be enrolled in an eligible program to receive FSA funds (for more information, see ***Volume 1, Chapter 1***).

Recognized occupation

All non-degree programs must prepare students in that program for gainful employment in a specific recognized occupation. (This requirement also applies to degree programs at proprietary schools.)

A "recognized occupation" is one that is listed in the "occupational division" of the most recent edition of the Dictionary of Occupational Titles (DOT) (published by the U.S. Department of Labor) or one that is considered by ED, in consultation with the Department of Labor, to be a recognized occupation.

The Department of Labor last updated the DOT in 1991. You can find the DOT at

http://www.oalj.dol.gov/libdot.htm

The Department of Labor has replaced the DOT with the Occupational Information Network (O*NET OnLine) available at

http://online.onetcenter.org/

Please note that if the title of your program does not clearly indicate the specific occupation that the program prepares the student for, you must provide that information on the school's E-App.

BASIC TYPES OF ELIGIBLE PROGRAMS

Eligible programs at an institution of higher education

At a school that qualifies as an institution of higher education, the following types of programs are eligible for FSA purposes:

- a program that leads to an associate, bachelor's, professional, or graduate degree.
- a program of at least 2 academic years in duration that is acceptable for full credit toward a bachelor's degree,
- a program of at least 1 academic year in duration that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation,
- a certificate or diploma training program that is less than 1 year (if the school also meets the definition of a postsecondary vocational institutions).

Eligible programs at a proprietary or postsecondary vocational institution

There are three types of eligible programs at a proprietary institution or a postsecondary vocational institution. All of these programs must have a specified number of weeks of instruction, and must provide training that prepares a student for gainful employment in a recognized occupation.

- The first type of eligible program must provide at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction. The program may admit as regular students persons who have not completed the equivalent of an associate degree.
- The second type of eligible program must provide at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks of instruction. The program must be a graduate or professional program or must admit as regular students only persons who have completed the equivalent of an associate degree.
- The third type of program is known as the short-term program. A short-term program qualifies for the FFEL and Direct Loan programs only. This type of program must provide at least 300 but less than 600 clock hours of instruction offered during a minimum of 10 weeks of instruction. The program must admit as regular students some persons who have not completed the equivalent of an associate degree.

There are several additional requirements that a short-term program must meet. The program must—

- have verified completion and placement rates of at least 70% (see chart),
- not be more than 50% longer than the minimum training period required by the state or federal agency, if any, for the occupation for which the program of instruction is intended, and
- have been in existence for at least one year.

Completion & placement rates for short-term programs

For the purpose of demonstrating compliance with the standards for short-term (300-600 clock- hour) programs, a school must calculate the completion and placement rates for the award year. The independent auditor who prepares the school's compliance audit report must attest to the accuracy of the school's calculation of completion and placement rates.

$$\frac{\text{Number of regular students who earned credentials for successfully completing the program within 150\% of the length of the program}}{\text{Number of regular students enrolled in the program for the award year} - \text{number of regular students who withdrew with a 100\% refund of tuition and fees} - \text{number of regular students enrolled at the end of the award year}} = \text{Completion Rate}$$

$$\frac{\text{Number of students who obtained employment* within 180 days of receiving credential and who are employed (or have been employed) for at least 13 weeks following receipt of credential}}{\text{Number of regular students who received credential for successfully completing the program during the award year}} = \text{Placement Rate}$$

**in the recognized occupation for which they were trained or in a related comparable occupation*

The school must document the employment of any student it includes as employed in the placement rate calculation. Examples of such documentation include, but are not limited to, a written statement from the employer, signed copies of state or federal income tax forms, or written evidence of payment of Social Security taxes.

The school must reasonably determine whether a related occupation is comparable. For instance, for a student who was trained as an auto mechanic, it is reasonable to determine that a job as a boat mechanic is comparable. However, for a person trained in retail sales management, a counter-service job at a fast-food restaurant is not comparable.

Additional ESL considerations

➔ A school must define the effect of any noncredit remedial courses (including ESL courses) on a student's academic progress. See Chapter 10 in this Volume.

➔ Awarding FSA loans to a student over a series of semesters for ESL or remedial coursework could potentially exhaust the student's eligibility under the aggregate loan limits before the student completes his/her educational program. *See Volume 1, Chapter 1.*

Grant programs

The Higher Education Reconciliation Act of 2005 (HERA) created two new grant programs: Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (National SMART) Grant.
34 CFR 691

Direct Assessment programs

HERA also extended FSA eligibility to educational programs that use Direct Assessment to measure student learning.
34 CFR 668.10

ADDITIONAL ELIGIBILITY REQUIREMENTS

There are additional FSA program eligibility requirements for specific educational programs. For example, only undergraduate educational programs are eligible under the Pell Grant and FSEOG programs. Correspondence programs are not eligible unless they meet the general requirements for an eligible program and are required for the student's regular program of study leading to a degree.

ACG and National SMART Grant Programs

To qualify as an eligible program for the ACG and National SMART Grant programs, an educational program must also meet the following requirements:

- For ACGs, the program must lead to an associate's degree or a bachelor's degree; be a two-academic-year program acceptable for full credit toward a bachelor's degree; or be a graduate degree program that includes at least 3 academic years of undergraduate education.
- For National SMART Grants, the program must lead to a bachelor's degree in an eligible major or be a graduate degree program in an eligible major that includes at least 3 academic years of undergraduate education. (See *Volume 1, Chapter 6* for more information on National SMART Grant eligible majors.)

ESL Programs

Students enrolled in a program that consists solely of English as a Second Language (ESL) instruction are eligible *for FSA funds only from the Pell Grant program.* An ESL program must meet the general requirements for an eligible program (for example, it must lead to a degree or other credential). Moreover, *an ESL program may admit only students who need instruction in English to be able to use the knowledge, training, or skills they already have.* The school must document its determination that the ESL instruction is necessary for each student enrolled.

A school that wishes to award FSA assistance to students enrolled in an ESL program must request an eligibility determination for the program from the Department.

Direct assessment programs

Instead of using credit hours or clock hours as a measure of student learning, some instructional programs use direct assessment of student learning, or recognize the direct assessment of student learning by others. Examples of direct measures include projects, papers, examinations, presentations, performances, and portfolios. The assessment must be consistent with the accreditation of the institution or program using the results of the assessment.

A school that wishes to award FSA funds in a program using direct assessment must apply to the the Department for approval of the program, using the E-App. The application must specify the equivalent number of credit or clock hours for a direct assessment program (or portion of the program, as applicable). (The clock or credit hours will be used as the basis for the FSA award calculations described in Volume 3.) As a part of its application, the school must explain how it determined the equivalent number of credit or clock hours for the program.

A direct assessment program may use learning resources (e.g., courses or portions of courses) that are provided by entities other than the school providing the direct assessment program without regard to the limitations on contracting for part of an educational program (*see Chapter 8*).

FSA funds may be awarded only for learning that results from instruction provided, or overseen, by the school. FSA funds cannot be awarded for any portion of the program based on study or life experience prior to enrollment in the program, or based on tests of learning that are not associated with educational activities overseen by the school.

Direct assessment as a measure of learning

Direct assessment of student learning means a measure by the institution of what a student knows and can do in terms of the body of knowledge making up the educational program. These measures provide evidence that a student has command of a specific subject, content area, or skill or that the student demonstrates a specific quality such as creativity, analysis or synthesis associated with the subject matter of the program.

Academic year & weeks

An academic year in a direct assessment program is a period of instructional time that consists of a minimum of 30 weeks of instructional time. A week of instructional time in a direct assessment program is any 7-day period in which at least 1 day of educational activity occurs.

Educational activity in a direct assessment program includes regularly scheduled learning sessions, faculty-guided independent study, consultations with a faculty mentor, development of an academic action plan addressed to the competencies identified by the school, or, in combination with any of the assessments.

Applying for eligibility for a program using direct assessment

The school's application must include an attachment that explains the following—

(1) A description of the educational program, including the educational credential offered (degree level or certificate) and the field of study;
(2) A description of how the assessment of student learning is done;
(3) A description of how the direct assessment program is structured, including information about how and when the school determines on an individual basis what each student enrolled in the program needs to learn;
(4) A description of how the institution assists students in gaining the knowledge needed to pass the assessments;
(5) The number of semester or quarter credit hours, or clock hours, that are equivalent to the amount of student learning being directly assessed for the certificate or degree;
(6) The methodology the school uses to determine the number of credit or clock hours to which the program is equivalent;
(7) The methodology the institution uses to determine the number of credit or clock hours to which the portion of a program an individual student will need to complete is equivalent;
(8) Documentation from the school's accrediting agency indicating that the agency has evaluated the school's offering of direct assessment program(s) and has included the program(s) in the school's grant of accreditation;
(9) Documentation from the accrediting agency or relevant state licensing body indicating agreement with the school's claim of the direct assessment program's equivalence in terms of credit or clock hours; and
(10) Any other information the Department may require to determine whether to approve the school's application.

Independent study
For purposes of direct assessment programs, independent study occurs when a student follows a course of study with predefined objectives but works with a faculty member to decide how the student is going to meet those objectives. The student and faculty member agree on what the student will do (e.g., required readings, research, and work products), how the student's work will be evaluated, and on what the relative timeframe for completion of the work will be. The student must interact with the faculty member on a regular and substantive basis to assure progress within the course or program.

Several types of programs and coursework that might otherwise be eligible for FSA purposes are not eligible if they involve direct assessment:

- Programs at foreign schools.
- Preparatory coursework required for entry into an eligible program (*see Volume 1, Chapter 6*).
- Courses necessary for an elementary of secondary school teaching credential or certificate (*see Volume 1, Chapter 6*).
- Remedial coursework measured through direct assessment.

However, note that remedial instruction that is offered in credit or clock hours in conjunction with a direct assessment program, is eligible for FSA funds.

If the school plans to change any aspect of the program described in the application, it must obtain prior approval from the Department by reapplying.

Study abroad programs

A participating institution may establish programs of study abroad for which its students are eligible to receive assistance through the FSA programs. A study abroad program is an eligible program if—

- students studying abroad concurrently remain enrolled at their eligible home school; and
- the eligible home school awards academic credit for the program of study abroad.

While the study abroad program must be considered part of the student's eligible program, it does not have to be a **required** part of the student's eligible degree program in order to be an eligible study abroad program. However, a school must have a written agreement with the institution offering the study abroad program, or with an entity representing that institution (*see Chapter 7*). Moreover, in the information it provides to students about a study abroad program, a school must inform students about the availability of FSA program assistance.

Flight school programs

Under the FFEL programs, a flight school program must maintain current valid certification by the Federal Aviation Administration to be eligible.

CLOCK-HOUR/CREDIT-HOUR CONVERSIONS IN DETERMINING PROGRAM ELIGIBILITY

The clock-hour/credit-hour requirements *both* 1) determine program eligibility and 2) affect the amount of FSA program funds a student enrolled in the program may receive. Here, we discuss the effect of clock-hour/credit-hour conversions on program eligibility. (For a discussion of the effects of clock-hour/credit-conversions on enrollment level and eligibility for FSA program assistance, see *Volume 3 – Chapter 1.*)

The clock-hour/credit-hour conversion formulas determine, for FSA purposes, the number of credit hours in a program. A school must determine if an undergraduate program measured in credit hours qualifies as an eligible program after using the required formulas unless the school offers an undergraduate program in credit hours, *and*—

- the program is at least two academic years in length and provides an associate degree, a bachelor's degree, a professional degree; or
- each course within the program is acceptable for full credit toward that institution's associate degree, bachelor's degree, professional degree, and the degree offered by the school requires at least two academic years of study.

The school must use the clock-hour/credit-hour conversion formula to determine whether the undergraduate program qualifies as an eligible credit-hour program for FSA purposes. In addition to schools that meet the aforementioned criteria, public and private nonprofit hospital-based diploma schools of nursing are exempt from using the clock-to-credit hour conversion formula to calculate awards for the FSA programs.

Formulas for clock-hour/credit-hour conversion

To determine the number of credit hours in a program for FSA purposes, schools must use one of the following formulas.

For a semester or trimester hour program

$$\frac{\text{Number of clock hours in the credit-hour program}}{30}$$

For a quarter hour program

$$\frac{\text{Number of clock hours in the credit-hour program}}{20}$$

In order to meet the minimum program eligibility standards, the conversion formula must yield one of the following results:

- a program offered in semesters or trimesters must provide at least 16 semester or trimester credit hours over 15 weeks of

Conversion cite
34 CFR 668.8(k) & (l)

Measuring attendance
A student's period of attendance is measured according to one of several commonly accepted academic standards. A clock hour is based on an actual hour of attendance (though each hour may include a 10-minute break). Credit hours are typically based on two hours of homework for each hour of class attendance.

A school is not permitted to count more than one clock hour per 60-minute period; in other words, a school may not schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments.

The result would be that seven hours of consecutive instruction would count as 8.4 clock hours (420 minutes ÷ 50 minutes = 8.4 hours).

Seven 60-minute periods of instruction may not count for more than seven clock hours.

Acceptable doesn't mean accepted
Consider a student who completes a two-year program in plumbing and then wants to reenroll in the school's Bachelor's program in construction technology.

Any of the five plumbing courses taken by the student in the two-year plumbing program may be used to satisfy the plumbing requirement in construction technology. However, the construction technology program requires only two plumbing electives, and only two plumbing courses are accepted toward the student's degree in construction technology.

Since all of the plumbing courses that are part of the two-year program are acceptable in the construction technology program, the fact that only two plumbing courses are accepted does not disqualify the plumbing program for the exception.

Rounding prohibited
Because the results of these formulas determine the eligibility of a program, the resulting number of credit hours may not be rounded..

CLOCK-HOUR/CREDIT-HOUR PROGRAM CONVERSION EXAMPLE

Sternberg University (SU) offers a two-year nondegree program measured in semester credit hours. Courses within the program are not creditable toward a degree at SU. Students in the program earn 16 credit hours per semester.

SU determines that there are 1,440 clock hours of instruction in the program. There are 330 clock hours of instruction in the first and second semesters (660 first-year total), and 390 clock hours of instruction in the third and fourth semesters (780 second-year total).

By applying the conversion formula the school determines there are 48 credit hours in the program (1,440 ÷ 30 = 48).

Because the program is at least 15 weeks in length and (through the conversion formula) has been determined to offer at least 24 credit hours of instruction, it is an eligible program provided it is otherwise eligible (see the chart on Eligible Programs and the discussion under Program Eligibility Requirements in chapter 1)

Exemption if ED determines that the program offers "equivalent degree"

The regulations also stipulate that the school is exempted from using the clock-hour/credit-hour formulas if the Department determines that the program provides a degree equivalent to an associate degree, a bachelor's degree, or a professional degree. This does not permit a school to ask for a determination that a nondegree program is equivalent to a degree program.

instructional time (16 semester or trimester credit hours per year is 3/4 time; 24 per year is full time);

- a program offered in quarter hours must provide at least 24 quarter credit hours over 15 weeks of instructional time (24 quarter credit hours per year is 3/4-time; 36 per year is full-time);
- a 10-week program that admits as regular students only persons who have completed the equivalent of an associate degree must provide at least 8 semester or trimester credit hours, or 12 quarter credit hours.

If a school applies the appropriate formula and finds that a program is eligible, the converted credit hours are used to determine the amount of FSA funds that a student who is enrolled in the program is eligible to receive as explained in *Volume 3, Chapter 1.*

Credits approved by state and accrediting agencies

When some states and accrediting agencies approve programs, they also approve the number of credits in the programs. The credits approved by states and accrediting agencies are *not* necessarily the credits for FSA purposes. For FSA purposes, the number of credits in the program will be those determined by the conversion formula, and they will never be more than those approved by a state or accrediting agency.

CHAPTER 3

General FSA Participation Requirements

A school that participates in the Federal Student Aid (FSA) programs must meet certain requirements, including providing drug and alcohol abuse prevention programs, and must adhere to certain standards of conduct with respect to lenders and third-party servicers. In some cases, a participating school may be required to report information about funds paid for lobbying activities and gifts or contracts involving foreign sources.

CONTRACTS WITH THIRD-PARTY SERVICERS

Schools are permitted to contract with consultants for assistance in administering the FSA programs. However, the school ultimately is responsible for the use of FSA funds and will be held accountable if the consultant mismanages the programs or program funds.

The General Provisions regulations contain requirements for all participating institutions that contract with third-party servicers. As defined by regulation, a third-party servicer is an individual or organization that enters into a contract (written or otherwise) with a school to administer any aspect of the school's FSA participation.

Examples of functions that are covered by this definition are:

- processing student financial aid applications, performing need analysis, and determining student eligibility or related activities;
- certifying loans, servicing loans, or collecting loans;
- processing output documents for payment to students, and receiving, disbursing, or delivering FSA funds;
- conducting required student consumer information services;
- preparing and certifying requests for advance cash monitoring or reimbursement funding, preparing and submitting notices and applications required of eligible and participating schools, or preparing the Fiscal Operations Report and Application to Participate (FISAP); and
- processing enrollment verification for deferment forms or Student Status Confirmation Reports.

CHAPTER 3 HIGHLIGHTS

- Contracts with 3rd-party servicers
  - ➔ Excluded functions/individuals
  - ➔ Requirements for contracting
  - ➔ Notifying the Department of contracts
- Incentive compensation
  - ➔ 12 "safe harbors"
- FFEL School/Lender Relationships & Activities
  - ➔ Preferred lender lists
  - ➔ Prohibited activities in loan programs
  - ➔ Code of Conductr
- 90/10 rule
- School lender in FFEL program
- Tuition rates for military families at public institutions
- Program Participation Agreement

Related information

➔ Administrative Capability, Volume 2, Chapter 10
➔ Financial Standards, Volume 2, Chapter 11

Assessing your school's compliance

To assess your school's compliance with the provisions of this chapter see the FSA Assessment module for "Institutional Eligibility" at:
ifap.ed.gov/qahome/fsaassessment.html

Third-party servicer cite

34 CFR 668.1, 668.2, 668.11, 668.14, 668.15, 668.16, 668.23, 668.25, 668.81, 668.82, 668.83, 668.84, 668.86, 668.87, 668.88, 668.89, and Subpart H.

Institutional liability

A school remains liable for any and all FSA-related actions taken by the servicer on its behalf.

Excluded functions

Examples of functions excluded from the definition of "third-party servicer" are:

- performing lockbox processing of loan payments;
- performing normal electronic fund transfers (EFTs) after being initiated by the school;
- publishing ability-to-benefit tests;
- acting as a Multiple Data Entry Processor (MDE);
- financial and compliance auditing;
- mailing documents prepared by a school or warehousing school records;
- participating in a written arrangement with other eligible schools to make eligibility determinations and FSA awards for certain students (see Chapter 7); and
- providing computer services or software.

A person or organization performing these functions is not considered to be a third-party servicer and is not subject to third-party servicer requirements.

Excluded individuals

An employee of a school is not a third-party servicer. For this purpose, an employee is one who:

- works on a full-time, part-time, or temporary basis,
- performs all duties on site at the school under the supervision of the school,
- is paid directly by the school,
- is not employed by or associated with a third-party servicer, and
- is not a third-party servicer for any other school.

Requirements for contracting with a third-party servicer

For purposes of administering FSA programs, a school may only contract with an eligible third-party servicer as specified by the regulatory criteria. Under such a contract, the servicer agrees to comply with all applicable requirements, to refer any suspicion of fraudulent or criminal conduct in relation to FSA program administration to the Department's Inspector General, and, if the servicer disburses funds, to confirm student eligibility and make the required Returns to Title IV funds when a student withdraws.

If the contract is terminated, or the servicer ceases to perform any functions prescribed under the contract, the servicer must return to the school all unexpended FSA funds and records related to the servicer's administration of the school's participation in the FSA programs.

Notifying the Department of contracts

Schools are required to notify the Department of all existing third-party servicer contracts. If a school has submitted information regarding its third-party servicers as part of applying for certification or recertification, no additional submission is required.

If a school has not notified the Department, the school immediately must do so by completing Section J of the **E-App**.

A school is required to notify the Department if:

- the school enters into a contract with a new third-party servicer,
- the school significantly modifies a contract with an existing third-party servicer,
- the school or one of its third-party servicers terminates a contract, or
- a third-party servicer ceases to provide contracted services, goes out of business, or files for bankruptcy.

Notification to the Department (which must include the name and address of the servicer and the nature of the change or action) must be made within 10 days of the date of the change or action.

A school must provide a copy of its contract with a third-party servicer only upon request. A school is not required to submit the contract as part of the recertification process.

Incentive compensation in the law & regulations

The prohibition of incentive compensation appears in Section 487(a)(20) of the HEA and in FSA regulations at 34 CFR 668.14(b)(2). In response to numerous requests from schools, and after engaging in negotiations with the financial aid community, the Department amended the regulations on November 1, 2002. ED developed the 12 permissible payment arrangements found in 34 CFR 668.14(b)(22)(ii) to provide an illustrative framework a school may use to make its own determination about compliance with the HEA. The list is not exhaustive, and schools that have additional questions should consult with their legal counsel when making this determination. The Department does not review or approve an individual school's payment arrangements.

INCENTIVE COMPENSATION

Schools may not provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any individual or entity engaged in recruiting or admission activities or in making decisions regarding the award of FSA program funds.

However, ED has identified 12 types of payment and compensation plans that do not violate this statutory prohibition. If an incentive payment arrangement falls within any one of these "safe harbors," that payment arrangement is permissible.

Adjustments to employee compensation based on merit

Under this safe harbor, a school may make up to two adjustments (upward or downward) to a covered employee's annual salary or fixed hourly wage rate within any 12-month period without the adjustment being considered an incentive payment, provided that no adjustment is based solely on the number of students recruited, admitted, enrolled, or awarded financial aid. One cost-of-living increase that is paid to all or substantially all of the school's full-time employees will not be considered an adjustment under this safe harbor. In addition, with regard to overtime, if the basic compensation of an employee is not an incentive payment, neither is overtime pay required under the Federal Fair Labor Standards Act.

The 12 "safe harbors"

The payment or compensation plans included in the safe harbors cover the following subjects:

1. adjustments to employee compensation—34 CFR 668.14(b)(22)(ii)(A),
2 recruitment into programs that are not eligible for FSA program funds—34 CFR 668.14(b)(22)(ii)(B)
3. payment for securing contracts with employers—34 CFR 668.14(b)(22)(ii)(C)
4. profit-sharing or bonus payments—34 CFR 668.14(b)(22)(ii)(D)
5. compensation based upon students completing their programs of study—3 4 CFR 668.14(b)(22)(ii)(E)
6. payments to employees for pre-enrollment activities—34 CFR 668.14(b)(22)(ii)(F)
7. compensation paid to managerial and supervisory employees not involved in admissions or financial aid—34 CFR 668.14(b)(22)(ii)(G)
8. token gifts—34 CFR 668.14(b)(22)(ii)(H)
9. profit distributions—34 CFR 668.14(b)(22)(ii)(I)
10. Internet-based recruiting activities—34 CFR 668.14(b)(22)(ii)(J)
11. payments to third parties for services to the school that do not include recruitment activities—34 CFR 668.14(b)(22)(ii)(K)
12. payments to third parties for services that include recruitment activities—34 CFR 668.14(b)(22)(ii)(L)

Enrollments in programs that are not eligible for FSA funds

A school may provide incentive compensation to recruiters based upon their recruitment of students who enroll only in programs that are not eligible for FSA funds.

Contracts with employers to provide training

In general, the business-to-business marketing of employer-provided education is not prohibited by the incentive compensation rules. Therefore, in some cases, a school may make payments to recruiters who arrange contracts between the school and an employer, where the employer pays the tuition and fees for its employees (either directly to the school or by reimbursement to the employee).

As long as there is no direct contact by the school's representative with prospective students, and as long as the employer is paying at least 50% of the training costs, incentive payments to recruiters who arrange for such contracts are not covered by the incentive payment prohibition, provided that the incentive payments are not based on the number of employees who enroll, or the amount of revenue generated by those employees.

Profit-sharing or bonus payments

Profit-sharing and bonus payments to all or substantially all of a school's full-time employees are not incentive payments based on success in securing enrollments or awarding financial aid. As long as the profit-sharing or bonus payments are substantially the same amount or the same percentage of salary or wages, and as long as the payments are made to all or substantially all of the school's full-time professional and administrative staff, compensation paid as part of a profit-sharing or bonus plan is not considered a violation of the incentive payment prohibition. In addition, such payments can be limited to all or substantially all of the full-time employees at one or more organizational levels at the school, except that an organizational level may not consist predominantly of recruiters, the admissions staff, or the financial aid staff.

Compensation based upon completion of program or academic year

Compensation that is based upon students successfully completing their educational programs, or one academic year of their educational programs, whichever is shorter, does not violate the incentive compensation prohibition. This safe harbor recognizes that completing a program or the first academic year of a program is a reliable indicator that the students were qualified to enroll in the program.

Successful completion of an academic year means that the student has earned at least 24 semester or trimester credit hours or 36 quarter credit hours, or has successfully completed at least 900 clock hours of instruction at the school. Completion of 26/30 weeks of instructional time is not required in this case, and time may not be substituted for credits earned. Therefore, this safe harbor applies when a student earns, for example, 24 semester credits, no matter how short or long a time that takes.

Covered employee

One who is involved in recruitment, admissions, enrollment, or financial aid activities

Compensation based on program completion: credits must be earned in residence

For this purpose, a school may not count transfer credits, credits awarded through successful completion of testing, credits for life experience, and any other credits not earned through attendance at that school toward the successful completion of an academic year.

Buying third-party leads

Although buying leads from third parties for a flat fee is not a clerical pre-enrollment activity under this safe harbor, the activity is not covered under the incentive compensation prohibition.

Pre-enrollment activities

Generally, clerical pre-enrollment activities are not considered recruitment or admission activities. Accordingly, a school may make incentive payments to individuals whose responsibilities are limited to pre-enrollment activities that are clerical in nature.

However, soliciting students for interviews is a recruitment activity, not a pre-enrollment activity, and individuals may not receive incentive compensation based on their success in soliciting students for interviews. In addition, since a recruiter's job description is to recruit, it would be very difficult for a school to document that it was paying a bonus to a recruiter solely for clerical pre-enrollment activities.

Managerial and supervisory employees

The incentive payment prohibition, does not extend to positions above the level of first-line supervisors or managers. The incentive payment prohibition applies only to individuals who perform activities related to recruitment, admissions, enrollment, or the financial aid awarding process and their immediate supervisors. Direct supervisors are included in the prohibition because their actions generally have a direct and immediate impact on the individuals who carry out these covered activities.

Token gifts

The maximum cost of a token, noncash gift that may be provided to an alumnus or student is $100, provided that:

- the gifts are not in the form of money, and
- no more than one gift is provided annually to an individual.

The cost basis of a token noncash gift is what the school paid for it. The value is the fair market value of the item. The fair market value of an item might be considerably greater than its cost. A high value item for which the school paid a minimal cost would not be considered a token gift.

Profit distributions

Profit distributions to owners are not payments based on success in securing enrollments or awarding financial aid. Therefore any owner, whether an employee or not, is entitled to a share of the organization's profits to the extent they represent a proportionate share of the profits based upon the employee's ownership interest.

Internet-based activities

A school may award incentive compensation for Internet-based recruitment and admission activities that—

- provide information about the school to prospective students,
- refer prospective students to the school, or
- permit prospective students to apply for admission online.

Payments to third parties for non-recruitment activities

The incentive payment prohibition applies only to activities dealing with recruiting, admissions, enrollment, and financial aid. Therefore, a school may make incentive payments to third parties for other types of services, including tuition-sharing arrangements, marketing, and advertising that are not related to recruitment, admissions, enrollement, and financial aid activities.

Payments to third parties for recruitment activities

If a school uses an outside entity to perform activities for it, including covered activities, the school may make incentive payments to the third party as long as the individuals performing the covered activities are not compensated in a way that is prohibited by the incentive payment compensation rule.

For example, if a school established a group of employees who provided the school with a series of services, and one of those services was recruiting, the incentive compensation prohibition would preclude only the individuals doing the recruiting from being paid on an incentive basis. If the same school hired a contractor to provide these services, the same rules would apply. The outside entity could not pay the individuals performing the recruiting services on an incentive basis, but it could pay the other employees performing non-recruiting activities on an incentive basis.

Prohibited & permissible activities

Schools 34 CFR 682.212
Detailed lists of prohibited activities for lenders and guarantors were published as part of the Loan Programs final regulations dated November 1, 2007. See 72 FR 62003

Preferred lender lists

Regulatory cite:
34 CFR 682.212 and 682.401
See DCL 08-06 for subsequent guidance and DCL 08-12 for new statutory provisions from the Higher Education Opportunity Act.

FFEL SCHOOL/LENDER RELATIONSHIPS & ACTIVITIES

Preferred lender lists NEW

If a school chooses to provide prospective borrowers with a list of preferred lenders, the list must include at least three lenders that are not affiliated with each other. *Affiliation,* for purposes of a preferred lender list, is limited to affiliates that are under common ownership and control.

- The preferred list may not include lenders that have offered, or have offered in response to a solicitation by the school, financial and other benefits to the school in exchange for inclusion on the school's preferred lender list.
- However, a school may include lenders on its preferred list who offer lower costs and benefits to students at the school, provided the lenders do not discriminate on any legally prohibited basis.

The preferred lender list must include—

- the method and criteria the school used to select any lender that it recommends or suggests.
- comparative information about interest rates and other benefits offered by the lenders.

In any information related to its list of lenders, the school must include a prominent statement advising prospective borrowers that they are not required to use one of the school's recommended or suggested lenders.

A school must update its preferred lender list and any accompanying information at least annually.

A school may not, through award packaging or other methods, assign a first-time borrower's loan to a particular lender, and may not delay certification of any borrower's loan because the lender is not on the school's preferred lender list.

Prohibited activities in the loan programs

A school is prohibited from paying points, premiums, payments, or additional interest of any kind to an eligible lender or other party in order to induce a lender to make loans to students at the school or to the parents of the students.

Lenders may not offer, directly or indirectly, points, premiums, payments, or other inducements, to a school or any other party to secure applicants for FFEL loans. In addition, lenders may not conduct unsolicited mailings of FFEL loan applications to students or parents who have not previously received an FFEL from that lender. Nor may a lender offer an FFEL loan to induce the borrower or other person to purchase other products or services. Similar restrictions apply to guaranty agencies. (See detailed list on next page.)

Preferred lender arrangements—new requirements NEW

In May of 2008, the Department provided additional guidance for schools that have been unable to find at least three lenders who are willing to make loans to its students AND meet the regulatory requirements. In addition, this letter clarified that a school's preferred lender list could include lenders that were affiliated, as long as at least three of the lenders on the list were unaffiliated. While not a requirement, schools are encouraged to identify, as part of its preferred lender list disclosures, any affiliations among the lenders on the institution's preferred lender list.
See DCL 08-12

The Higher Education Opportunity Act added several requirements relating to preferred lender lists:
• If a school enters into a preferred lender arrangement, it must annually compile a list of the specific lenders for FSA loans and for private education loans that the school recommends in accordance with its lender arrangement.
• The school must make the list available in print or other medium to students and their families.
• The school must compile the list with care and without prejudice for the sole benefit of students and their families and not deny or impede the borrower's choice of a lender or unnecessarily delay certifying an FSA loan for a borrower who chooses a lender not on the list.

The HEOA requires that the preferred lender list:
• disclose detailed information about the terms and conditions of the loans offered by preferred lenders, as required under section 153(a)(2)(a) of the HEA;
• disclose why the school entered into an arrangement with each lender, particularly with respect to terms and conditions or provisions favorable to the borrower;
• ensure that the list contains at least three unaffiliated lenders for FSA loans and at least two unaffiliated lenders for private education loans;
• specifically indicate whether a lender is or is not an affiliate of each other lender on the list. If a lender is an affiliate of another lender, the institution must describe that affiliation;
• prominently disclose the method and criteria used in selecting the lenders.

In addition, a school or school-affiliated organization that participates in a preferred lender arrangement must disclose on the school's or organization's website and in all other informational materials that describe or discuss educational loans:
• the information required above (for preferred lender lists);
• the maximum amount of federal grant and FSA loan assistance available to students who attend the school, in an easily understood format;
• for each type of FFEL loan, a statement that the school must certify an FFEL loan from any eligible FFEL lender the student or parent selects;
• for each type of private education loan by the school (or school-affiliated organization) to the school's students and their families, the information required to be disclosed under section 128(e)(11) of the The Truth in Lending Act; and
• for prospective borrowers of private education loans, in a manner that is distinct from information provided on FSA loans, a prominent statement that the prospective borrower may qualify for FSA grants and loans, and that the terms and conditions of FSA loans may be more favorable than the terms and conditions of private education loans, and
• for FFEL loans, any additional information identified by the Department as the "minimum information" that must be made available to prospective FFEL borrowers and their families.

HEOA section 493 HEA section 487
HEOA section 120
See DCL 08-12

Note that the Department will be developing a model disclosure form that may be used by schools, school-affiliated organizations, and lenders in FFEL preferred-lender arrangements to enable students and families to compare private education loans and FFEL loans.

Lender & guarantor: prohibited activities NEW

A guaranty agency or lender in the FFEL program may not offer, directly or indirectly, premiums, payments, stock or other securities, prizes, travel, entertainment expenses, tuition payment or reimbursement, or any other inducement to a school or its employees in order to secure applicants for FFEL loans. (There is a similar prohibition against guarantor inducements to a lender, or to the agent, employee, or independent contractor of any lender or guaranty agency.) In addition, a lender may not provide information technology equipment at below-market value, additional financial aid funds, or other inducements to any school or employee of a school.

Guaranty agencies and lenders may not:
• conduct unsolicited mailings, by either postal or electronic means, of FFEL application forms to students in secondary or postsecondary schools, or the family members of such students, unless the agency has previously guaranteed (or the lender has made) an FFEL loan for the student or the student's parent;
• perform, or pay another individual to perform, any school-required function for a school participating in the FFEL Program, except student loan exit counseling; or
• engage in fraudulent or misleading advertisement.

A lender is not eligible if it:
• enters into a consulting arrangement or other contract with an employee who is employed in an school's student financial aid office or who otherwise has responsibility for student loans to provide services to a lender;
• compensates a school employee who is employed in the student financial aid office or who otherwise has responsibility for student loans for serving on an advisory board, commission, or group established by a lender or a group of lenders, except that the lender may reimburse the school employee for reasonable expenses incurred by the employee in performing such service;
• provides payments or other benefits to a student at a school to act as the lender's representative to secure FFEL loan applications, unless the student is employed by the lender for other purposes and makes all the appropriate disclosures regarding his or her employment with the lender;
• offers, directly or indirectly, a FFEL loan as an inducement to a prospective borrower to purchase an insurance policy or other product.

Citation: HEOA sections 422 & 436 HEA sections 428(b)(3) and 435(d)(5)

Lender & guarantor: permissible activities

Lenders and guarantors, in carrying out their roles in the FFEL program and in attempting to provide better service, may provide—
• Assistance to a school that is comparable to the kinds of assistance provided to a school by the Department under the Direct Loan program, as identified in a public announcement, such as a notice in the *Federal Register*;
• Support of and participation in a school's or a guaranty agency's student aid and financial literacy-related outreach activities, excluding in-person school-required initial or exit counseling, as long as the name of the entity that developed and paid for any materials is provided to the participants and the lender or guarantor does not promote its student loan or other products (except for benefits provided under other Federal or State programs administered by the guarantor);
• Meals, refreshments, and receptions that are reasonable in cost and scheduled in conjunction with training, meeting, or conference events if those meals, refreshments, or receptions are open to all training, meeting, or conference attendees. (Guarantors may also provide reasonable meals and refreshments when training program participants and elementary, secondary, and postsecondary school personnel, and with workshops and forums customarily used by the agency to fulfill its statutory responsibilities.)
• [Guarantors only] Travel and lodging costs that are reasonable as to cost, location, and duration to facilitate the attendance of school staff in training or service facility tours that they would otherwise not be able to undertake, or to participate in the activities of an agency's governing board, a standing official advisory committee, or in support of other official activities of the agency;
• Toll-free telephone numbers for use by schools or others to obtain information about FFEL loans and free data transmission service for use by schools to electronically submit applicant loan processing information or student status confirmation data;
• A reduced origination fee in accordance with §682.202(c); reduced interest rate as provided under the Act;
• Payment of Federal default fees in accordance with HEA;
• Purchase of a loan made by another lender at a premium;
• Other benefits to a borrower under a repayment incentive program that requires, at a minimum, one or more scheduled payments to receive or retain the benefit or under a loan forgiveness program for public service or other targeted purposes approved by the Secretary, provided these benefits are not marketed to secure loan applications or loan guarantees;
• Items of nominal value to schools, school-affiliated organizations, and borrowers that are offered as a form of generalized marketing or advertising, or to create good will.

However, lenders, guaranty agencies, and other participants in the FFEL Program may assist schools in the same way that the Department assists schools under the Direct Loan Program. For example, a lender can also provide loan counseling for a school's students through the Web or other electronic media, and it can help a school develop, print, and distribute counseling materials.

Code of Conduct NEW

If a school participates in an FSA loan program, it must publish and enforce a code of conduct that includes bans on:

- revenue-sharing arrangements with any lender,
- steering borrowers to particular lenders or delaying loan certifications, and
- offers of funds for private loans to students in exchange for providing concessions or promises to the lender for a specific number of FSA loans, a specified loan volume, or a preferred lender arrangement.

The code of conduct applies to the officers, employees, and agents of the school and must also prohibit employees of the financial aid office from receiving gifts from a lender, guaranty agency or loan servicer.

The code must also prohibit financial aid office staff (or other employees or agents with responsibilities with respect to education loans) from accepting compensation for:

- any type of consulting arrangement or contract to provide services to or on behalf of a lender relating to education loans; and
- service on an advisory board, commission, or group established by lenders or guarantors, except for reimbursement for reasonable expenses.

When developing its code of conduct, the school should refer to DCL GEN-08-12 for further details.

Compensation for serving on an advisory board NEW

A person employed in a financial aid office who serves on an advisory board cannot receive anything of value from the lender but can receive reimbursement for reasonable expenses associated with participation. A school must report annually to ED, any such reasonable expenses paid or provided to any employee who is employed in the financial aid office, or who otherwise has responsibilities with respect to education loans or other financial aid of the institution.

The report must include
- the amount of each specific instance of reasonable expenses paid or provided;
- the name of the financial aid official, other employee, or agent to whom the expenses were paid or provided;
- the dates of the activity for which the expenses were paid or provided; and
- a brief description of the activity for which the expenses were paid or provided.

Advisory board compensation

HEOA Section 1011 Section 140 of the Truth in Lending Act
Disclosures of Reimbursements for Service on Advisory Boards
HEOA section 1011 HEA section 485(m)

Change to 90/10 rule NEW

The HEOA moves the 90/10 Rule to the Program Participation Agreement from Title I of the HEA.

As a result, a school that now violates the 90/10 Rule for one year would no longer lose its eligibility, but is placed in a "provisional" participation status.

The cash basis of accounting

A proprietary institution of higher education must use the cash basis of accounting in determining whether it satisfies the 90/10 Rule. Under the cash basis of accounting, revenue is recognized when received rather than when it is earned.

For the purpose of calculating the qualifying percentages under the 90/10 Rule, revenue is an inflow or other enhancement of assets to an entity, or a reduction of its liabilities resulting from the delivery or production of goods or services. A school may recognize revenue only when the school receives cash, i.e., when there is an inflow of cash. As a result, in order for a school to recognize revenue under the cash basis of accounting, that revenue must represent cash received from a source outside the institution.

THE 90/10 RULE

To be eligible for FSA participation, a proprietary institution may derive no more than 90% of its revenues from the FSA programs. A school must determine and certify its revenue percentages using the formula described in the chart on the following pages for its latest complete fiscal year.

A proprietary school is required to disclose the percentage of its revenues derived from the FSA programs (that the school received during the fiscal year covered by the audit) as a footnote to its audited financial statement. For information on audited financial statements, see Chapter 12.

Proprietary institutions have 90 days after their most recent fiscal year has ended to report to the Department if they did not satisfy the 90/10 Rule for that period. A school changing from for profit to nonprofit must continue to file this report for the first year of its nonprofit status.

If a school fails to satisfy the 90/10 Rule for one year, its participation status becomes provisional for two fiscal years. However, if the school does not satisfy the 90/10 Rule for 2 consecutive fiscal years, it loses its eligibility to participate in the FSA programs for at least 2 fiscal years. If the school loses eligibility, it must immediately stop awarding FSA funds and follow the closeout procedures described in Chapter 12. Schools have 90 days after their most recently completed fiscal year has ended to report to the Department if they did not satisfy the 90/10 Rule for the fiscal period.

Calculating revenues for the 90/10 rule

To be eligible for FSA participation, a proprietary institution may derive no more than 90% of its revenues from the FSA programs. A school must determine and certify its revenue percentages using the following regulatory formula for its latest complete fiscal year (34 CFR 600.5(d)).

$$\frac{\textit{FSA funds used for school charges to students}}{\begin{array}{c}\textit{Total revenues generated by the school from:}\\ \textit{(1) school charges for students enrolled in eligible programs;}\\ \textit{(2) required educational activities conducted by the school (see below) .}\end{array}}$$

Counting FSA funds used for school charges NEW

Any FSA funds that are disbursed or delivered to or on behalf of a student are presumed to pay the student's tuition, fees, or other school charges, unless the tuition, fees, or other charges are satisfied by

- grant funds from non-Federal public agencies or private sources independent of the institution;
- funds provided under a contractual arrangement with a federal, state, or local government agency for the purpose of providing job training to low-income individuals in need of that training;
- unds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code; and
- institutional scholarships that count toward the 10% revenue requirement.

Other sources counted in "total revenues" NEW

Other sources that a school may count as part of its "total revenues" (after applying the presumption that FSA funds are used to pay the student's tuition, fees, and other institutional charges) include

- institutional aid to students (see discussion of treatment of school loans on next page)
- revenue earned from a non-FSA program of study, as long as the program is approved by the state, accredited, or provides an industry-recognized credential or certificate,
- scholarships that are provided by the school in the form of monetary aid or tuition discounts based on the academic achievements or financial need of students, as long as the scholarships are disbursed during each fiscal year from an established restricted account, and only to the extent that funds in that account represent designated funds from an outside source or income earned on those funds; and
- the proceeds of Unsubsidized Stafford Loans that exceed the loan limits which were in effect on May 6, 2008 (pre-ECASLA). This provision applies to any Unsubsidized Stafford Loan received by a student on or after July 1, 2008, but before July 1, 2011.

Exclusions from fraction NEW

The following types or amounts of funds are excluded from both the numerator and denominator of the fraction under the 90/10 calculation:

- the amount of funds the school received under the FWS Program, unless it used those funds to pay for a student's institutional charges;
- the amount of funds the school received under LEAP (see below for additional guidance);
- the amount of funds provided by the school as matching funds under the FSA programs;
- the amount of funds provided by the school for an FSA program that are required to be refunded or returned; and
- the amount charged for books, supplies, and equipment, unless the school includes that amount as tuition, fees, or other institutional charges.

Revenues from required educational activities (including a clinic or service)

In figuring revenues generated by school activities, a school may include only revenue generated by the school from activities it conducts, that are necessary for its students' education or training. The activities must be

- conducted on campus or at a facility under the control of the institution,
- performed under the supervision of a member of the institution's faculty, and
- required to be performed by all students in a specific educational program at the institution.

Revenues from auxiliary enterprises and activities that are not a necessary part of the students' education, such as revenues from the sale of equipment and supplies to students and revenues from vending machines, may not be included in the denominator of the 90/10 calculation.

If a clinic or service is operated by the school, offered at the school, performed by students under direct faculty supervision, and required of all students as part of their educational program, then revenues from the clinic or service may be included in the denominator of the 90/10 calculation.

Counting LEAP funds

If a state agency specifies the exact amount or percentage of LEAP funds included in an individual student's state grant, only the specified amount or percentage of the student's state grant up to $5,000 (the statutory maximum LEAP award) is considered LEAP funds.

If the state agency identifies a specific student's state grant as containing LEAP funds but does not provide an exact amount or percentage, the entire amount of the grant up to $5,000 is considered LEAP funds. State grant funds that are not LEAP/SLEAP are included in the denominator.

If the state agency does not specify the amount of LEAP funds included in a student's individual grant but does specify the percentage of LEAP funds in the entire amount of state grant funds provided to the school and the student meets the FSA student eligibility requirements, the school must apply this percentage to the individual student's total state grant to determine the amount of the grant up to $5,000 to be considered LEAP funds.

Tuition waivers

Institutional grants in the form of tuition waivers do not count as revenue because no new revenue is generated. Similarly, internal transfers of cash among accounts are not considered revenue because they do not represent an inflow of cash to the institution. Institutional scholarships are not revenues generated by the school (unless they are donated by an unrelated or outside third party). An exception is permitted for schools to use donations from a related party to create restricted accounts for institutional scholarships, but only the amount earned on the restricted account and used for scholarships would count as revenue in the denominator of the calculation.

Funds held as credit balances in institutional accounts cannot be counted in the 90/10 formula. However, once funds held as credit balances are used to satisfy institutional charges, they would be counted in both the numerator and the denominator of the formula.

Revenues from loans

When a school makes a loan to a student, it does not receive cash from an outside source. Accordingly, cash revenue from institutional loans is recognized only when those loans are repaid, because that is when there is an inflow of cash from an outside source. Loan proceeds from institutional loans that were disbursed to students may not be counted in the denominator of the fraction, because these proceeds neither generate nor represent actual inflows of cash. The school may include only loan repayments it received during the appropriate fiscal year for previously disbursed institutional loans.

Loans made by a private lender that are in any manner guaranteed by the school are known as recourse loans. The proceeds from recourse loans may be included in the denominator of an institution's 90/10 calculation for the fiscal year in which the revenues were received, provided that the institution's reported revenues are also reduced by the amount of recourse loan payments made to recourse loan holders during that fiscal year. Note that recourse loan payments may be for recourse loans that were made in a prior fiscal year. Under the cash basis of accounting the reductions to total revenues in the denominator of the 90/10 calculation are reported in the fiscal year when the payments are made.

The nonrecourse portion of a partial recourse loan may be included in a 90/10 calculation. In order to include a partial recourse loan in a 90/10 calculation, the contract must identify the percentage of the sale that is nonrecourse; only that percentage may be included. Furthermore, no after-the-fact adjustments may be provided for. Revenue generated from the sale of nonrecourse institutional loans to an unrelated third party may be counted as revenue in the denominator of the 90/10 calculation to the extent that the revenues represent actual proceeds from the sale.

The sale of institutional loan receivables is distinguishable from the sale of a school's other assets because receivables from institutional loans are produced by transactions that generate tuition revenue. Tuition revenue represents income from the major service provided by a school. That would not be true in the case of the sale of other school assets.

NEW

The HEOA of 2008 includes a subsequent provision that permits the inclusion of the following amounts for purposes of the 10% requirement: *For loans made to students by the institution from July 1, 2008, but before July 1, 2012*, the net present value of the loans made during a fiscal year, if the loans are evidenced by promissory notes, issued at intervals related to the institution's enrollment periods, and are subject to regular loan repayments and collections. *For loans made on or after July 1, 2012,* only the amount of loan repayments the institution receives during a fiscal year, excluding repayment on any loans for which the institution previously used the net present value in its 90/10 calculation.

See DCL 08-12 for HEOA changes (section 493, amending HEA section 487) Effective date: August 14, 2008
Earlier guidance on 90/10 and institutional loans and scholarships can be found in Dear Partner Letter GEN-99-33 and Dear CPA Letters CPA-99-01 and CPA-99-02.

SCHOOL LENDER IN THE FFEL PROGRAM

A school lender may make only subsidized or unsubsidized Stafford Loans to graduate or professional students enrolled at the school. A home study school cannot be a school lender.

To be a school lender, a school must have made one or more FFEL program loans on or before April 1, 2006, and must have met program requirements as of February 7, 2006 (see box). To make or originate loans under the FFEL program, a school—

- Must employ at least one person whose full-time responsibilities are limited to the administration of programs of financial aid for students attending the school;
- Must award any contract for financing, servicing, or administration of FFEL loans on a competitive basis;
- Must offer loans that carry an origination fee or an interest rate, or both, that are less than the fee or rate authorized under the provisions of the Act;
- Must not have a cohort default rate greater than 10%.

Audit requirements for school lenders

A school acting as a lender is subject to certain audit requirements that apply to lenders, as described in §682.601(a)(7), and

- §682.305(c)(2)(v) for governmental entities and nonprofit organizations.
- §682.305(c)(2)(i) through (iii) for schools that are not governmental entities and nonprofit organizations.

School lender requirements on or before April 1, 2006

To be a school lender, a school must have met the requirements that were in effect as of February 7, 2006, which is the day prior to the enactment of the Higher Education Reconciliation Act of 2005 (HERA). On February 7, 2006, a school lender—

1. Had to employ at least one person whose full-time responsibilities were limited to the administration of programs of financial aid for students attending that school;
2. Could not be a home study school;
3. Could not make loans to more than 50% of the undergraduate students at the school;
4. Could not make a loan, other than a loan to a graduate or professional student, unless the borrower had previously received a loan from the school or had been denied a loan by another eligible lender;
5. Could not have a cohort default rate greater than 15%; and
6. Had to use the proceeds from any special allowance payments received from the Department and interest payments from borrowers for need-based grant programs, except for reasonable reimbursement for direct administrative expenses.

These requirements were modified by the enactment of HERA—the current provisions are described under "School lenders in the FFEL Program."

HEA §435(d)(2)
20 U.S.C. 1085
34 CFR 682.601
(Interim Final Regulations Aug. 9, 2006;
Final Regulations: Nov. 1, 2006)

Eligible Lender Trustee

For any continuing eligible lender trustee arrangements, note the requirements in 34 CFR 682.602.

A school lender must use any of the following proceeds for need-based grants

- special allowance payments,
- interest payments from borrowers,
- interest subsidy payments, and/or
- proceeds from the sale or other disposition of loans (exclusive of return of principal, any financing costs incurred by the school to acquire funds to make the loans, and the cost of charging origination fees or interest rates that are less than the statutory maximums).

An eligible school lender must ensure that the proceeds are used to supplement, and not to supplant, non-Federal funds that would otherwise be used for need-based grant programs.

An eligible school lender may use a portion of these proceeds for reasonable and direct administrative expenses that are incurred by the school and are directly related to the school's performance of actions required by statute and regulations. Reasonable and direct administrative expenses do not include financing and similar costs such as costs paid by the school to obtain funding to make FFEL loans, the cost of paying Federal default fees on behalf of borrowers, or the cost of charging origination fees or interest rates that are less than the statutory maximums.

Eligible lender trustee

A school or school-affiliated organization may not contract with an eligible lender to serve as its trustee, unless the organization is continuing or renewing a contract made on or before September 30, 2006 with the eligible lender. (The eligible lender must have held at least one loan in trust on behalf of the school or school-affiliated organization on September 30, 2006.)

TUITION RATES FOR MILITARY FAMILIES AT PUBLIC INSTITUTIONS NEW

A public institution of higher education may not charge a member of the armed forces who is on active duty for a period of more than 30 days, and whose domicile or permanent duty station is in a state that receives assistance under the Higher Education Act, his or her spouse, or his or her dependent children, tuition at a rate higher than the institution's in-state tuition rate for residents of the state.

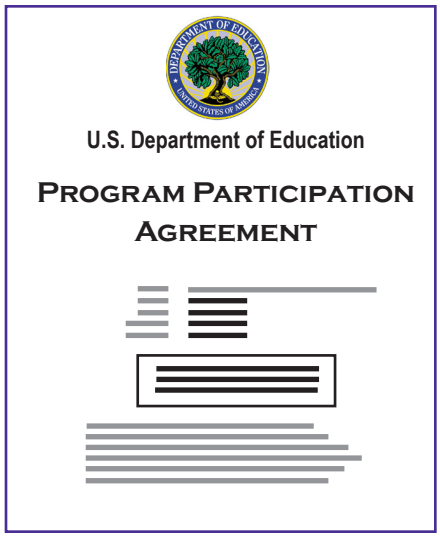
In addition, if a member of the armed forces who is on active duty, his or her spouse, or his or her dependent child pays such an in-state tuition rate, the public institution must allow the individual to continue to pay such a rate as long as the individual is continuously enrolled, even if there is a subsequent change in the permanent duty station of the member to a location outside of the state.

For the purpose of this provision—

- "armed forces" means the Army, Navy, Air Force, Marine Corps, and Coast Guard.
- "active duty" means full-time duty in the active military service of the United States. Such term includes full-time training duty, annual training duty, and attendance, while in the active military service, at a school designated as a service school by law or by the Secretary of the military department concerned. Such term does not include full-time National Guard duty.
- "active duty for a period of more than 30 days" means active duty under a call or order that does not specify a period of 30 days or less.

Program Participation Agreement cites

Sec. 487 of the HEA
34 CFR 668.14



Programs covered by the PPA

An eligible school must enter into a PPA with the Department to participate in the following programs:

- Federal Pell Grant, ACG,* National SMART*
- Federal Supplemental Educational Opportunity Grant (FSEOG)
- Federal Work-Study (FWS)
- Federal Perkins Loan (Perkins)
- Federal Direct Loan Program (DL)
- Federal Family Education Loan (FFEL)

*A school that is certified for Pell Grant purposes is considered to be certified for the ACG and National SMART Grant programs, if it has at least one academic program that is ACG/SMART-eligible.

THE PROGRAM PARTICIPATION AGREEMENT

To participate in the FSA programs, a school must have a current Program Participation Agreement (PPA), signed by the school's President or Chief Executive Officer and an authorized representative of the Secretary of Education.

Purpose and scope of the PPA

Under the PPA, the school agrees to comply with the laws, regulations, and policies governing the FSA programs. After being certified for FSA program participation, the school must administer FSA program funds in a prudent and responsible manner. A PPA contains critical information about a school's participation in the FSA programs. In addition to the effective date of a school's approval, the date by which the school must reapply for participation, and the date on which the approval expires, the PPA lists the FSA programs in which the school is eligible to participate.

Expiration or termination of the Agreement

Either the school or the Department may terminate the Program Participation Agreement. The Agreement automatically terminates if the school loses eligibility.

A school's Program Participation Agreement expires on the date that—

- the school changes ownership that results in a change in control (*see* Chapter 5),
- the school closes or stops providing educational programs for a reason other than a normal vacation period or a natural disaster that directly affects the school or its students,
- the school ceases to meet the eligibility requirements (*see* Chapter 1),
- the school's period of participation expires, or
- the school's provisional certification is revoked.

In the case of a location of the school, the school's program participation agreement no longer covers a location as of the date on which that location ceases to be a part of the participating institution.

Contents of the Program Participation Agreement

General Terms & Conditions

After enumerating the FSA programs in which a school is authorized to participate, a Program Participation Agreement states the General Terms and Conditions for institutional participation. By signing the Agreement a school certifies that it—

1. will comply with the program statutes, regulations, and policies governing the FSA programs;
2. has established a drug abuse prevention policy accessible to any officer, employee, or student at the school (see *Chapter 3*) and is in compliance with the disclosure requirements for Campus Security Policy and Crime Statistics (see *Chapter 6*).
3. will comply with
   a. Title VI of the Civil Rights Act of 1964, as amended, barring discrimination on the basis of race, color, or national origin;
   b. Title IX of the Education Amendments of 1972, barring discrimination on the basis of sex;
   c.. the Family Rights and Privacy Act of 1974 (see *Chapter 9*)
   d. Section 504 of the Rehabilitation Act of 1973, barring discrimination on the basis of physical handicap (34 CFR Part 104); and
   e. The Age Discrimination Act of 1975 (34 CFR Part 110);
4. acknowledges that the Department, states, and accrediting agencies may share information about the school without limitation; and
5. acknowledges that the school must, prior to any other legal action, submit any dispute involving the final denial, withdrawal, or termination of accreditation to initial arbitration.

Selected provisions from the General Provisions

In addition to the general statement that a school will comply with the program statutes, regulations, and policies governing the FSA programs, the Program Participation Agreement contains references to selected important provisions of the General Provisions Regulations (34 CFR Part 668). The Program Participation Agreement specifies that—

1. The school will use funds received under any FSA program as well as any interest and other earnings thereon ***solely for the purposes specified for that program.***
2. If the school is permitted to request FSA program funds under an advance payment method, the school will ***time its requests for funds to meet only the school's immediate FSA program needs*** (*see Volume 4 – Chapter 3*).
3. ***The school will not charge for processing or handling any application, form, or data used to determine a student's FSA eligibility*** (***see Chapter 3***).
4. The school will establish administrative/fiscal procedures and reports that are necessary for the proper and efficient management of FSA funds, and it will ***provide timely information*** on its administrative capability and financial responsibility to the Department and to the appropriate state, guaranty, and accrediting agencies (see *Chapters 10 and 11*).

5-6. The school will comply with the standards of ***financial responsibility and administrative capability*** (*see Chapters 10 and 11*).
7. The school will submit timely reports to the Department and to loan holders, as required.
8. A school must not certify or originate an FFEL or Direct Loan for an amount that exceeds the annual or aggregate loan limits. (see *Volume 3, Chapter 4 and Volume 4, Chapter 1)*.
9. The school will provide information concerning ***institutional and financial assistance information*** as required to students and prospective students (see *Chapter 6*).
10. If the school advertises ***job placement rates*** to attract students, it must make available to prospective students the most recent available data concerning employment statistics, graduation statistics, and other information to substantiate the truthfulness of the advertisements, as well as the state licensing requirements for the jobs for which the training will prepare the student (see *Chapter 6*).
11. If the school participates in the FFEL program, the school will provide borrowers with information about ***state grant assistance*** from the state in which the school is located, and will inform borrowers from other states of the sources of information about state grant assistance from those states (see *Chapter 6*).
12. The school will provide required certifications (see the certifications listed at the end of this numbered list).
13. If the school provides financial assistance to students under the ***ability to benefit*** provisions, the school will make available to those students a program proven successful in assisting students in obtaining the recognized equivalent of a high school diploma (see *Chapter 3*).

The law does not require a school to verify that a student is enrolled in a GED program or to monitor the student's progress in the program. A student admitted based on his or her ability to benefit who does not have a high school diploma or its recognized equivalent is not required by law to enroll in a GED program, but the school may choose to make this an admission requirement

14. The school cannot deny FSA funds on the grounds that a student is ***studying abroad*** if the student is studying in an approved-for-credit program (see *Chapters 1 and 7*).
15-16. To begin participation in the FFEL programs (or if a school ***changes ownership*** or changes its status as a parent or subordinate institution), the school must develop a ***default management plan*** for approval by the Department and must implement the plan for at least two years. (see discussion & exceptions in *Chapter 10*)
17. The school must ***acknowledge the authority of the*** Department and other entities to share information regarding fraud, abuse, or the school's eligibility for participation in the FSA programs (see *Chapter 12*).
18. The school ***may not knowingly employ or contract*** with any individual, agency, or organization that has been convicted of or pled guilty or nolo contendere to a crime or was judicially determined to have committed fraud involving the acquisition, use, or expenditure of federal, state, or local government funds or has been administratively or judicially determined to have committed fraud or any other material violation involving federal, state, or local government funds (see *Chapter 1*).
19. The school must, in a ***timely manner***, complete reports, surveys, and any other data collection effort of the Department including surveys under the Integrated Postsecondary Education Data System (IPEDS).
20. In the case of a school that offers athletically related student aid, it will ***disclose the completion***

and graduation rates of student athletes and the athletic program participation and financial support pursuant to 34 CFR 668.47 and 34 CFR 668.48 in conformance with the Student Right-to-Know Act (see *Chapter 6*).

21. The school ***cannot penalize*** in any way a student who is unable to pay school costs due to compliance with the FSA program requirements or due to a delay in an FSA loan disbursement caused by the school.
22. The school cannot pay or contract with any entity that pays commissions or other incentives based directly or indirectly on securing enrollment or financial aid (except when recruiting foreign students ineligible for FSA program funds) to persons engaged in recruiting, enrolling, admitting, or financial aid administration (see *Chapter 3*).
23. The school must comply with the program integrity requirements established by the Department, state authorizing bodies, and accrediting agencies (see *Chapter 12*).
24. The school must comply with the requirements for the ***Return of Title IV funds*** when a student withdraws (see *Volume 5, Chapter 2*).
25. The ***school is liable*** for all improperly administered funds received or returned under the FSA programs including any funds administered by a third-party servicer (*see Chapter 3*).
26. If the stated objectives of an educational program offered by the school are preparing students for ***gainful employment in a recognized occupation the school*** will
    a. demonstrate a reasonable relationship between the length of the program and entry level requirements for the recognized occupation, and
    b. establish the need for the training for the student to obtain employment in the recognized occupation for which the program prepares the student.

The PPA also contains an unnumbered provision concerning the reporting requirements for schools that offer athletically-related student aid. See Chapter 6 for a discussion of this requirement.

Certifications

Three certifications are included in the PPA:

- Lobbying; Debarment, Suspension, and other responsibility matters; and Drug-Free Workplace Requirements
- Drug Prevention Certification
- Certification regarding Debarment, Suspension, Eligibility, and Voluntary Exclusion—lower tier covered transactions.

Additional provisions for Direct Loan schools

The school and its representatives shall comply with the statute, guidelines, and regulations governing the Title IV, Part D, William D. Ford Federal Direct Loan Program as required by Section 454 of Public Law 103-66.

The school will:

- Identify eligible FSA applicants and estimate their need, based on the law.
- Provide a certification statement of eligibility for students to receive loans that will not exceed the annual or aggregate limits
- Establish a schedule for disbursement of loan proceeds to meet the requirements of Section 428G of the HEA.
- Provide timely and accurate information to the Department on enrollment status and the status of student borrowers (if known) after the student leaves the institution, and the utilization of FSA funds.
- Comply with student loan information requirements for the Direct Loan Program.

- Provide that student and parents will be eligible to receive FFEL loans, at the discretion of the Department, except that a student or parent may not receive FFEL and Direct Loans for the same period of enrollment.
- Implement a quality assurance system
- Not charge any fees of any kind to student or parent borrowers for loan application, origination activities, or the provision and processing of any information needed to receive a Direct Loan.
- The school will originate loans to eligible students and parents in accordance with the requirements of Part D of the HEA and use funds advanced to it solely for that purpose (Option 2 only).
- The note or evidence of obligation of the loan shall be the property of the Secretary (Options 2 and 1 only).
- Implement such other provisions as the Secretary determines are necessary to protect the interest of the United States and to promote the purposes of Part D of the HEA.
- Accept responsibility and financial liability stemming from its failure to perform its functions under this Program Participation Agreement.

The Institution's continued approval to participate in the Direct Loan Program will be based on the Department of Education's review and approval of the Institution's future applications for recertification to continue participating in the federal student aid programs.
Note that the PPA may list additional requirements that are school-specific; schools must carefully review *all* of the requirements listed on their PPA.
In addition to the requirements listed on the PPA, a school must meet any requirements for participation in the General Provisions (34 CFR Part 668), as well as those specific to an individual FSA program.

* FEDERAL PELL GRANT PROGRAM, 20 U.S.C. 1070a et seq; 34 CFR Part 690.
* FEDERAL FAMILY EDUCATION LOAN PROGRAM, 20 U.S.C. 1071 et seq; 34 CFR Part 682.
* FEDERAL DIRECT STUDENT LOAN PROGRAM, 20 U.S.C. 1087a et seq; 34 CFR Part 685.
* FEDERAL PERKINS LOAN PROGRAM, 20 U.S.C. 1087aa et seq; 34 CFR Part 674.
* FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM, 20 U.S.C. 1070b et seq; 34 CFR Part 676.
* FEDERAL WORK-STUDY PROGRAM, 42 U.S.C. 2751 et seq; 34 CFR Part 675.
* ACADEMIC COMPETITIVENESS GRANT, 1070a-1; 34 CFR Part 691
* NATIONAL SCIENCE AND MATHEMATICS ACCESS TO RETAIN TALENT GRANT GRANT, 1070a-1; 34 CFR Part 691

These requirements are discussed in the *Application and Verification Guide* and Volumes 1–6 of this *Federal Student Aid Handbook*.

NEW

PROVISIONS ADDED TO THE PPA BY THE HIGHER EDUCATION OPPORTUNITY ACT

Preferred lender list
Schools with preferred lender arrangements must compile and make available a list of the lenders that it promotes and recommends. See *Chapter 3* for specific requirements.

Code of conduct
Schools that participate in the FSA loan programs must develop and enforce a code of conduct. See further discussion in *Chapter 3*.

Copyright protection
The school must certify that it has developed plans to effectively combat the unauthorized distribution of copyrighted material and will, to the extent practicable, offer alternatives to illegal downloading or peer-to-peer distribution of intellectual property.

Private education loan certification
Upon request from a student or parent who is applying for a private education loan, a school must provide the disclosure form required under The Truth in Lending Act and the information needed to complete the form (to the extent the school has that information). See *Chapter 6*.

Disciplinary proceedings
Schools are required to disclose, upon request, the results of disciplinary hearings to the victims of crimes of violence or sex offenses. See *Chapter 6*.

90/10 Rule
The 90/10 rule for proprietary schools has been moved to the PPA. See *Chapter 9* for discussion of the 90/10 calculation.

Effective date for Report on Results of Disciplinary Proceeding:
August 14, 2009
All other provisions are effective August 14, 2008

See GEN 08-12 for additional information on these new requirements

Other School Requirements

CHAPTER 4

In this chapter, we will discuss school requirements that are not directly related to student aid, such as fire safety, missing persons procedures, etc. Note that several of these requirements are also linked to the consumer information requirements in Chapter 6.

SAFETY REQUIREMENTS [NEW]

Fire safety log NEW

FSA-eligible schools must maintain a log that records all fires in on-campus student housing facilities, regardless of whether the school has a police or security department of any kind. The fire log needs to include the nature, date, time and general location of each fire. A school must make annual reports to the campus community on these fires (see Chapter 6, "Providing Consumer Information"), and must annually submit a copy of the fire safety statistics to the Department.

Missing persons procedures NEW

A school that provides on-campus housing must establish a missing student notification policy for students who reside in on-campus housing that—

- informs each student that they have the option to identify an individual that the school can contact no later than 24 hours after the time the student is determined missing according to the school's official notification procedures described below;
- provides each student a way to register confidential contact information in the event the student is determined to be missing for more than 24 hours;
- advises each student under 18 years of age (who is not emancipated) that the school must notify a custodial parent or guardian no later than 24 hours after the time the student is determined to be missing according to the institution's official notification procedures; and
- requires the school to initiate the emergency contact procedures that the student designates if campus security or law enforcement personnel have been notified and determine that the student has been missing for more than 24 hours and has not returned to campus.

CHAPTER 4 HIGHLIGHTS

- Safety Requirements
  - → Fire safety
  - → Missing persons
  - → Other
- Programs to prevent drug & alcohol abuse
  - → Drug & alcohol abuse prevention programs
  - → Drug-Free Workplace requirements
- Anti-lobbying certification & disclosure
- Reporting information on foreign sources & gifts
- General requirements
  - → Voter registration (in certain states)
  - → GED preparatory program

Missing persons [New]

The requirements for a school to establish missing persons procedures do not provide a private right of action to any person to enforce a provision of the subsection or create a cause of action against any institution of higher education or any employee of the institution for any civil liability.

HEOA section 488(g) HEA section 485(j)

Effective date: August 14, 2008

Schools must also establish official notification procedures for a missing student who resides in on-campus housing that

- include procedures for official notification of appropriate individuals at the school that such student has been missing for more than 24 hours; and
- require that any official missing person report relating to such student be referred immediately to the school's police or campus security department.

In instances where, upon investigation of the official report, the police or campus security department determines that the missing student has been missing for more than 24 hours, the department must contact the individual identified by the student as a contact. If the missing student is under 18 years of age and not emancipated the school must immediately contact the custodial parent or legal guardian of the student and, in cases where the preceding two scenarios do not apply to a student determined to be a missing person, the school will inform the appropriate law enforcement agency that the student is missing.

Other safety requirements NEW

Schools must have policies that encourage complete timely reporting of all crimes to the campus police and appropriate law enforcement agencies. A school must test emergency response and evacuation procedures annually.

PROGRAMS TO PREVENT DRUG & ALCOHOL ABUSE

There are two requirements that relate to preventing drug and alcohol abuse. Every school that participates in the FSA programs must have a drug and alcohol prevention program for its students, as described below. A school that receives Campus-Based funding must also have a drug prevention program for its employees.

Drug & alcohol abuse prevention program

Every participating school must certify that it has adopted and implemented a program to prevent drug and alcohol abuse by its students. Unlike the annual drug-free workplace certification discussed later in this section, a school certifies that on the date it signs the Program Participation Agreement, it has a drug abuse prevention program in operation that is accessible to any officer, employee, or student at the school.

The program adopted by the school must include an annual distribution to all students, faculty, and staff of information concerning drug and alcohol abuse and the school's prevention program.

A school must review its program once every two years to determine its effectiveness and to ensure that its sanctions are being enforced. **NEW** As a part of this biennial review, the school must determine—

- the number of drug and alcohol-related violations and fatalities that occur on a school's campus, or as part of any of the school's activities and are reported to campus officials; and
- the number and type of sanctions that are imposed by the school as a result of drug and alcohol-related violations and fatalities on the school's campus or as part of any of the school's activities.

A school that does not certify that it has a drug prevention program, or that fails to carry out a drug prevention program, may lose its approval to participate in the FSA programs.

Drug-Free Workplace requirements for Campus-Based schools

A school that participates in the Campus-Based programs must must take certain steps to provide a drug-free workplace, including—

- establishing a drug-free awareness program to provide information to employees,
- distributing a notice to its employees of prohibited unlawful activities and the school's planned actions against an employee who violates these prohibitions, and
- notifying the Department and taking appropriate action when it learns of an employee's conviction under any criminal drug statute.

Drug-Free Schools and Communities Act

The FSA requirements are derived from the 1989 Amendments to the Drug-Free Schools and Communities Acts of 1986 and 1988
See: Public Law 101-226

Drug-Free Workplace

Because a school applies for and receives its Campus-Based allocation directly from the Department, the school is considered to be a federal grant recipient., and as such is required to make a good faith effort, on a continuing basis, to maintain a drug-free workplace.
34 CFR Part 84
Also see the Drug-Free Workplace Act of 1988 (Public Law 101-690)

Developing a drug prevention program

The regulations published in the Federal Register, August 16, 1990 offer a number of suggestions for developing a drug prevention program.

Measuring the effectiveness of a drug prevention program

The effectiveness of a school's drug prevention program may be measured by tracking:

- the number of drug- and alcohol-related disciplinary actions;
- the number of drug- and alcohol-related treatment referrals;
- the number of drug- and alcohol-related incidents recorded by campus police or other law enforcement officials;
- the number of drug- and alcohol-related incidents of vandalism;
- the number of students or employees attending self-help or other counseling groups related to alcohol or drug abuse; and
- student, faculty, and employee attitudes and perceptions about the drug and alcohol problem on campus.

A school's administrative cost allowance may be used to help defray related expenses, such as the cost of printing informational materials given to employees. The administrative cost allowance is discussed in *Volume 6 – Campus-Based Programs.*

The drug-free workplace requirements apply to all offices and departments of a school that receives Campus-Based funds. Organizations that contract with the school are considered subgrantees not subject to the requirements of the Drug-Free Workplace Act.

Additional Sources of Information

The following resources are available for schools that are developing drug prevention programs.

- ***The Center for Substance Abuse Treatment and Referral Hotline.***
  Information and referral line that directs callers to treatment centers in the local community (1-800-662-HELP).

- ***The Drug Free Workplace Helpline.***
  A line that provides information only to private entities about workplace programs and drug testing. Proprietary and private nonprofit but not public postsecondary schools may use this line (1-800-967-5752).

- ***The National Clearinghouse for Alcohol and Drug Information.***
  Information and referral line that distributes U.S. Department of Education publications about drug and alcohol prevention programs as well as material from other federal agencies (1-301-468-2600).

ANTI-LOBBYING PROVISIONS

Prohibition on use of FSA funds NEW

FSA funds may not be used to pay any person for attempting to influence

- a Member of Congress or an employee of a Member of Congress, or
- an officer or employee of Congress or any agency.

This prohibition applies to the making of a federal grant or loan, awarding federal contracts, and entering into federal cooperative agreements, as well as to the extension, continuation, renewal, amendment, or modification of a federal contract, grant, loan, or cooperative agreement.

In addition, FSA funds may not be used to hire a registered lobbyist or to pay any person or entity for securing an earmark. Schools receiving FSA funds will have to certify their compliance with these requirements annually.

Campus-based disclosure

If a school that receives more than $100,000 in Campus-Based funds has used nonfederal funds to pay a nonschool employee for lobbying activities, the school must submit a Disclosure Form (Standard Form LLL) to the Department. The school must update this disclosure at least quarterly and when changes occur.

The disclosure form must be signed by the Chief Executive Officer (CEO) or other individual who has the authority to sign on behalf of the entire school. A school is advised to retain a copy in its files.

Prohibition on use of FSA funds
HEOA section 119
Effective date: August 14, 2008

Anti-Lobbying Certification & Disclosure
Section 319 of Pub. L. 101-121, enacted October 23, 1989, amended title 31, United States Code, by adding a new section 1352, entitled "Limitation on Use of Appropriated Funds to Influence Certain Federal Contracting and Financial Transactions," commonly known as the Byrd Anti-Lobbying Amendment.

As a result of that legislation, the Office of Management and Budget (OMB) issued interim final common regulations on February 26, 1990, for implementing and complying with the law. The Department of Education (ED) codified these regulations at 34 CFR Part 82, which is part of the Education Department General Administrative Regulations (EDGAR).
34 CFR Part 82

ACA may not be used for association membership
A school may not use its Administrative Cost Allowance to pay for its membership in professional associations (such as the National Association of Student Financial Aid Administrators, the National Association of College and University Business Officers, etc.), regardless of whether the association engages in lobbying activities.

Where to report foreign gift information

Foreign gift, contract, and ownership or control reports must be submitted to the FSA School Participation Teams using FSA's electronic application (E-App) found at **www.eligcert.ed.gov**

Go to Section K, Question 71, and enter the appropriate information about the foreign gift, contract, or ownership and control, then go to Section L, to complete the signature page. You may then submit your report.

Foreign gifts references

Higher Education Act: Sec. 117
Recent reminder to schools of requirements for reporting foreign gifts.
DCL: GEN-04-11, Oct. 4, 2004.

Definitions

A *foreign source* is
- a foreign government, including an agency of a foreign government;
- a legal entity created solely under the laws of a foreign state or states;
- an individual who is not a citizen or national of the United States; and
- an agent acting on behalf of a foreign source.

A *gift* is any gift of money or property.

A *contract* is any agreement for the acquisition by purchase, lease, or barter of property or services for the direct benefit or use of either of the parties.

REPORTING INFORMATION ON FOREIGN SOURCES & GIFTS

Federal law requires certain postsecondary schools (whether or not the school is eligible to participate in the FSA programs) to report ownership or control by foreign sources. Federal law also requires these postsecondary schools to report contracts with or gifts from the same foreign source that, alone or combined, have a value of $250,000 or more for a calendar year.

Who must report

A school (and each campus of a multicampus school) must report this information if the school—

- is legally authorized to provide a program beyond the secondary level within a state,
- provides a program that awards a bachelor's degree or a more advanced degree, or provides at least a two-year program acceptable for full credit toward a bachelor's degree,
- is accredited by a nationally recognized accrediting agency, and
- is extended any federal financial assistance (directly or indirectly through another entity or person) or receives support from the extension of any federal financial assistance to the school's subunits.

Timing of submission

A school must report this information by the January 31 or July 31 (whichever is sooner) after the date of receipt of the gifts, date of the contract, or date of ownership or control. The January 31 report should cover the period July 1–December 31 of the previous year, and the July 31 report should cover January 1–June 30 of the same year.

Information to be reported

Using the E-App, you must report the following information in Section K, question 71:

- for gifts received from or contracts entered into with a foreign government—the name of the country and the aggregate amount of all gifts and contracts received from each foreign government,
- for gifts received from or contracts entered into with a foreign source other than a foreign government—the name of the foreign state to which the contracts or gifts are attributable, and the aggregate dollar amount of the gifts and contracts attributable to a particular country (The country to which a gift or a contract is attributable is the country of citizenship; or, if unknown, the principal residence for a foreign source who is a natural person and the country of incorporation, or if unknown, the principal place of business for a foreign source that is a legal entity.),

- in the case of a school that is owned or controlled by a foreign entity—the identity of the foreign entity, the date on which the foreign entity assumed ownership or control, and a description of any substantive changes to previously reported ownership or control, or institutional program or structure resulting from the change in ownership or control,
- for restricted or conditional gifts received from, or restricted or conditional contracts entered into with a foreign government—the name of the foreign country, the amount of the gift or contract, the date of the gift or contract, and a description of the conditions or restrictions,
- for restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign person—the citizenship (or if unknown, the principal residence) of that person, the amount of the gift or contract, the date of the gift or contract, and a description of the conditions and restrictions, and
- for restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign source (legal entity other than a foreign state or individual—the country of incorporation or, if unknown, the principal place of business for that foreign entity), the amount of the gift or contract, date of the gift or contract, and a description of the conditions and restrictions.

Any conditions or restrictions on the foreign gift must be reported in question 69.

Once you've entered the appropriate information about the foreign gift, contract, or ownership and control, then go to Section L to complete the signature page. You may then submit your report.

Alternative reporting

In lieu of the reporting requirements listed above:

- If a school is in a state that has substantially similar laws for public disclosure of gifts from, or contracts with, a foreign source, a copy of the report to the state may be filed with the Department. The school must provide the Department with a statement from the appropriate state official indicating that the school has met the state requirements.
- If another department, agency, or bureau of the Executive Branch of the federal government has substantially similar requirements for public disclosure of gifts from, or contracts with, a foreign source, the school may submit a copy of this report to the Department.

Restricted or conditional gift or contract

A *restricted or conditional gift or contract* is any endowment, gift, grant, contract, award, present, or property of any kind that includes provisions regarding

- the employment, assignment, or termination of faculty;
- the establishment of departments, centers, research or lecture programs, or new faculty positions;
- the selection or admission of students; or
- the award of grants, loans, scholarships, fellowships, or other forms of financial aid restricted to students of a specified country, religion, sex, ethnic origin, or political opinion.

Penalties

If a school fails to comply with the requirements of this law in a timely manner, the Department is authorized to undertake a civil action in federal district court to ensure compliance. Following a knowing or willful failure to comply, a school must reimburse the Treasury of the United States for the full costs of obtaining compliance with the law.

For additional information & alternative reporting

Contact the School Participation Team for your state. Contact information for these Teams is posted on the IFAP Web site, under "Help–Contact Information":
ifap.ed.gov

Voter Registration NEW

A school may satisfy the requirement to distribute mail voter registration forms electronically transmitting to each student a message containing an acceptable voter registration form or an Internet address where that form can be downloaded. The electronic message must be devoted exclusively to voter registration.

Schools must request voter forms at least 120 days in advance

In states where this condition applies, schools must request voter registration forms from the state 120 days prior to the state's deadline for registering to vote. This provision applies to general and special elections for federal office, and to the elections of governors and other chief executives within a state. If a school does not receive the forms within 60 days prior to the deadline for registering to vote in the state, it is not liable for failing to meet the requirement during that election year.

Students without high school diploma or equivalent: related topics

➔ Volume 1, Chapter 1: remedial coursework, ability to benefit tests as alternative.
➔ Volume 2, Chapter 1: Eligibility of schools enrolling students without high school diploma or equivalent.

GENERAL REQUIREMENTS

Voter registration

If a participating school is located in a state that has not enacted the motor vehicle/voter registration provisions of the National Voter Registration Act, the school must make a good faith effort to distribute voter registration forms to its students. (Schools in Puerto Rico are not subject to this provision because Puerto Rico is not a state under the National Voter Registration Act.)

The school must make the voter registration forms widely available to its students. It must individually distribute the forms to its degree or certificate seeking (FSA eligible) students.

Preparatory programs for students without high school diploma or equivalent

A school that admits students without a high school diploma or its recognized equivalent (except homeschooled students) must make available to its students a program that has proven successful in assisting students in obtaining the recognized equivalent of a high school diploma. For example such a program might assist a student in obtaining a General Educational Development (GED) test or a State certificate received by a student after the student has passed a State-authorized examination that the State recognizes as the equivalent of a high school diploma. Such programs include preparatory programs that are conducted by state and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates success. The school must provide information about the availability of the preparatory program to affected students.

The program does not have to be provided by the school itself, and the school is not required to pay the costs of the program. The program must be offered at a place that is convenient for the students and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the preparatory program.

The law does not require a school to verify that a student is enrolled in a preparatory program or to monitor the student's progress in the program. A student admitted based on his or her ability to benefit who does not have a high school diploma or its recognized equivalent is not required by law to enroll in a program, but the school may choose to make this an admission requirement.

A student may not receive FSA funds for the program although he or she may be paid for postsecondary courses taken at the same time as the preparatory coursework, including remedial coursework at the secondary level or higher

Updating Application Information

CHAPTER 5

In this chapter, we will describe the regular recertification of schools, as well as changes that can affect a school's participation and how and when to report these changes to the Department on the E-APP.

RECERTIFICATION

A school may be certified to participate for up to six years. Recertification is the process through which a school that is presently certified to participate in the FSA programs applies to have its participation extended beyond the expiration date of its current Program Participation Agreement (PPA). The Department will notify a school six months prior to the expiration of the school's PPA. The school must submit a materially complete application before the expiration date listed in its PPA.

If a school that is currently certified submits its materially complete application to the Department no later than 90 calendar days before its PPA expires, its PPA remains valid, and its eligibility to participate in the FSA programs continues until its application is either approved or not approved. This is true even if the Department does not complete its evaluation of the application before the PPA's expiration date. (For example, if a school's PPA expires on June 30 and it submits its application by March 31, the school remains certified during the Department's review period—even if the review period extends beyond June 30.) If the 90th day before the PPA's expiration falls on a weekend or a federal holiday and the school submits its Application (E-App) no later than the next business day, the Department considers the application to be submitted 90 days before the PPA expires.

If the school's application is not received at least 90 days before the PPA expires or is not materially complete, the school's PPA will expire on the scheduled expiration date and the FSA program funding will cease. If a school's eligibility lapses, the school may not continue to disburse FSA funds until it receives the Department's notification that the school is again eligible to participate in the programs.

Following submission of an application, the School Participation Team will contact the school if it has questions about the application. Generally, this will be within 90 days of the Department receiving an application. If a school's application has been approved, the Department will send an electronic notice to the president and financial aid officer notifying them that the school's PPA is available to print, review, sign, and return. If the school's application is not approved, ED will notify the school and explain why.

CHAPTER 5 HIGHLIGHTS

- Recertification
- Changes in ownership that require notification or reapplication
  - → Changes at public institutions
  - → Change of control, structure, or governance
  - → Changes for closely-held corporation
  - → Changes for publicly-traded corporation
  - → Changes at other types of corporations
  - → Changes for corporations not closely held or registered with SEC
- Changes in ownership interest and 25% threshold
- Steps to be taken during change in ownership
- Temporary approval for continued participation
- Substantive changes & how to report them
- Adding locations
- Adding programs
- Changing status of program or branch
- Changes in accreditation

FSA Assessment modules

To assess your compliance with the provisions of this chapter see "Recertification," at ifap.ed.gov/qahome/qaassessments/institutionalelig.html

Recertification cites

Sec 498(g) and (h) of the HEA
34 CFR 600.20(b) and (f)

Eligible nonparticipating school

Nonparticipating eligible schools are only required to renew their eligibility when the Department requests it. Their eligibility status continues indefinitely as long as the school continues to meet the institutional eligibility requirements. If the school wishes to be certified to participate in the FSA programs, it must submit an application and other supporting documentation (see *Chapter 2*).
34 CFR 600.20(b)(1)

Electronic submission required
Changes to previous applications, changes in ownership, reporting, expanding eligibility and certification, and applications for initial certification, recertification, and reinstatement must be submitted to the Department electronically through the Internet (see *Chapters 2 and 10*).

Changes in ownership cites
Sec. 498(i) of the HEA
34 CFR 600.31

Training requirement after a change in ownership or control
If a school undergoes a change in ownership, the school's chief financial aid administrator and its chief administrator (or a high-level school official designated by the chief administrator) must attend *Fundamentals of Title IV Training*.

If the financial aid administrator and/or the chief administrator have not changed, the school may request a waiver of the training requirement from its School Participation Team. The Department may grant or deny the waiver for the required individual, require another official to take the training, or require alternative training.

Default management plan after change in ownership or status
A school that changes ownership or changes its status as a parent or subordinate institution must adopt the Sample Default Prevention Plan or develop its own default management plan that is approved by the Department. The school must implement the plan for at least two years.

A school is exempt from submitting a default management plan if—
- the parent school and the subordinate school both have a cohort default rate of 10% or less, and
- the new owner of the parent or subordinate school does not own, and has not owned, any other school with a cohort default rate over 10%.

CHANGE IN OWNERSHIP OF FOR-PROFIT & NONPROFIT INSTITUTIONS

Changes at public institutions

The Department does not consider that a public institution has undergone a change in ownership that results in a change of control if there is a change in governance and the institution after the change remains a public institution, provided:

- the new governing authority is in the same state as included in the institution's program participation agreement; and
- the new governing authority has acknowledged the public institution's continued responsibilities under its program participation agreement.

Within 10 days of undergoing a change in governance, however, a public institution must **report** that change to the Department. The institution must also explicitly acknowledge its continued responsibilities under its Program Participation Agreement (PPA). If the documentation transferring control of a public institution to another instate entity does not specifically acknowledge the aforementioned responsibilities, the institution must acknowledge them in a separate letter or notice.

Change in ownership that results in a change of control, structure, or governance

A change in ownership and control occurs when a person or corporation obtains new authority to control a school's actions, whether the school is a proprietorship, partnership, or corporation. A change in ownership that results in a change in control includes any change through which a person or corporation

- acquires an ownership interest in the entity that owns the school or the parent corporation of that entity, or
- who owns or acquires an ownership interest attains or loses the ability to control the school.

The most common example of this change in controlling interest is when the school is sold to a new owner. Other kinds of "covered transactions" include—

- the transfer of the controlling interest of stock of the school or its parent corporation;
- the merger of two or more eligible schools;
- the division of one school into two or more schools;
- the transfer of the liabilities of a school to its parent corporation;

- a transfer of assets that comprise a substantial portion of the educational business of the school, except if it is exclusively in the granting of a security interest in those assets; or

- a conversion of the school from a for profit to a nonprofit school or a nonprofit to a for-profit.

Change in ownership for closely-held corporation

A closely-held corporation (including the term close corporation) is—

- A corporation that qualifies under the law of the State of its incorporation as a closely-held corporation; or

- If the State of incorporation has no definition of closely-held corporation, a corporation the stock of which is held by no more than 30 persons; and has not been and is not planned to be publicly offered.

For a closely-held corporation, a change in ownership and control occurs when—

- A person acquires more than 50% of the total outstanding voting stock of the corporation;

- A person who holds an ownership interest in the corporation acquires control of more than 50% of the outstanding voting stock of the corporation; or

- A person who holds or controls 50% or more of the total outstanding stock of the corporation ceases to hold or control that proportion of the stock of the corporation.

Change in ownership for publicly traded corporations

For publicly traded corporations, a change in ownership and control occurs when—

- a person acquires such ownership and control of the corporation such that the corporation is required to file a Form 8K with the Securities and Exchange Commission notifying that agency of the change in control; or

- a person who is a controlling shareholder of the corporation ceases to be a controlling shareholder.

A controlling shareholder is a shareholder who holds or controls through agreement **both** 25% or more of the total outstanding voting stock of the corporation and more shares of voting stock than any other shareholder. A controlling shareholder for this purpose does not include a shareholder whose sole stock ownership is held as a U.S. institutional investor, held in mutual funds, held through a profit-sharing plan, or held in an Employee Stock Ownership Plan (ESOP).

Family defined
34 CFR 600.21(f)

Excluded Transactions
34 CFR 600.31(e)(1) and (2)

Change in ownership for a publicly traded corporation cite
34 CFR 600.31(c)(2)

Excluded transactions—transfers to family members
Changes of ownership do not include a transfer of ownership and control to a member of the owner's family (whether or not the family member works at the school) that includes:
- parent, stepparent, sibling, step-sibling, spouse, child or stepchild, grandchild or step-grandchild;
- spouse's parent or stepparent, sibling, step-sibling, child or stepchild, or grandchild or step-grandchild;
- child's spouse; and
- sibling's spouse.

Nor does it include a transfer of ownership and control, upon the retirement or death of the owner, to a person (who is not a family member) with an ownership interest in the school who has been involved in management of the school for at least two years preceding the transfer, and who has established and retained the ownership interest for at least two years prior to the transfer.

These are known as excluded transactions, and they apply only to the transfer of the entire portion of the owner's interest.
34 CFR 600.21(f)
34 CFR 600.31(e)

Partnership or sole proprietorship
A change in ownership and control occurs when a person who has or acquires an ownership interest acquires or loses control as described in this section.

Parent corporation
An institution that is a wholly-owned subsidiary changes ownership and control when the parent corporation changes ownership and control as described in this section.

Ownership interest
Ownership or ownership interest does not include an ownership interest held by:
1. a mutual fund that is regularly and publicly traded;
2. a U.S. institutional investor as defined by the Securities and Exchange Commission;
3. a profit-sharing plan of the school or its corporate parent (provided that all full-time permanent employees of the school or corporate parent are included in the plan); or
4. an Employee Stock Ownership Plan (ESOP).

25% Threshold cite
34 CFR 600.31(c)(2)(ii)(A)

For a publicly traded corporation, when a change of ownership occurs, instead of a same-day balance sheet, the school may submit its most recent quarterly financial statement as filed with the SEC. Together with its quarterly financial statement, the school must submit copies of all other SEC filings made after the close of the fiscal year for which a compliance audit has been submitted to ED.

Consider a publicly traded school that is provisionally certified because of a change in ownership that experiences another change of ownership. If any controlling shareholder on the newer change of ownership application was listed on the ownership application for which the provisional approval was granted, the expiration date for the original provisional certification remains unchanged if the newer application is approved.

Change in ownership for corporations that are not closely held or registered with SEC

A change in ownership and control of a corporation that is neither closely held nor required to be registered with the Securities Exchange Commission (SEC) occurs when a person who has or acquires an ownership interest acquires both control of at least 25% of the total outstanding voting stock of the corporation and managing control of the corporation.

CHANGES IN OWNERSHIP INTEREST AND 25% THRESHOLD

Ownership or ownership interest means a legal or beneficial interest in a school or its corporate parent, or a right to share in the profits derived from the operation of a school or its corporate parent. The school must report any change in ownership interests whenever—

- an owner acquires a total interest of 25% or greater;
- an owner who held a 25% or greater interest reduces his or her interest to less than 25%; or
- an owner of a 25% or greater interest increases or reduces his or her interest but remains the holder of at least a 25% ownership interest.

Because of these reporting requirements, even though transferring ownership interest through death or retirement may be excluded from being considered a change in ownership resulting in a change of control, the resulting change in percentages of ownership interests must be reported to the Department.

A school must report any changes that result in an individual or owner (including a corporation or unincorporated business entity) acquiring the ability to substantially affect the actions of the school. Such a change must be reported within 10 days of the change. A school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. Adherence to these requirements is enforced during the institutional participation approval process, program reviews, and audit process.

All schools are bound by these reporting requirements, and substantial penalties may be imposed on schools that fail to comply with them.

An individual or corporation has the ability to substantially affect the school's actions when he, she, or it—

- personally holds, or holds in partnership with one or more family members, at least a 25% ownership interest in the school;
- personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school;
- is the school's general partner, chief executive officer (or other executive officer), chief financial officer, individual designated as the lead program administrator for the FSA programs at the school, or a member of the school's board of directors; or
- is the chief executive officer (or other officer) for any entity that holds at least a 25% ownership interest in the school, or is a member of the board of directors for such an entity.

To ensure that its FSA program participation isn't jeopardized, a school must report to the Department an ownership change (including the names of persons involved). On receiving the notification, the Department will investigate and notify the school whether a change in ownership resulting in a change of control has occurred that will require the school to submit a materially complete application if it wishes to participate in the FSA programs.

Preacquisition review

Schools may submit an E-App marked "preacquisition review" before a change in ownership takes place. The purpose of this review is to determine whether the school has answered all the questions completely and accurately. A preacquisition review application must be submitted at least 45 days prior to the expected date of the transaction.

The SPT will notify the school of the results of the review. However, the school will not be given a decision whether or not its application would be approved as a result of this preacquisition review. Please note that a preacquisition review is not required; it is an option.

If the potential owner decides not to purchase the school, he or she must notify the School Participation Team of the decision to withdraw the application.

If the potential owner considering the change in ownership decides to go through with the purchase, and wants to participate in the FSA programs, he or she must:
• notify the Department within 10 days of the date the change in ownership actually took place (If this date falls on a weekend or a federal holiday, the notification may be no later than the next business day.); and
• submit the supporting documents required for a materially complete application. (Refer to section "M" of the E-App for the list of specific forms to submit.)

Audits and closeout procedures

Although a separate financial aid compliance audit is not required when there is a change in ownership, structure, or governance, the prospective owner may choose to have the accounts audited before they are closed out. Questions about FSA accounts or closeout procedures should be addressed to the appropriate School Participation Team (see the "Contacts" listing on IFAPI: **ifap.ed.gov**

STEPS TO BE TAKEN DURING CHANGE IN OWNERSHIP

Steps to be taken by former owners

If a school is changing control, the former owners must notify the Department about the change and the date it occurs, and provide any supporting information the Department requests. This must be at the same time that the owner notifies the school's accrediting agency, but no later than 10 days after the change occurs. (If the former owner fails to notify the Department, the prospective owner is responsible for doing so.) The current owner also must notify the state agency that licenses or approves the school.

Steps to be taken by prospective owners

The prospective owner should request that the former owner provide copies of the school's existing ECAR, school refund policy, return of FSA funds policy, any required default management plan, program reviews, audited financial statements (for at least the two most recently completed fiscal years), and compliance audits. The prospective owner will need this information to receive approval to participate.

Accompanying the application must be audited financial statements for the school's two most recently completed fiscal years (if the school has not yet submitted statements for those years), an audited balance sheet showing the financial condition of the school at the time of the change, and a default management plan, (if required). Each participating school must demonstrate financial responsibility independently. If the entity that has acquired the school is an ongoing entity (partnership or corporation), the school must also submit completed audited financial statements of the acquiring entity for the last two consecutive fiscal years. For information on financial responsibility and submitting audited financial statements (see *Chapters 11 and 12*).

The school also must submit proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

The school may not award FSA program funds until it receives a new PPA signed on behalf of the Secretary.

Accepting liabilities and responsibility for return of funds

If new owners acquire a school or if a school is the result of the merger of two or more schools that formerly were operating separately, the new owner is liable for any debts that accrued from the former owner's FSA program administration. A new owner accepts liability for any federal funds that were given to the school but that were improperly spent before the date the change in ownership, structure, or governance became effective. A new owner must also abide by the school's refund and the FSA Return of Funds policy for students enrolled before the date the change became effective, and must honor all student enrollment contracts signed before the date of the change.

Payments to eligible students

Before the change in ownership, structure, or governance takes place, the former owner should make sure that all students receive any FSA payments already due them for the current payment period and that all records are current and comply with federal regulations. If the school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change takes place.

The school loses its approval to participate in the FSA programs when the change takes place. Generally, a school may:

- use Pell Grant or Campus-Based funds that it has received or request additional Pell Grant or Campus-Based funds from the Department to satisfy any unpaid commitment made to a student from the date the school's participation ended until the scheduled completion date of the payment period; and

- credit a student's account with the proceeds of a second or subsequent disbursement of an FFEL or Direct Loan to satisfy any unpaid commitment made to the student under the FFEL or Direct Loan Program from the date participation ends until the scheduled completion of that period of enrollment. (The proceeds of the first disbursement of the loan must have been delivered to the student or credited to the student's account prior to the end of the participation.)

The school must notify all new students that no federal aid funds can be disbursed until the school's eligibility is established and a new PPA signed by the Department is received.

The school may not award the FSA program funds beginning on the date that the change becomes effective. If the school's prospective owners wish the school to participate in one or more of the FSA programs, the school must submit a materially complete application to the Department.

The school can apply for preacquisition review (described in the previous section) and temporary provisional approval after the change in ownership (described in the next section).

Mailing address for supporting documents

U.S. Department of Education
School Participation Management
School Eligibility Channel
Integrated Partner Management Division
830 First Street, NE
Washington, DC 20002-5402

Phone (to verify receipt only) (202) 377-3161

Temporary approval cite

Sec. 498(i)(4) of the HEA

Audit cite

34 CFR 668.23

TEMPORARY APPROVAL FOR CONTINUED PARTICIPATION

The Department, at its discretion, may permit a school undergoing a change in ownership that results in a change in control to continue to participate in the FSA programs on a provisional basis if the school meets the following specific requirement.

The school must submit a materially complete application that must be received by the Department no later than 10 business days after the change becomes effective. A materially complete application for the purpose of applying for a temporary approval must include—

- a completed application form;
- a copy of the school's state license or equivalent that was in effect on the day before the change in ownership took place;
- a copy of the accrediting agency's approval (in effect on the day before the change in ownership) that granted the school accreditation status including an approval of the nondegree programs it offers;
- financial statements of the school's two most recently completed fiscal years that are prepared and audited in accordance with the requirements of the Generally Accepted Accounting Principles (GAAP), published by the Financial Accounting Standards Board, and the Generally Accepted Governmental Auditing Standards (GAGAS) published by the U.S. General Accounting Office (submitted via eZ-Audit at **https://ezaudit.ed.gov**);
- audited financial statements for the school's new owner's two most recently completed fiscal years that are prepared and audited in accordance with GAAP and GAGAS, or acceptable equivalent information for that owner (submitted via eZ-Audit at **https://ezaudit.ed.gov**); and
- a completed signature page, Section L.

If the application is approved, the School Participation Team will send the school a Temporary Provisional Program Participation Agreement (Temporary PPA). The Temporary PPA extends the terms and conditions of the PPA that were in effect for the school before its change of ownership.

The Temporary PPA expires on the earlier of the—

- date that the Department signs a new program participation agreement;
- date that the Department notifies the school that its application is denied; or
- last day of the month following the month in which the change of ownership occurred unless the school provides the necessary documents described below.

The Department can automatically extend the Temporary PPA on a month-to-month extension, **if,** prior to the expiration date, the school submits—

- a same day balance sheet showing the school's financial position on the day the ownership changed, prepared in accordance with GAAP and audited in accordance with GAGAS;
- approval of the change of ownership from the school's state agency that legally authorizes postsecondary education in that state (if not already provided);
- approval of the change of ownership from the school's accrediting agency (if not already provided); and
- a default management plan that follows examples provided by the Department, or notification that it is using ED's plan or is exempt from providing a plan (see exceptions under *Change in Ownership for For-Profit and Nonprofit Institutions*).

Electronic submission required

Changes to previous applications, changes in ownership, reporting, expanding eligibility and certification, and applications for initial certification, recertification, and reinstatement must be submitted to the Department electronically through the Internet (see *Chapters 2 and 10*).

E-App used to report changes

The required notification must be made online through the electronic application found at

http://www.eligcert.ed.gov

For a description of the E-App see Chapter 2.

SUBSTANTIVE CHANGES AND HOW TO REPORT THEM

A school is required to report changes to certain information on its approved application, as listed in the chart on the following pages. A school may also wish to expand its FSA eligibility and certification. Some of these changes require the Department's written approval before the school may disburse the FSA program funds; others do not.

If a change occurs in an E-App item not listed on the following pages, the school must update the information when it applies for recertification.

When the Department is notified of a change, if further action is needed, it will tell the school how to proceed, including what materials and what additional completed sections of the E-App need to be submitted. If a school has questions about changes and procedures, it should contact the appropriate School Participation Team.

After receiving the required materials (and depending on the circumstances), the Department will evaluate the changes, approve or deny them, and notify the school.

Approval required from accreditor & state agency

For a change requiring written approval from the Department (unless otherwise noted) and for some changes that do not require written approval from the Department, a school must obtain approval from the appropriate accrediting agency and state authorizing agency.

Notification of school closure or bankruptcy

If a school closes or files for bankruptcy, the school must notify the Department within 10 calendar days of either event by sending a letter on the school's letterhead that indicates the date the school closed or plans to close, or the date the school filed for bankruptcy, as appropriate.

Changes requiring prior written approval from ED

All schools must report and wait for written approval before disbursing funds when the following occur (the number in parentheses refers to the number of the question on the E-App):

1. a change in accrediting agency (notify the Department, when you **begin** making any change that deals with your school's institution-wide accreditation) (#15);
2. a change in state authorizing agency (#17);
3. a change in institutional structure (#18);
4. an increase in the level of educational programs beyond the scope of current approval (#26);
5. the addition of accredited and licensed nondegree programs beyond the current approval (#27);
6. the addition of short-term (300–599 clock-hour) programs (#27);
7. changes to the FSA programs for which the school is approved.* (Approvals from your accrediting agency and state authorizing agency are **not** required for this change.) (#37);
8. a change in the type of ownership (#22-24);
9. a change in ownership (#24); and
10. the addition of an accredited and licensed location (#30) (see *Adding Locations* later in this chapter), and when a school—
    a. is provisionally certified; or
    b. is on the cash monitoring or reimbursement system of payment; or
    c. has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in the FSA programs during that year; or
    d. would be subject to a loss of eligibility under the cohort default rate regulations (34 CFR 668.188) if it adds that location; or
    e. has been advised by the Department that the Department must approve any new location **before** the school may begin disbursing FSA funds.

When one of the changes that requires the Department's written approval occurs, a school must notify the Department. The school must apply to the Department for approval of the change via the electronic application within 10 calendar days of the change. As soon as the school has received approvals for the change from its accrediting agency and state authorizing agency, it must send to the Department:

- copies of the approval for the change,
- any required documentation, and
- Section L of the E-App containing the original signature of the appropriate person.

* For TEACH Grants, select "Add TEACH Grants" and then use question 69 to explain the eligibility criteria that your school meets for TEACH participation. See DCL GEN 08-07.

Changes that do not require ED's written approval

Though they need not wait for the Department's approval before disbursing funds, all schools must **report** the following information to the Department.

1. change to name of the school* (#2)
2. change to the name of a CEO, president, or chancellor (#10)
3. change to the name of the chief fiscal officer or chief financial officer (#11)
4. change in the individual designated as the lead program administrator (financial aid administrator) for the FSA programs (#12)
5. change in governance of a public institution (#24)
6. a decrease in the level of program offering (e.g., the school drops all its graduate programs) (#26)
7. change from or to clock hours or credit hours (#27)
8. address change for a principal location* (#29)
9. name or address change for other locations* (#30)
10. the closure of a branch campus or additional location that the school was required to report (#30)
11. the addition of an accredited and licensed location unless the school meets the conditions specified on the previous page (34 CFR 600.20(c)(1)) (#30)
12. change to the school's third-party servicers that deal with the FSA program funds (#58)

When one of these changes occurs, a school must notify the Department by reporting the change and the date of the change to the Department via the E-App within 10 calendar days of the change. In addition, a school must send to the address below

- any required supporting documentation, and
- Section L of the E-App containing the original signature of the appropriate person.

Foreign school reporting on the E-App

A **foreign school** must report changes to its postsecondary authorization (#42), degree authorization (#43), program equivalence (#44), program criteria (#45), or to its U.S. administrative or recruiting office (#46).

A **foreign medical school** must report changes to the facility at which it provides instruction (#47), its authorizing entity (#46), the approval of its authorizing entity (#46), the length of its program (#46), or the clinical or medical instruction that it provides in the U.S.

Other changes reported on the E-App

- Change to address for FSA mailings to an address different than the legal street address (#13)
- Change to address for FSA mailings to an additional location that is different than the legal street address (#30)
- Change of Taxpayer Identification Number (TIN) (#6a)
- Change of DUNS number (#6b)
- Change in board members (#20)
- Reporting foreign gifts (see Chapter 12) (#71)
- Change to institution's Web site address (#9)
- Change of phone/fax/e-mail of CEO, president, or chancellor (#10)
- Change of phone/fax/e-mail of CFO (#11)
- Change of phone/fax/e-mail of financial aid administrator (#12)

* As soon as it has received approvals for the change from its accrediting agency and state authorization agency, a school must send the Department copies of the approvals for change.

ADDING LOCATIONS

The Eligibility and Certification Approval Report (ECAR) that the Department sends to the school lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the ECAR, a school wishes to add a location at which at least 50% of an educational program is offered, it must notify the Department.

Eligibility of additional locations

For purposes of qualifying as an eligible location, an additional location is not required to satisfy the two-year requirement unless:

- the location was a facility of another school that has closed or ceased to provide educational programs for a reason other than a normal vacation period or a natural disaster that directly affects the school or the school's students,
- the applicant school acquired, either directly from the school that closed or ceased to provide educational programs, or through an intermediary, the assets at the location, and
- the school from which the applicant school acquired the assets of the location is not making payments in accordance with an agreement to repay a liability for a violation of FSA program requirements.

An additional location that falls into one of the aforementioned categories is not required to satisfy the two-year requirement if the applicant school agrees:

- to be liable for all improperly expended or unspent FSA funds received by the school that has closed or ceased to provide educational programs,
- to be liable for all unpaid refunds owed to students who received FSA funds, and
- to abide by the policy of the school that has closed or ceased to provide educational programs regarding refunds of institutional charges to students in effect before the date of the acquisition of the assets of the additional location for the students who were enrolled before that date.

Each site must be legally authorized. To apply for eligibility for an added location, the school must submit an E-App to the Department with the required application sections completed, a copy of the accrediting agency's notice certifying that the new location is included in the school's accredited status, and a copy of the state legal authorization from the state in which the additional site is physically located.

Mailing address for supporting documents:

U.S. Department of Education
School Participation Management
School Eligibility Channel
Integrated Partner Management Division
830 First Street, NE
Washington, DC 20002-5402

Phone (to verify receipt only)
(202) 377-3161

Reporting cite

34 CFR 600.21

Disbursing prohibited cite

34 CFR 600.20(f)(3)
34 CFR 600.21(d)

Approval required cite

34 CFR 600.20(c)(1)

Teach-outs at closed school locations NEW

A location of a closed school is eligible as an additional location of another school for the purpose of conducting a teach-out if the teach-out is approved by the school's accrediting agency. The school that conducts the teachout may establish a permanent additional location at the closed school without having to satisfy the requirements for additional locations (that a proprietary institution or a postsecondary vocational institution must have been in existence for two years to be eligible) and without assuming the liabilities of the closed institution.

HEOA section 496 HEA section 498
Effective date: August 14, 2008

Effects of closure of branch or additional location

A school that is considering adding a branch or an additional location should include in its deliberations the effect that a closure of a branch or additional location might have on the school's financial condition.

If a branch or additional location of an institution closes and borrowers who attended the school obtain loan discharges by reason of the closure of the branch or location (or improper ATB or loan certifications), the Department will pursue recovery against the larger institution, its affiliates, and its principals. (Sec.437(c)(1) of the HEA.)

Reporting a new location

All schools are required to report (using the E-App) to the Department adding an additional accredited and licensed location where they will be offering 50% or more of an eligible program if the school wants to disburse FSA program funds to students enrolled at that location.

Schools must not disburse FSA program funds to students at a new location before the school has reported that location and submitted any required supporting documents to the Department. Once it has reported a new licensed **and** accredited location, unless it is a school that is required to apply for approval for a new location (see below), a school may disburse FSA program funds to students enrolled at that location.

Applying for approval of a new location

If a school meets one or more of the following criteria, it must apply for *and wait for approval* before disbursing FSA funds at an additional location where it will be offering 50% or more of an eligible program:

- The school is provisionally certified.
- The school is on the cash monitoring or reimbursement system of payment.
- The school has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in the FSA programs during that year.
- The school would be subject to a loss of eligibility under the cohort default rate regulations if it adds that location, or
- The school was previously notified by the Department that it must apply for approval of an additional location.

The Department will review the information and will evaluate the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised ECAR and Approval Letter will be issued. The location is eligible as of the date of the Department's determination.

ADDING PROGRAMS

Adding a program—when a school may make eligibility determinations

If a school adds an educational program after receiving its ECAR, there are two cases in which the school itself may determine the program's eligibility, unless the Department has provisionally certified the school or has notified the school that its growth has been restricted. The two cases are when

- the added program leads to an associate, bachelor's, professional, or graduate degree (and the school has already been approved to offer programs at that level), or
- the added program provides at least a 10-week (of instructional time) program of 8 semester hours, 12 quarter hours, or 600 clock hours, and prepares students for gainful employment in the same or related recognized occupation as an educational program that the Department already has designated as an eligible program at the school.

Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals. The school must include any "self-certified" programs on its next recertification application, and provide copies of the state and accreditor approvals.

ED must approve all other added programs

In all other cases, the eligibility of an added educational program must be determined by the Department before FSA program funds can be awarded. The school must submit an E-App with the appropriate sections completed, and copies of the approval of the new program from its accrediting agency and state authorizing agency. The Department will evaluate the new program and the school. If the Department approves the additional program, a revised ECAR and Approval Letter is issued for the school, and the school is eligible as of the date of the Department's determination. Only after receiving an Approval Letter may the school begin disbursing FSA funds to students enrolled in the program. For more on program eligibility, see *Chapters 2 and 8*.

Maximum percentages of correspondence courses, students admitted without HS diploma or equivalent, and incarcerated students

The law establishes maximum percentages of correspondence courses, students who are enrolled without a high school diploma or equivalent, and incarcerated students at a participating school. If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted application (which deal with enrollment thresholds in these areas), the school must notify the Department via the E-App. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (See *Chapters 1 and 8* for additional information.)

Self-determination of program eligibility

If the school's self-determination of eligibility for an educational program is found to be incorrect, the school is liable for all FSA program funds received for the program and all FSA program funds received by or for students enrolled in that program.

If you have added programs that you did not need to report to the Department, when you next apply for recertification, you must add those programs to your E-App.

ED approval needed for programs under 600 hours

If the school wishes to add a program that is at least 300 clock hours but less than 600 clock hours, the school must apply for and wait for written approval from the Department before awarding FSA funds to students in the program.

Limitations for schools subject to "2-year rule"

For schools subject to the 2-year rule, during the school's initial period of participation in the FSA programs, the Department will not approve adding programs that would expand the school's eligibility beyond the current ECAR. An exception may be considered if the school can demonstrate that the program had been legally authorized and continuously provided for at least two years prior to the date of the request.

In addition, a school subject to the 2-year rule may not award FSA funds to a student in a program that is not included in the school's approval documents.

Branch campus defined

A location of an institution that is geographically apart and independent of the main campus of the institution.

ED considers a location of an institution to be independent of the main campus if the location
1) is permanent in nature;
2) offers courses in educational programs leading to a degree, certificate, or other recognized educational credential;
3) has its own faculty and administrative or supervisory organization; and
4) has its own budgetary and hiring authority.
34 CFR 600.2

CHANGING THE STATUS OF A CAMPUS OR BRANCH

Changing from a non-main campus to a branch campus

If a school wishes to seek approval for a branch campus, the school must submit a completed application with the required supplemental documentation (see list below) on (1) the main campus and (2) the proposed branch campus.

Changing from a branch campus to a freestanding main campus

A branch campus of an eligible proprietary institution of higher education or postsecondary vocational school must be in existence for at least two years (after it is certified in writing by the Department as a branch campus) before seeking to be designated as a main campus or a freestanding school.

Documentation required for approval of a branch campus

The following required supplemental documentation must be submitted for the School Participation Team to make a determination as to whether a non-main campus educational site is an eligible branch campus:

- A statement listing the distance between the main institution and the applicant non-main campus educational site.
- State authorization of the quasi-independent status of the non-main campus educational site from the main institution in any of the following forms: applicable state law, state charter, university system organization document, or state department of education or state board or regents regulations or documentation.
- State authorization (in any of the four forms above) for the non-main educational site to have its own faculty and administrative staff, its own operating budget, and its own authority to hire and fire faculty and staff.
- An official statement from the school describing the hiring authority of the non-main educational site.
- A statement from the main institution's primary accrediting agency indicating that it has accredited both the main institution and the non-main educational site through separate on-site visitations, and that the non-main educational site's accreditation is distinct yet dependent upon the main institution.
- A specific description of the relationship between the main campus of an institution of higher education and all of its branches, including a description of the student aid processing that is performed by the main campus and that is performed at its branches.
- The operating budget of the non-main campus educational site for the current year and the two prior fiscal years.
- Consolidated financial statements for the prior two years showing a breakdown of the applicant's financial circumstances.
- Other documents requested by the School Participation Team.

CHANGES IN ACCREDITATION

If a school decides to change its accrediting agency, it must notify the School Participation Team (SPT) when it begins the process of obtaining accreditation from the second agency. As part of this notice, the school must submit materials relating to its current accreditation and materials demonstrating a reasonable cause for changing its accrediting agency. If a school fails to properly notify the Department, the Department will no longer recognize the school's existing accreditation.

If a school decides to become accredited by more than one accrediting agency, it must submit to the SPT (and to its current and prospective agency) the reasons for accreditation by more than one agency. This submission must be made when the school begins the process of obtaining the additional accreditation. If a school obtains additional accreditation and fails to properly submit to the Department its reasons for the additional accreditation, the Department will not recognize the school's accredited status with either agency.

If the Department ceases to recognize a school's accreditation, the school is no longer eligible to award FSA program funds or take part in other programs under the Higher Education Act of 1965, as amended.

If a school becomes accredited by more than one agency, it must notify SPT which agency's accreditation the school will use for the purpose of determining the school's institutional eligibility for the FSA programs.

Loss of accreditation

If a school loses its primary accreditation, it is ineligible to participate in the FSA programs and must notify the Department within 10 days of the loss of accreditation. (For any dispute involving the termination of accreditation, an accredited or preaccredited school must agree to submit to binding arbitration before initiating any other legal action.) However, if a school's accrediting agency loses its recognition from the Department, the school has up to 18 months in which to obtain accreditation from another recognized agency. Other changes in accreditation may also jeopardize institutional participation.

Change in institution-wide accreditation

If the school decides to change its institution-wide accreditation, it must notify the Department when it begins the accreditation application process with a different agency. (Note that it must also notify the Department when it completes the process.) As part of the notice, the school must submit materials about its current accreditation and materials demonstrating reasonable cause for changing accreditation. If the school fails to notify the Department of the proposed change to its institution-wide accreditation, or if the school does not provide the materials just described, the Department will not recognize the school's existing accreditation. If this happens,

Liability for disbursements if change not approved

If an institution fails to apply for approval or fails to obtain approval of a new location, branch, program, or increase in program offering, and the Department does not approve the new location, branch, program, or increase in program offering, the institution is liable for all FSA program funds it disburses to students enrolled at that location or branch or in that program.

Changing accrediting agencies cite

34 CFR 600.11

or if the school drops its association with its former accreditor before obtaining Department approval of the change, the school would no longer have accredited status, and would no longer be eligible to award federal student financial aid or take part in other FSA programs.

Therefore, when a school secures new institution-wide accreditation it must notify the Department using the online electronic application (E-App). At that time, it must advise the Department which accrediting agency will be its accreditor for purposes of FSA gatekeeping. Only after the Department provides written notice that it recognizes the new accreditor as the institution's primary accreditor should the school drop its association with its prior accreditor.

Changing to accreditation by more than one institution-wide accrediting agency

If the school decides to become accredited by more than one institution-wide accrediting agency, it must notify the Department when it begins the process of obtaining additional accreditation. As part of the notice, the school must report (in question 15 of the E-App) its current institution-wide accrediting agency, the prospective institution-wide accrediting agency, and the reason (in question 69 of the E-App) it wishes to be accredited by more than one agency. If the school obtains the additional institution-wide accreditation and fails to notify the Department of the reason for the additional accreditation, the Department will not recognize the school's accredited status with either agency. This means the school would lose its accredited status and its eligibility to award federal student financial aid or take part in other FSA programs.

Providing Consumer Information

CHAPTER 6

This chapter describes the requirements for the consumer information that a school must provide to students, the Department, and others as well as a summary of the effects of misrepresentation of school information on a school's Federal Student Aid (FSA) participation.

Each year a school must provide to enrolled students a notice containing a list of the consumer information it must disseminate, and the procedures for obtaining this consumer information. *Schools must provide this notice through a one-on-one distribution.*

Schools must also provide a notice (though not an individual notice) of student rights under the Family Educational Rights and Privacy Act (FERPA). (See Chapter 9 for more information about FERPA; see sidebar note for sample notice on the Web.)

The student consumer information requirements are described in Subpart D of the General Provisions (668.41–48).

Those requirements include—

- Financial assistance information and information about the school's academic programs and policies,
- Information on graduation or completion rates, and
- Information about the school's security policies and crime statistics report.

Coeducational schools that have intercollegiate athletic programs are also required to provide information on athletic program participation rates and financial support for those programs. If a school offers athletically-related aid, it must also provide information on graduation or completion rates for its student athletes.

In addition to the information required under the consumer information regulations, schools must distribute drug and alcohol abuse prevention materials, and ensure that students who are borrowing under the FSA loan programs have received appropriate counseling regarding their loan obligation and repayment options.

These requirements are discussed in more detail in the remainder of this chapter. In some cases, a school is only required to make information available upon request, while in others the school must directly distribute the required information. You can find a chart summarizing the consumer information requirements at the end of this chapter.

CHAPTER 6 HIGHLIGHTS

- Basic consumer information requirements
  - → financial aid information
  - → general information about the school
  - → consumer information from ED
- Graduation & completion rates on IPEDS (Student Right-to-Know)
- Athletic participation data (Equity in Athletics)
- Loan counseling
- Drug & alcohol abuse prevention
- Misrepresentation
- Campus security (Clery Act)

Consumer information cites

HEA Sec. 485(f)
20 U.S.C. 1092
34 CFR 668.41-48

Assessing your school's compliance

To assess or school's compliance with the provisions of this chapter, see the FSA Assessment module for "Consumer Information," at

www.ifap.ed.gov/qahome/qaassessments/consumerinformation.html

Sample notice of FERPA rights

You can find a sample notification at ED's FERPA Web site

www.ed.gov/policy/gen/guid/fpco/ferpa/ps-officials.html

Definitions for basic consumer information
34 CFR 668.41(a)
34 CFR 668.47(b)

Basic information includes
Financial assistance information pursuant to 34 CFR 668.42, and
Institutional information pursuant to 34 CFR 668.43
Individual Notice Required

Civil penalty
In addition to limiting, suspending, or terminating the participation of any school that fails to comply with the consumer information requirements, the Department may impose civil fines of up to $27,500 for each violation.
Civil penalty cite
Sec. 487(c)(3)(B) of the HEA

Consumer information from the Department
The Department is required to make available to schools, lenders, and secondary schools descriptions of the FSA programs to assist students in gaining information through school sources, and to assist schools in carrying out the FSA program requirements.

We provide information to students and their families through the *Student Aid on the Web* site and publications such as ***Funding Education Beyond High School.***

Student Aid on the Web
studentaid.ed.gov

Colleges and high schools may order bulk quantities of student/borrower publications such as *Funding Education Beyond High School* from the FSA Pubs Web site.
www.FSAPubs.org

Statutory requirement:
Sec. 485 of the HEA

BASIC CONSUMER INFORMATION REQUIREMENTS

The regulations list basic information about the school and about financial aid that must be available to enrolled and prospective students. If necessary, the information listed below must be provided by your school. However, much of the required information may already be available in brochures and handouts routinely disseminated by the school or in federal publications such as *Funding Education Beyond High School.*

The school must have someone available during normal operating hours to help persons obtain consumer information. One full-time employee or several persons may be assigned so that someone is always available (with reasonable notice) to assist enrolled or prospective students and their families. Existing personnel may satisfy this requirement. A school may request a waiver of this requirement if it can demonstrate that a waiver is appropriate. A school should contact their School Participation Team for more information.

Financial aid information

At a minimum, the following information must be provided about financial assistance available at a school:

- the costs of attending the school (tuition and fees, books and supplies, room and board, and applicable transportation costs, such as commuting) and any additional costs of the program in which the student is enrolled or has expressed an interest,
- the need-based and non-need-based federal financial aid that is available to students,
- the terms and conditions under which students receive FFEL, Direct Loans and Perkins Loans,
- the need-based and non-need-based state and local aid programs, school aid programs, and other private aid programs that are available,
- how students apply for aid and how eligibility is determined,
- how the school distributes aid among students,
- the rights and responsibilities of students receiving aid,
- how and when financial aid will be disbursed,
- the terms and conditions of any employment that is part of the financial aid package,
- the terms of, the schedules for, and the necessity of loan repayment and required loan exit counseling,
- the criteria for measuring satisfactory academic progress, and how a student who has failed to maintain satisfactory progress may reestablish eligibility for federal financial aid,
- a statement of the requirements for the return of FSA funds when a student withdraws from school, information about any refund policy with which the school must comply, and

the requirements for officially withdrawing from the school (For more information about the Return of Federal Student Aid, see *Volume 5, Chapter 2.*), and

- whom to contact for information on student financial assistance and who for general school issues.

Information about the school's academic programs and student attainment

The school must provide the following minimum information about itself:

- the names of associations, agencies, and/or governmental bodies that accredit, approve, or license the school and its programs, and the procedures by which a student may receive a copy for review of the school's accreditation, licensure, or approval,
- the special facilities and services available to disabled students,
- the degree programs, training, and other education offered, and any plans the school has for improving the academic programs,
- the availability of a GED program, if the school admits students who do not have a high school diploma or equivalent,
- the instructional, laboratory, and other physical plant facilities associated with the academic programs,
- a list of the faculty and other instructional personnel,
- the terms and conditions under which students receiving federal education loans may obtain deferments,
- information regarding the availability of FSA funds for study abroad programs,
- NEW school policies on transfer of credit, including the criteria it uses regarding the transfer of credit earned at another school, and a list of any schools with which it has established an articulation agreement,
- NEW information on student body diversity in the categories of gender and ethnicity of enrolled, full-time students who receive Federal Pell Grants,
- NEW information on placement of and types of employment obtained by graduates of the school's degree or certificate programs,
- NEW information on the types of graduate and professional education in which graduates of the school's 4-year degree programs enrolled,
- NEW retention rates of certificate- or degree-seeking first-time full-time undergraduate students.

Explaining verification requirements

A school must give applicants selected for verification a written statement explaining
1. Documents required for verification,
2. Student responsibilities—including correction procedures, deadlines for completing any actions required, and the consequences of missing the deadlines.
3. Notification methods—how your school will notify students if their awards change as a result of verification, and the time frame for such notification.

cite 34 CFR 668.53

Use of surveys

A school may use sources such as alumni surveys, student satisfactions surveys, the *National Survey of Student Engagement*, and the *Community College Survey of Student Engagement State* data systems to gather information about placement or graduate/professional program enrollment of graduates from its programs.

Transfer of Credit Policies NEW

The requirement to disclose transfer of credit policies does not create a legally enforceable right for a student to require a school to accept a transfer of credit from another school.

HEOA section 488(g) HEA section 485(h)
Effective date: August 14, 2008

Information to be provided to bookstore NEW

A school must provide the following information, if requested by its college bookstore:

• the school's course schedule for the subsequent academic period; and

• for each course or class offered, the information it must include on its Internet course schedule for required and recommended textbooks and supplemental material, the number of students enrolled, and the maximum student enrollment.

Information about the school's facilities, services, & campus policies

The school must provide information about its facilities, services, and policies with regard to:

- prevention of drug and alcohol abuse (discussed in more detail later in this chapter),
- campus security statistics and campus security policies (discussed in more detail later in this chapter),
- NEW the school's missing persons procedures and the student's option to designate a contact person (see *Chapter 3*),
- NEW emergency response and evacuation procedures to reach students and staff,
- NEW the school's fire safety report (discussed in more detail later in this chapter),
- NEW school policies regarding all vaccinations, and
- NEW policies and sanctions related to copyright infringement and liabilities students may face for unauthorized distribution of copyrighted materials.

Textbook information NEW

A school must include, on its Internet course schedule, the International Standard Book Number (ISBN) and retail price for required and recommended textbooks and supplemental material. If the ISBN is not available, the author, title, publisher, and copyright date, or, if such disclosure is not practicable, the designation "To Be Determined."

If applicable, the school must include on its written course schedule a reference to the textbook information available on its Internet schedule and the Internet address for that schedule.

Schools are encouraged to provide information on renting textbooks, purchasing used textbooks, textbook buy-back programs, and alternative content delivery programs.

GRADUATION & COMPLETION RATES (STUDENT RIGHT-TO-KNOW DISCLOSURES)

Student Right-to-Know disclosures must be made by July 1 of each year (see chart at the end of this chapter).

The Student Right-to-Know Act requires schools to disclose:

- Completion or graduation rates and, if applicable, transfer-out rates for a specific cohort of the general student body. This cohort is of certificate- or degree-seeking, full-time, first-time undergraduate students.
- For schools that offer athletically related student aid, completion or graduation rates and, if applicable, transfer-out rates of students receiving athletically related student aid, if the school offers athletic aid.

The school must provide student athlete graduation rate information to potential student athletes, their parents, and their high school coaches and guidance counselors upon making an offer of athletic aid.

Schools must make available, to prospective students, no later than July 1, 2009, the rates for the cohort for which the 150% of the normal time for completion elapsed between September 1, 2007 and August 31, 2008.

A school such as a community college is required to calculate and disclose its transfer-out rates only if it determines that its mission includes providing substantial preparation for its students to enroll in another eligible school (such as an eligible four-year school).

In addition to calculating the completion or graduation rates described above, a school *may, but is not required* to calculate:

- A completion or graduation rate for students who transfer into the school;
- A completion or graduation rate and transfer-out rate for the students described as exclusions to the requirements in this section.
- A transfer-out rate (required only if preparing students for transfer is part of the school's stated or implied mission).

However, note that the rates produced by these optional calculations cannot be reported to the IPEDS survey site.

Student Right-to-Know cite

Sec. 485(a) of the HEA
34 CFR 668.45

Student information vs. reporting to ED

Schools should not confuse the requirements and methodologies for providing information to students and other consumers with the requirement for reporting similar information to the Department.

Disseminating completion/ graduation rates

Schools must disseminate the information on completion or graduation and, if applicable, transfer-out rates to enrolled and prospective students upon request, through appropriate publications, mailings, or electronic media (for example, school catalogs or admissions literature). Schools are strongly encouraged to provide this information to other interested parties, such as guidance counselors, upon request

Note that your school's graduation rates are also displayed on the IPEDS College Navigator site:

http://nces.ed.gov/ipeds/collegenavigator.

Reporting rates to IPEDS

The graduation and completion rates are reported through the Web survey site for the Department's Integrated Postsecondary Education Data System (IPEDS).

Survey forms, instructions, FAQs, worksheets, and other infomation are posted at:

nces.ed.gov/ipeds/web2000/springdataitems.asp

Information can only be reported to this system by the school's designated "keyholder." Schools may change keyholders at any time during the year by contacting

Jan Plotczuk
202-502-7459
IPEDS Universe Coordinator
Rm. 8122 1990
K Street NW
Washington DC 20006

NCES, IPEDS,

Though in some cases the dates by which schools must make consumer and safety information available to students, parents, and high school counselors and coaches are based on the dates by which schools must report that information to the Department, the regulatory requirements are separate.

The disclosure requirements arise from the Student-Right-to-Know and Campus Security/ Clery Act and the Equity in Athletics Disclosure Act. Schools report similar information to the Department when they fulfill the requirement that they participate in the annual Integrated Postsecondary Education Data System (IPEDS) Survey conducted by the National Center for Education Statistics (NCES).

The NCES survey program at the postsecondary education level provides statistical information used by planners, policy makers, and educators in addressing multiple issues. One major source of this information is the annual Integrated Postsecondary Education Data System (IPEDS) Survey.

The IPEDS system, established as the core postsecondary education data collection program for NCES, is a system of surveys designed to collect data from all primary providers of postsecondary education. The IPEDS system is built around a series of interrelated surveys that collect school-level data in such areas as school characteristics, enrollments, program completions, staffing patterns, faculty salaries, finances, and financial aid.

Information on NCES and IPEDS is available at http://www.nces.ed.gov/IPEDS

IPEDS/GRS Deadline

The deadline for the Graduation Rate Survey on the IPEDS site also applies to schools that don't offer athletically related student aid.

Reporting completion or graduation and transfer-out rates to the Department

To calculate completion or graduation and transfer-out rates, a school must identify a group of students each year (a cohort) and review the performance of that cohort over time to determine the percentage of those students who complete their programs or transfer out of the school. The same snapshot approach is used to determine rates for both the general student body cohort and those rates related to students receiving athletically related student aid.

Your school must report its completion or graduation rates every spring to the Department through the IPEDS Web site (see sidebar).

Disclosing and reporting information on completion or graduation rates for the general student body cohort

The information on completion, graduation rates and, if applicable, transfer-out rates must be made available by the July 1 immediately following the 12-month period ending August 31 during which the expiration of 150% of normal time took place for the group of students on which the school bases its completion and transfer-out rate calculation.

Schools must disseminate the information on completion or graduation and, if applicable, transfer-out rates to enrolled and prospective students upon request, through appropriate publications, mailings, or electronic media (for example, school catalogs or admissions literature). Schools are strongly encouraged to provide this information to other interested parties, such as guidance counselors, upon request.

Reporting completion/graduation rates for student athletes

Schools that participate in an FSA program and offer athletically related student aid must use the IPEDS Web survey to provide information on completion or graduation rates, transfer-out rates, if applicable, and other statistics for students who receive athletically related student aid to potential student athletes, and to their parents, high school coaches, and guidance counselors.

The definition of athletically related student aid used here and discussed earlier in this chapter is the same definition that is also used for the Equity in Athletics Disclosure Act (EADA) disclosure requirements (as discussed in the next section). The definitions of certificate- or degree-seeking students, first-time undergraduate students, undergraduate students, and normal time are the same as those used for the calculation of completion or graduation and transfer-out rates for a school's general student body cohort (also discussed above).

In addition to the completion rates and transfer-out rates, schools must report

- the number of students, categorized by race and gender, who attended the school during the year prior to the submission of the report, and
- within each sport—the number of those attendees who received athletically related student aid, categorized by race and gender.

Disclosing the rates for student athletes

A school must also provide the report to each prospective student athlete and his or her parents, coaches, and counselor when an offer of athletically related student aid is made to the prospective student athlete.

Schools are not required to provide completion rate information for students who entered before the 1996–1997 academic year. However, if a school has data on students entering prior to the 1996–1997 academic year (as the result of NCAA requirements, for example), the school should report these data in the four-year averages.

Schools that are not yet reporting completion or graduation rates or, if applicable, transfer-out rates because they do not have the necessary data must still disclose the additional data regarding the number of students who attended the previous year, categorized by race and gender, and the number who attended the previous year and who received athletically related student aid, categorized by race and gender within each sport.

There is a *de minimus* exception to the disclosure requirements for the completion or graduation rates or, if applicable, the transfer-out rates of student athletes. Schools with five or fewer student athletes need not disclose their rates.

Reporting the rates for student athletes

The rates for student athletes must be completed and submitted to the Department together with other Student-Right-to-Know data by the Graduation Rate Survey (GRS) deadline.

Supplemental information

Schools may provide additional information to place their completion or transfer-out rates for both the general student body and those related to athletically related student aid in context. For example, a small school's completion rate may vary greatly from year to year because the school's calculations use a very small cohort. The school may wish to provide prior year's data and an explanation of factors affecting the completion rate.

Waivers

The regulations provide for waiving the disclosure of completion or graduation rate and transfer-out rate calculations (to coaches and guidance counselors only) for the general student body cohort and for athletic data for any school that is a member of an athletic association or conference that has voluntarily published (or will publish) completion or graduation-rate data that the Department determines are substantially comparable to the data required by the regulations.

The NCAA may distribute graduation rate information to all secondary schools in the United States to satisfy the distribution requirements for prospective student athletes' guidance counselors and coaches. This does not relieve the school of its obligation to provide the information to the prospective student athletes and their parents.

The Department will continue to work with interested agencies to help them develop standards that meet these requirements. If in the future the Department determines that another agency's requirements meet the standards of the Student Right-to-Know Act, the Department will inform schools that those rates may be used to satisfy the Student Right-to-Know disclosure requirements.

34 CFR 668.45(e)(1)

Reporting to parents

In cases of separation or divorce, if it is difficult to locate both parents, it is acceptable to provide the required information solely to the parent who acts as the student's guardian.

Equity in Athletics Disclosure Act (EADA)

Equity in Athletics Disclosure Act (EADA) of 1994
Section 485(e) and (g) of the Higher Education Act of 1965
20 U.S.C. 1092
34 CFR 668.47

EADA on the Web

Schools report their EADA data on the Web at the Athletic Disclosure Web site:

http://surveys.ope.ed.gov/athletics

Note that a password and user ID are required for use of this Web site. They are sent by the Department to the chief administrator at the school. For help with this site, contact: **eadahelp@westat.com**

Prospective students, their families, and the public can view the EADA reports for participating schools on the Web at:

http://ope.ed.gov/athletics/

USED's responsibilities

The Department has to ensure that the individual school reports are made available to the public within a reasonable period of time.

EQUITY IN ATHLETICS (PARTICIPATION RATES & SUPPORT FOR ATHLETIC PROGRAMS)

The Equity in Athletics Disclosure Act (EADA) is intended to make prospective students aware of a school's commitment to providing equitable athletic opportunities for its men and women students.

Any coeducational institution of higher education that participates in an FSA program and has an intercollegiate athletic program must prepare an annual EADA report. The report contains participation rates, financial support, and other information on men's and women's intercollegiate athletic programs. Officially, it is *The Report on Athletic Program Participation Rates and Financial Support Data*. It is commonly referred to as the EADA Report.

Disclosure of the report

The EADA requires schools to publish this report by October 15 and make it available upon request to students, prospective students, and the public in easily accessible places. For example, a school may make copies of the report physically available in intercollegiate athletic offices, admissions offices, or libraries, or by providing a copy to every student in his or her electronic mailbox.

The EADA Report must be summarized, and its availability described in the **one-on-one disclosure** to all students and prospective students required of the school.

A school must provide the report promptly to anyone who requests the information. For example, a school may not refuse to provide a copy of the report to the news media, and the school may not require an individual requesting the information to come to the school to view the report. A school may not charge a fee for the information.

Schools must submit their Equity in Athletics reports to the Department via the Athletic Disclosure Web site annually within 15 days of making them available to students, prospective students, and the public.

Contents of the Equity in Athletics/EADA Report

A school must first designate its reporting year. A reporting year may be any consecutive 12-month period of time. For its designated reporting year, a school must report:

1. the number of male and female full-time undergraduate students that attended the school (undergraduate students are those who are consistently designated as such by the school);

2. the total amount of money spent on athletically related student aid (including the value of waivers of educational expenses aggregately) for: (a) men's teams and (b) women's teams;

3. the ratio of athletically related student aid awarded to male athletes to athletically related student aid awarded to female athletes (see the definition of athletically related student aid under Definitions);

4. the expenses incurred by the school for—
   - all sports,
   - football,
   - men's basketball,
   - women's basketball,
   - all other men's sports except football and basketball, and
   - all other women's sports except basketball

   Expenses not attributable to a particular sport, such as general and administrative overhead, must be included only in the total expenses for all sports.

   A school also may report those expenses on a per capita basis for each team and may report combined expenditures attributable to closely related teams, such as track and field or swimming and diving. Those combinations must be reported separately for men's and women's teams.

5. total recruiting expenses aggregately for (a) all men's teams and (b) all women's teams—

6. total annual revenues for— (a) all sports combined, (b) all men's teams, (c) all women's teams, (d) football, (e) men's basketball, (f) women's basketball, (g) all men's sports other than football and basketball, and (h) all women's sports other than basketball;

7. in its total revenues and men's or women's combined revenues, as applicable – revenues not attributable to a particular sport such as untargeted alumni contributions to athletics, investment income, and student activities fees;

8. individually by team or by average—
   a. the annual school salary of non-volunteer head coaches for all offered sports of (1) men's teams and (2) women's teams—this must include the number of persons and full-time equivalent positions used to calculate each average;
   b. the annual school salary of non-volunteer assistant coaches for all offered sports of (1) men's teams and (2) women's teams. This must include the number of persons and full-time equivalent positions used to calculate each average;

   If a coach had responsibility for more than one team and a school does not allocate that coach's salary by team, the school must divide the salary by the number of teams for which the coach had responsibility and allocate the salary among the teams on a basis consistent with the coach's responsibilities for the different teams.

9. a listing of the varsity teams that competed in intercollegiate athletic competition and for each team, the following data—
   a. total number of participants as of the day of the first scheduled contest of the reporting year for the team, number of those who participated on more than one varsity team, and number of other varsity teams on which they participated;
   b. total operating expenses (expenditures on lodging and meals, transportation, officials, uniforms, and equipment) attributable to the team;
   c. whether the head coach was male or female, was assigned to the team on a full-time or part-time basis, and, if assigned on a part-time basis, whether the head coach was a full-time or part-time employee of the school (The school must consider graduate assistants and volunteers who served as head coaches to be head coaches for the purposes of this report.);
   d. the number of assistant coaches who were male and the number of assistant coaches who were female, and, within each category, the number who were assigned to the team on a full-time or part-time basis, and, of those assigned on a part-time basis, the number who were full-time and part-time employees of the school (The school must consider graduate assistants and volunteers who served as head coaches to be head coaches for the purposes of this report.); and
   e. an unduplicated head count of the individuals who were listed as participants on at least one varsity team, by gender.

TEACH Grant Counseling

• *Initial and subsequent counseling* is delivered through the TEACH website before the student receives his/her grant.
• It is the school's responsibility to see that TEACH recipients receive *exit counseling* when the student is no longer enrolled in the program.

DL Online Counseling

Students can take online counseling at the Direct Loan Web site at **www.dl.ed.gov**
A DL school can sign up to receive regular reports with the names of students who have completed on-line counseling. (Log in to the COD Web site and then select the Direct Loan Servicing Online School site.)

Counseling student PLUS borrowers

Note that counseling requirements have been added for graduate and professional borrowers who are now eligible for PLUS loans.
These requirements were published November 1, 2007.
34 CFR 682.604
34 CFR 682.304

Providing borrower information

A Direct Loan School should mail updated borrower information to
U.S. Department of Education
PO Box 5609
Greenville, TX 75403-5609

Staying in touch with the Direct Loan Servicer

If they keep their PIN numbers handy, Direct Loan borrowers can manage their loans online by going to: **www.dl.ed.gov** to check account balances, change address, estimate repayments, or print out forms (deferment, forbearance, electronic debit account).

Mailing exit materials

When exit materials to a student who has left school, you're not required to use certified mail with a return receipt requested, but you must document in the student's file that the materials were sent. If the student fails to provide the updated contact information, you are not required to take any further action.

LOAN COUNSELING

Before a first-time Stafford Loan borrower takes out a loan, the school must ensure that entrance counseling is conducted—individually or in a group with other borrowers. Exit counseling must also be provided before a Stafford or Grad/PLUS borrower completes his or her course of study or otherwise leaves the school. There are similar requirements for Perkins loans (see *Volume 6*). (Note that loan counseling is not required for parent PLUS borrowers.)

Loan counseling is particularly important because new students often have little or no experience with repayment and managing debt. Your school must ensure that the student receives comprehensive entrance and exit counseling, even though the counseling may be given by a consultant, servicer, lender, or guarantor (usually on the Web), or online on the Direct Loan Web site.

When providing counseling, schools are encouraged to use interactive programs to test the borrower's understanding of the terms and conditions of their loans. The Direct Loan Program and many FFEL guaranty agencies, lenders, and other organizations offer online counseling through the Web, videos, pamphlets, and other counseling materials. Your school may choose to rely on Web counseling services, if those services provide all of the information required by regulation. If the counseling is given electronically, you'll need to make sure that the student receives written counseling materials for any required information that is not provided in the electronic counseling presentation. Your school is also responsible for making knowledgeable staff available to answer student questions.

If your staff are conducting in-person counseling sessions, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic manner. We also recommend the use of written tests. Moreover, the regulations require (for any form of counseling) that someone with expertise in the FSA programs be available shortly after the counseling to answer borrowers' questions about those programs.

Regardless of the counseling methods your school uses, you must be sure to document that the student received and understood entrance and exit counseling. The borrower must sign an acknowledgement to this effect, and return it either directly to the school or through an online borrower acknowledgement of receipt.

The chart at the end of this section summarizes information to be covered as a part of entrance and exit counseling sessions. The arrows indicate those elements that must be covered in both entrance and exit counseling.

There are many ways to deliver this information and to reinforce it through continuing contacts with your student borrowers. You have an opportunity at each disbursement to remind students about the importance of academic progress, planning for future employment, and staying in touch with the holder of the loan.

Providing borrower information at separation

The personal and contact information collected at the time of exit counseling must be provided to the guaranty agency or Direct Loan Servicing Center within 60 days. A student authorizes his or her school to release information to lenders as part of the promissory note the student signs as part of the loan application process. No further permission is needed.

Exit counseling follow up

If the student borrower drops out without notifying your school, you must confirm that the student has completed online counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days of your learning that a borrower has withdrawn or failed to participate in an exit counseling session.

TEACH exit counseling

Since TEACH Grants may be converted to loans if a student cannot complete the service requirement, all TEACH recipients must receive exit counseling. You will receive reports from the DL servicing center on all students who have completed TEACH exit counseling. If the student doesn't complete the exit counseling session on the TEACH website, you must ensure that the counseling is provided either in person, through interactive electronic means, or by mailing written counseling materials (such as the PDF version of the exit counseling program on the TEACH website) to the grant recipient's last known address. In the case of unannounced withdrawals, you must provide this counseling within 30 days of learning that a grant recipient has withdrawn from school (or from a TEACH Grant-eligible program).

Counseling for correspondence and study abroad students

As an alternative for correspondence programs, or study abroad programs that are approved by the U.S. school for credit, you may send the borrower written counseling materials within 30 days after the borrower completes the program, with a request that the borrower provide the contact and personal information that would ordinarily have been collected through the counseling process.

Web-based counseling sites can be particularly useful for borrowers who are participating in off-campus programs such as school's year-abroad program, correspondence study, and online programs.

If the borrower has not previously received a Stafford loan at that school, the school must document that the student has completed online entrance counseling that meets FSA requirements, or provide entrance counseling information by mail before releasing loan proceeds.

Loan counseling in regulations

FFEL: 34 CFR 682.604(f) and (g)
DL: 34 CFR 685.304
Perkins: 34 CFR 674.16(a)

Availability of grant aid

The General Provisions require that you inform students about the availability of grant aid before awarding loans.
"

Disclosure & counseling for Perkins Loans

The Perkins Loan regulations require that borrowers receive similar information. You can read more about the Perkins requirements in *Volume 6 – Campus-Based Programs*..

Direct Loan counseling materials

Direct Loan schools can order counseling materials, such as the Direct Loan Entrance Counseling Guide and the Direct Loan Exit Counseling Guide from the FSA PUBS Web site at
www.fsapubs.org

Alternative entrance counseling approaches

The Direct Loan regulations describe how a school may adopt alternative approaches as a part of its quality assurance plan—see 34 CFR 685.304(a)(4)

Default Management Plan

Additional ideas for loan counseling are given in the "Sample Default Management and Prevention Plan."

* Financial literacy—schools should provide borrowers with information concerning the income potential of occupations relevant to their course of study, counseling at various stages of enrollment, interactive tools to manage debt, repayment options, and school contact information. Schools can offer this information through a variety of media such as counseling, classes, publications, e-tutorials, electronic newsletters to email accounts, and adding the information to award letters.
* At-Risk Students—schools should identify and provide special counseling for "at-risk" students (such as students who withdraw prematurely from their educational programs, borrowers who do not meet standards of satisfactory academic progress, or both).
The most recent sample default plan was issued as an attachment to GEN-05-14.

See attachment to GEN-05-14, or go to collection of "Default Rate Materials" on the IFAP Web site.

Entrance Counseling

Before a first disbursement may be made to a first-time Stafford (or DL Subsidized/Unsubsidized) borrower, the student must receive entrance counseling that explains the loan obligation. The counseling must be conducted in person, by audiovisual presentation, or by interactive electronic means.

Required elements of entrance counseling

The Direct Loan and FFEL regulations require that certain information be included in entrance counseling. Some of this information is included in the Borrower's Rights and Responsibilities statement that must accompany the MPN, but you should review and elaborate on these points as a part of the counseling presentation.

- **Reinforce the importance of repayment**. The regulations also require that entrance counseling emphasize the seriousness and importance of the repayment obligation. The lender or Direct Loan Servicing Center (DLSC) sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does not relieve the borrower of his or her obligation to make payments. (Direct Loan borrowers are encouraged to set up electronic debiting of a bank account to repay their loans—electronic debiting is also available through many FFEL lenders.)

- **Stress that repayment is required, regardless of educational outcome or subsequent employability.** Entrance counseling information must explain that the student borrower is obligated to repay the full loan even if he or she doesn't finish the educational program within the regular time for completion, can't get a job after graduating, or is dissatisfied with the school's educational program or other services.

- **Describe the likely consequences of default.** These consequences include adverse credit reports, federal offset, litigation, and other delinquent debt procedures under federal law. We recommend that you tell the borrower of the charges that might be imposed for delinquency or default, such as the lender's or guarantor's collection expenses (including attorney's fees). Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.

- **Explain the use of the Master Promissory Note.** If relevant at your school, explain the use of the multi-year feature of the MPN, and the borrower confirmation process. You should advise students to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN. In addition, you should inform borrowers of their right to sign a new promissory note for each loan and opt out of the multi-year feature of the MPN.

- **Explain interest and capitalization.** The borrower must be provided information on how interest accrues and is capitalized during periods when the interest is not paid by the borrower or the Department. This information should explain the option of the borrower to pay the interest on unsubsidized loans while in school.

- **Provide sample monthly repayment amounts.** These sample amounts must be based on 1) a range of student levels of indebtedness, or 2) on the average indebtedness of other Stafford (or DL Subsidized/Unsubsidized) borrowers at the same school or in the same program of study at the same school.

- **Provide information about NSLDS.** The counseling must include information about the National Student Loan Data System and how the borrower may access his or her records on that system.

- **Provide contact information for questions.** The counseling must include the name and contact information of the individual a borrower can contact with questions regarding the borrower's rights and responsibilities for the terms and conditions of the loan.

- **Stress the importance of notifying the school and lender of withdrawal or other change of status.** The law requires that the counseling stress the importance of contacting the appropriate offices at the school if the borrower withdraws prior to completing the program of study so the school can provide exit counseling. In addition, the counseling should reinforce the student's obligation to keep the lender (or the Direct Loan Servicing Center) informed about address changes, or changes in enrollment. (Failure to tell the lender about their responsibility to notify the lender or the DLSC is one of the most common reasons why a loan goes into default.) The borrower should always know the most current name and address of the lender, the loan servicer, and the guarantor of the loan.

The student is required to inform the lender when he or she graduates, changes schools, drops below half time, or withdraws from school. The borrower also must tell the DLSC or the lender if his/her address changes (including changes in the permanent address while in school). The student should also be reminded of the importance of notifying the holder of the loan in the event of a name change (including the change of a last name through marriage) or a change in Social Security Number.

Other suggestions for entrance counseling

In addition to the required elements above, counselors often include some of the following information in their sessions. (Some of these items are included in the sample Default Prevention and Management Plan.)

- **Review terms and conditions of the loan.** As a part of entrance counseling, tell the borrower the current interest rate on his/her loan(s), the applicable grace period, and the approximate date the first installment payment will be due.

  Often a student loan is the borrower's first experience in obtaining a loan of any kind, so it helps to clearly explain basic loan terminology to ensure that a borrower understands the process and knows who holds his/her loan. For instance, define terms such as loan servicer, the use of contractors to service the loan, and the process of selling loans to other lenders or to secondary markets. (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

- **Review repayment options.** Explain that the exact repayment schedule will not be provided until loan repayment begins. Tell the student that certain fees (the origination fee and, for FFEL, an insurance fee) will be subtracted from the loan amount before the loan is disbursed but that repayment of the full loan amount is required. Review the availability of different repayment plans (standard, extended, graduated, income-sensitive/contingent), as well as loan consolidation. Stress that a borrower must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice.

- **Discuss how to manage expenses (budgeting).** It would also be helpful to include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount of student aid that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student's earning potential in his or her chosen career, and with required information about anticipated monthly payments and overall indebtedness.

- **Review deferments, forbearance, etc.** The borrower should have a general understanding of the deferment, forbearance, and cancellation options, and how to apply for them. The counseling should stress that the borrower needs to contact the lender or DLSC if he or she is having difficulty in repaying the loan, as the lender or DLSC may be able to suggest options that would keep the loan out of default. Inform borrowers that information about deferments and forbearance is contained in their promissory notes.

- **Review Borrower's Rights and Responsibilities.** The student must receive a statement of Borrower's Rights and Responsibilities with the MPN. This may be provided by the Direct Loan Program or the FFEL lender, but it's a good idea to review the information on the statement with the borrower to make sure that he or she is familiar with that information.

- **Remind borrowers of the refund and other policies affecting withdrawals.** The borrower should be aware of the school's academic progress policy and refund policy, and how the return of FSA funds will affect loan repayment.

- **Reinforce the importance of keeping loan records.** This would be a good time, if your school has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note and notices showing when the student received loan payments or his/her account was credited. The student should keep the loan repayment schedule provided by the lender or DLSC when repayment begins, as well as records of loan payments—including canceled checks and money order receipts. The student should keep copies of any requests for deferment or forbearance, or any other correspondence with the loan holder or DLSC.

- **Reminder about exit counseling.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled at least half-time.

Exit Counseling for all FFEL & DL Student Borrowers

Your school must ensure that students who have borrowed FFEL or Direct Loans (including Graduate/Professional PLUS loans) receive exit counseling before they leave school. Counseling may be provided in person, (individually or in groups), or using audiovisual materials. As with entrance counseling, exit counseling is offered on the Web by many guarantors, lenders, and by the Direct Loan Program.

Student borrowers should be advised to complete online exit counseling or sign up for a counseling session (if offered at your school) shortly before graduating or ceasing at least half-time enrollment. As with entrance counseling, knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers. One of a borrower's obligations is to participate in an exit counseling session.

Direct Loan schools can use the program's Web site to confirm which of their students have completed online exit counseling: **www.dl.ed.gov** Similar online counseling services are provided by guarantors in the FFEL program

Required elements of exit counseling

Some of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies. The following information must be provided as a part of exit counseling:

- **Review information from entrance counseling.** Several topics that were covered in entrance counseling must be reviewed during exit counseling: the consequences of default and the importance of the repayment obligation, the use of the Master Promissory Note, and the obligation to repay the loan even if the borrower drops out, doesn't get a job, or is otherwise dissatisfied with the quality of the school's educational programs and services.

- **Review repayment options.** The counseling must provide information on repayment plans (standard, extended, graduated, and income-contingent/income-sensitive plans) that includes a description of the different features of each plan and samples showing average anticipated monthly payments with the difference in interest paid and total payments shown with each plan. The counseling must review the borrower's options to prepay the loan, pay the loan on a compressed schedule, and to change repayment plans.

- **Provide an average anticipated monthly repayment amount.** The student borrower must be given an estimate of the average anticipated monthly payments that is based 1) on his or her indebtedness, or 2) on the average indebtedness of other student borrowers for attendance at the same school or in the same program of study at the same school. If you use an average of other student borrowers, include Graduate/Professional PLUS borrowers in calculating the average only if you are providing the average amount to a student who has also borrowed Graduate/Professional PLUS (see graphic on next page).

  We recommend giving the borrower a sample loan repayment schedule based on his/her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment. For instance, it would show the varying monthly amounts expected in a graduated repayment plan.

  Note that the lending organization is not required to send the repayment schedule to the borrower until the grace period. Direct Loan borrowers who use the Online Exit Counseling Session (**www.dl.ed.gov**) can view repayment schedules based on their account balances (using their PIN numbers), select a repayment plan, and update demographic data.

  In Direct Loans, a school may request that the Servicing Center send the repayment schedule information to the financial aid office 30, 60, or 90 days before the student completes the program. If the school chooses this option, it accepts the obligation to deliver this repayment information to the borrower either in the exit counseling session or by mailing it to the borrower.

- **Provide information on loan consolidation.** The counseling must discuss the option of consolidating the borrower's FFEL, Direct, and Perkins loans, including the effects of the consolidation on total interest to be paid, fees, and length of repayment; the effect on a borrower's underlying loan benefits (such as grace periods, loan forgiveness, cancellation and deferment); the option the borrower has to prepay the loan or

to change repayment plans; andthat borrower benefit programs may vary depending on the lender. Both the Direct Loan Program and the FFEL Program offer Consolidation Loans. Direct Consolidation Loans are available from the U.S. Department of Education. FFEL Consolidation Loans are available from participating lenders such as banks, credit unions, and savings and loan associations.

- **Discuss debt management strategies and tax benefits.** The counseling must discuss debt management strategies and include a general description of the types of tax benefits that might be available to the borrower. The counseling should stress the importance of developing a realistic budget based on the student's minimum salary requirements. It's helpful to have the student compare these costs with the estimated monthly loan payments, and to emphasize that the loan payment is a fixed cost, like rent or utilities. NEW

- **Review forbearance, deferment, and cancellation options.** The counseling must provide information on cancellation and loan forgiveness provisions, including the conditions under which the borrower may obtain full or partial cancellation of principal and interest; and information on forbearance and deferment provisions, including a general description of terms and conditions under which the borrower may defer repayment of principal or interest or be granted forbearance. The counseling should reinforce the availability of forbearance, deferment, and cancellation for certain situations, and emphasize that in most cases the borrower must start the process by applying to the lender or the DLSC.

- **Tell the student about the availability of loan information on NSLDS and the availability of the FSA Ombudsman's office.** The counseling must explain how borrowers can use the National Student Loan Data System (NSLDS) to get information on the status of their loans. The borrower's loan history can be viewed online at the NSLDS Web site (PIN required for access). However, the borrower should be aware that the information on the NSLDS site is updated by lenders and guarantors and may not be as current as the latest information from those loan holders. (Students without Internet access can identify their loan holder by calling 1-800-4-FED-AID.)

  The Ombudsman's office is a resource for borrowers when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman at 877-557-2575 or <www.ombudsman.ed.gov>.

- **Ensure that borrowers understand their rights and responsibilities.** (See the discussion under Entrance counseling earlier in this chapter.)

- **Collect and update personal and contact information.** During exit counseling, an aid officer must obtain the borrower's expected permanent address after leaving school, the address of the borrower's next of kin, and the name and address of the borrower's expected employer (if known). A school must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number and state of issuance. Within 60 days after the exit interview, the financial aid office must provide this information to the guarantor (indicated in the borrower's student aid records), or the Direct Loan Servicing Center.

Further recommendations for exit counseling

It's a good idea to provide the student with the current name and address of the borrower's lender(s), based on the latest information that your school has. The counseling presentation might also explain to the student how to complete deferment forms and prepare correspondence to the lender. Emphasize that borrowers should always keep copies of all correspondence from and to them about their loans. Stress that a borrower must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice

Pros & Cons of Consolidation. A Consolidation Loan can lower the borrower's total monthly repayment and simplify loan repayment. Because the repayment period for the Consolidation Loan is often longer than for most Stafford Loans, the monthly payments may be lower. (On the other hand, the total interest that is paid over the longer repayment period is usually greater.) If the borrower has more than one loan, a Consolidation Loan simplifies repayment because there's only one lender and one monthly payment. Consolidation may also be an option for a borrower in default, if certain conditions are met. The borrower should also be aware that some deferments and other benefits available with his/her current loans (especially Perkins) may be lost through consolidation

Entrance Counseling for Student PLUS Borrowers

A school must ensure that initial counseling is conducted with each graduate or professional student PLUS Loan borrower who has not received a PLUS Loan in the past. The counseling must be take place before the first disbursement of the loan. (Direct Loan schools may use an alternative counseling plan.)

The initial counseling must inform the student borrower of sample monthly repayment amounts based on 1) a range of student levels of indebtedness, or 2) on the average indebtedness of student borrowers at the same school or in the same program of study at the same school. If you are providing an average amount of indebtedness, it must be based on the average indebtedness of borrowers who have received Graduate/Professional PLUS loans at your school.

For a graduate or professional student who has received a prior Federal Stafford, or Direct Subsidized or Unsubsidized Loan, you must provide a comparison of—

- The maximum interest rate for a PLUS Loan vs. a Stafford (or Direct Subsidized/Unsubsidized) Loan,
- the periods when interest accrues on a PLUS Loan vs. a Stafford (or Direct Subsidized/Unsubsidized) Loan, and
- The point at which a PLUS Loan enters repayment vs. a Stafford (or Direct Subsidized/Unsubsidized) Loan.

For a graduate or professional student who has not received a prior Federal Stafford, or Direct Subsidized or Direct Unsubsidized Loan, you must—

- **Explain the use of the Master Promissory Note.** If relevant at your school, explain the use of the multi-year feature of the MPN, and the borrower confirmation process. You should advise students to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN. In addition, you should inform borrowers of their right to sign a new promissory note for each loan and opt out of the multi-year feature of the MPN.

- **Emphasize the importance of repayment**. The regulations also require that entrance counseling emphasize the seriousness and importance of the repayment obligation. The lender or Direct Loan Servicing Center (DLSC) sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does not relieve the borrower of his or her obligation to make payments. (Direct Loan borrowers are encouraged to set up electronic debiting of a bank account to repay their loans—electronic debiting is also available through many FFEL lenders.)

- **Describe the consequences of default.** The regulations require that entrance counseling describe the likely consequences of default, including adverse credit reports, federal offset, and litigation. See additional recommendations listed under "Entrance Counseling for FFEL & DL Student Borrowers" earlier in this section.

- **Repayment required.** Emphasize that the student borrower is obligated to repay the full amount of the loan even if the student borrower does not complete the program, is unable to obtain employment upon completion of the program, or is otherwise dissatisfied with or does not receive the educational or other services that the student borrower purchased from the school.

Average Indebtedness for Student Borrowers

If the student has taken out . . .	*Average should be based on students who have borrowed*
Stafford only	Stafford only
Stafford + Graduate/Professional PLUS	Stafford and PLUS
DL Subsidized/Unsubsidized only	DL Subsidized, Unsubsidized only
DL Subsidized/Unsubsidized + Graduate/Professional PLUS	DL Subsidized, Unsubsidized, and PLUS

DRUG AND ALCOHOL ABUSE PREVENTION INFORMATION

A school that participates in the FSA programs must provide information to its students, faculty, and employees to prevent drug and alcohol abuse.

In addition, a school that participates in the Campus-Based programs must have a drug-free awareness program for its employees that includes a notice to its employees of unlawful activities and the actions the school will take against an employee who violates these prohibitions. The drug-free awareness program for school employees is discussed in more detail in Chapter 3 of this Volume.

Information to be included in drug prevention materials for students

A school must provide the following in its materials:

- information on preventing drug and alcohol abuse;
- standards of conduct that clearly prohibit, at a minimum, the unlawful possession, use, or distribution of drugs and alcohol by students and employees on the school's property, or as part of the school's activities;
- a description of the sanctions under local, state, and federal law for unlawful possession, use, or distribution of illicit drugs and alcohol;
- a description of any drug and alcohol counseling, treatment, or rehabilitation programs available to students and employees;
- a description of the health risks associated with the use of illicit drugs and alcohol; and
- a clear statement that the school will impose sanctions on students and employees for violations of the standards of conduct (consistent with local, state, and federal law) and a description of these sanctions, up to and including expulsion, termination of employment, and referral for prosecution.

Distribution of materials to all students and employees

The school may include this information in publications such as student or employee handbooks, provided that these publications are distributed to each student and employee. Merely making drug prevention materials available to those who wish to take them is not sufficient. The school must use a method that will reach every student and employee, such as the method used to distribute grade reports or paychecks.

The school must distribute these materials annually. If new students enroll or new employees are hired after the initial distribution for the year, the school must make sure that they also receive the materials. (For more information on the requirement to implement an anti-drug abuse program and evaluate it, see *Chapter 3*.)

Drug and alcohol prevention cites

Drug-Free Schools and Communities Act (Public Law 101-226)
Drug-Free Workplace Act of 1988 (Public Law 101-690)
34 CFR 84 Government-Wide Requirements for Drug-Free Workplace
34 Part 86 Drug and Alcohol Abuse Prevention
34 CFR 668.14(c)

Notice of penalties NEW

The HEOA provides that a school must provide to every student, upon enrollment, a separate, clear and conspicuous written notice with information on the penalties associated with drug-related offenses (as described in Volume 1 of this Handbook).
HEOA section 488(g); HEA section 485(k)
Effective date: August 14, 2008

Clery/Campus Security Act

In 1990, Congress enacted the *Crime Awareness and Campus Security Act* (Title II of Public Law 101-542), which amended the Higher Education Act of 1965. The act was amended in 1992, 1998, and 2000. The 1998 amendments renamed the law the *Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act.*

HEA Sec. 485(f)
20 U.S.C. 1092(f)
34 CFR 668.46

Sample notice of availability of Annual Security Report

A copy of [name of institution's] *Annual Security Report.*

This report includes statistics for the previous three years concerning reported crimes that occurred on-campus; in certain off-campus buildings or property owned or controlled by [name of institution]; and on public property within, or immediately adjacent to and accessible from, the campus. The report also includes institutional policies concerning campus security, such as policies concerning sexual assault, and other matters. You can obtain a copy of this report by contacting [name of office] or by accessing the following Web site [address of Web site].

— From *Handbook for Campus Crime Reporting*

Whistleblower Protection NEW

Nothing in the law shall be construed to permit a school to take retaliatory action against anyone with respect to the implementation of the "Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act."

HEOA section 488(e) HEA section 485(f)
Effective date: August 14, 2008

Disciplinary Proceedings NEW

A school must, upon written request, disclose to the alleged victim of a crime of violence, or a non-forcible sex offense, the results of any disciplinary hearing conducted by the school against the student who is the alleged perpetrator of the crime or offense. If the alleged victim is deceased as a result of the crime or offense, the school must provide the results of the disciplinary hearing to the victim's next of kin, if so requested.

CAMPUS SECURITY

The Department is strongly committed to enforcing the provisions of the Campus Security Act of 1990 requiring a school to compile and distribute an annual campus security report. In its continuing effort to assist schools in fully complying with the Crime Awareness and Security Act of 1990, the Department has developed *The Handbook for Campus Crime Reporting* (see sidebar for links to the Handbook and the Survey Web site). The *Handbook* defines the categories of crime and procedures for reporting them, as well as the requirements for timely warnings and maintenance of a daily crime log.

Compiling & reporting campus security policies and crime statistics

Each year in the late summer, a letter and a certificate from the U.S. Department of Education are sent to the institution's president or chief executive officer. The certificate includes the User ID and password needed to access the Campus Crime and Security Survey Web site.

Distribution of the annual security report

By October 1 of each year, a school must publish and distribute its annual security report. It must be distributed to all **enrolled students and current employees** in one of two ways—directly by publications and mailings, including giving each individual a copy, or direct mailing to each individual through the U.S. Postal Service, campus mail, or electronic mail, or a combination of these methods.

If the school chooses to fulfill this requirement by posting the annual security report on an Internet or Intranet Web site, an **individual notice must be distributed to each student and current employee** that includes:

- a statement of the report's availability,
- a list and brief description of the information contained in the report,
- the exact electronic address (URL) of the Internet or Intranet Web site at which the report is posted, and
- a statement saying the school will provide a paper copy upon request.

Institutions may use the sample notice from the *Handbook for Campus Crime Reporting* to inform students and employees of the availability of the annual security report:

Upon request, a school must provide its annual campus security report to a prospective student or prospective employee. In order to ensure that a prospective student or employee can request the report, the school must provide them with notice of the report's availability. The notice must include a brief description of the report. If a prospective student or employee requests it, the school must provide a hard copy of the report.

Reporting campus crime data

Schools are required to submit a Web-based statistical report to ED on an annual basis. The survey data is collected through the Department's Campus Crime and Security Web site (requires password and User ID):

surveys.ope.ed.gov/security

Important: Do not send your annual security report to ED

More detailed information on campus crime reporting and the Annual Security Report are provided in the *Handbook for Campus Crime Reporting*, which is available at

www.ed.gov/admins/lead/safety/campus.html

- Campus Crime Help Desk telephone number—(800) 435–5985
- Campus Crime e-mail address—
CampusSecurityHelp@Westat.com

- For questions about the web survey - **CrimeHandbookQuestions@ed.gov**

Contents of annual security report NEW

In addition to campus crime statistics, the security report must include a description of the school's policies concerning campus security and a statement of the enforcement authority of campus security personnel and their relationship with State and local police. The report should explain whether or not the school has agreements with those police agencies (such as written memoranda of understanding) to investigate alleged crimes.

The security report must also describe the school's policies regarding emergency response and evacuation procedures that immediately notify the campus community upon the confirmation of a significant emergency or dangerous situation involving an immediate threat to the health or safety of students or staff occurring on campus, unless the notification at that time will compromise efforts to contain the emergency. Schools must also publicize their emergency response and evacuation procedures on an annual basis to reach students and staff and must test emergency response and evacuation procedures annually.

Fire Safety

The school requirements regarding fire safety were added by HEOA section 488(g) (HEA 485(i))
Effective date: August 14, 2008

ED is required to make the fire-related statistics available to the public, and to identify and disseminate exemplary fire safety policies. ED also must develop a protocol for schools to review the status of their fire safety systems.

HEOA section 488(a) HEA section 485(a)
Effective date: August 14, 2008
Academic year 2011-2012 (HEA section 485 paragraph (a)(1)(L) or subsection (e) for 2-year institutions)

FIRE SAFETY REPORTS ON STUDENT HOUSING NEW

An FSA-eligible school that maintain on-campus student housing facilities must publish an annual fire safety report that contains information about campus fire safety practices and standards of the school that include—

- a description of each on-campus student housing facility fire safety and sprinkler system;
- the number of regular mandatory supervised fire drills;
- policies or rules on portable electrical appliances, smoking and open flames (such as candles),
- procedures for evacuation,
- policies regarding fire safety education and training programs provided to students, faculty and staff; and
- plans for future improvements in fire safety if determined necessary by the school.

The report must also include statistics for each on-campus student housing facility during the most recent calendar years for which data are available concerning each of the following categories:

- the number of fires and the cause of each fire;
- the number of injuries related to a fire that result in treatment at a medical facility;
- the number of deaths related to a fire; and
- the value of property damage caused by a fire.

MISREPRESENTATION

Under the General Provisions regulations the Department may fine, limit, suspend, or terminate the participation of any school that substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates.

Definition of misrepresentation

Misrepresentation is any false, erroneous, or misleading statement made to a student or prospective student, to the family of an enrolled or prospective student, or to the Department. This includes disseminating testimonials and endorsements given under duress.

Substantial Misrepresentation is any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

Misrepresentation of the educational program includes, among other things, false or misleading statements about the school's accreditation or the school's size, location, facilities, or equipment. Misrepresentation of financial charges includes, among other things, false or misleading statements about scholarships provided for the purpose of paying school charges. To be considered a scholarship, a grant must actually be used to reduce tuition charges made known to the student before the scholarship was offered to the student. (The tuition charges must be charges that are applied to all students whether or not they are receiving a scholarship.) It is also considered misrepresentation if the school gives false or misleading information as to whether a particular charge is a customary charge for that course at the school.

Misrepresentation includes making any false or misleading statements about the employability of the school's graduates.

The regulatory provisions concerning misrepresentation are listed in the chart on the following page.

Misrepresentation cites

34 CFR Subpart F
34 CFR 668.71
Misrepresenting educational program cite
34 CFR 668.72
Misrepresenting financial charges cite
34 CFR 668.73
Employability of graduates cite
34 CFR 668.74

Prospective student

Any individual who has contacted an eligible institution for the purpose of requesting information about enrolling at the institution or who has been contacted directly by the institution or indirectly through general advertising about enrolling at the institution.

Misrepresentation

Nature of educational program

Misrepresentation by a school of the nature of its educational program includes, but is not limited to, false, erroneous, or misleading statements concerning:

- the particular types, specific sources, nature, and extent of its accreditation;
- whether a student may transfer course credits earned at the school to any other school;
- whether successful completion of a course of instruction qualifies a student for acceptance into a labor union or similar organization or receipt of a local, state, or federal license or a nongovernment certification required as a precondition for employment or to perform certain functions;
- whether its courses are recommended by vocational counselors, high schools, or employment agencies, or by governmental officials for government employment;
- its size, location, facilities, or equipment;
- the availability, frequency, and appropriateness of its courses and programs to the employment objectives that it states its programs are designed to meet;
- the nature, age, and availability of its training devices or equipment and their appropriateness to the employment objectives that it states its programs and courses are designed to meet;
- the number, availability, and qualifications, including the training and experience, of its faculty and other personnel;
- the availability of part-time employment or other forms of financial assistance;
- the nature and availability of any tutorial or specialized instruction, guidance and counseling, or other supplementary assistance it will provide its students before, during, or after the completion of a course;
- the nature and extent of any prerequisites established for enrollment in any course; or
- any matters required to be disclosed to prospective students under 34 CFR 668.43 (institutional information) and 34 CFR 668.46 (campus security information).

Nature of financial charges

Misrepresentation by a school of the nature of its financial charges includes, but is not limited to, false, erroneous, or misleading statements concerning

- offers of scholarships to pay all or part of a course charge, unless a scholarship is actually used to reduce tuition charges that are applied to all students whether or not receiving a scholarship and are made known to the student in advance; or
- whether a particular charge is the customary charge at the school for a course.

Employability of graduates

Misrepresentation by a school regarding the employability of its graduates includes, but is not limited to, false, erroneous, or misleading statements

- that the school is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment;
- that the school maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance; or
- concerning government job market statistics in relation to the potential placement of its graduates.

Help prevent financial aid/scholarship fraud

Every year, millions of high school graduates seek creative ways to finance the markedly rising costs of a college education. In the process, they sometimes fall prey to scholarship and financial aid scams. On November 5, 2000, Congress passed the College Scholarship Fraud Prevention Act of 2000 (CSFPA). The CSFPA enhances protection against fraud in student financial assistance by establishing stricter sentencing guidelines for criminal financial aid fraud. It also charged the Department, working in conjunction with the Federal Trade Commission (FTC), with implementing national awareness activities, including a scholarship fraud awareness site on the ED Web site.

You can help prevent financial aid/scholarship fraud by, in your consumer information, alerting students to the existence of financial aid fraud, informing students and their parents of telltale pitch lines used by fraud perpetrators, and by providing appropriate contact information.

According to the FTC, perpetrators of financial aid fraud often use these telltale lines

- The scholarship is guaranteed or your money back.
- You can't get this information anywhere else.
- I just need your credit card or bank account number to hold this scholarship.
- We'll do all the work.
- The scholarship will cost some money.
- You've been selected by a 'national foundation' to receive a scholarship' or 'You're a finalist,' in a contest you never entered.

To file a complaint, or for free information, students or parents should call
1-877-FTC-HELP (1-877-382-4357)
or visit: **http://www.ftc.gov/scholarshipscams**

School Disclosure Requirements

Recipients	What They Receive	How It Must Be Provided	When It Must Be Provided
Currently enrolled students and current employees	The institution's annual campus security report in its entirety (pursuant to 668.46)	Through publications, mailings, or electronic media sent directly to individuals. If a school chooses to post its annual security report to a Web site it must send each individual a notice through U.S. mail, campus mail, or directly-to an e-mail address-that 1. provides a brief summary of the information required to be disclosed; 2. provides the Internet or Intranet Web site address where the information can be found; 3. states that, upon request, the individual is entitled to a paper copy; and 4. informs the individual how to request a paper copy.	The school must prepare and make available its security report annually by October 1.
Currently enrolled students	Notice about the availability of the following 1. information on financial assistance available to students enrolled in the school (pursuant to 34 CFR 668.42); 2. information on the school (pursuant to 34 CFR 668.43); 3. the institution's completion or graduation rate, and, if applicable, its transfer-out rate (pursuant to 34 CFR 668.45); 4. information about students' rights under FERPA (pursuant to 34 CFR 99.7); and 5. information about athletic program participation rates and financial support (EADA) (pursuant to 34 CFR 668.47). The notices must be sufficiently detailed to allow students to understand the nature of the disclosures and make an informed decision whether to request the full reports.	A school must provide direct individual notice to each person. A school may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an e-mail address. The individual notice provided to enrolled students must 1. provide a brief summary of the information required to be disclosed; 2. provide the Internet or Intranet Web site address where the information can be found; 3. state that upon request the student is entitled to a paper copy; and 4. inform the student how to request a paper copy.	Annually, a school must provide notice to each enrolled student. Immediately, upon request, the school must provide the full reports. The school must prepare its completion or graduation rate, and, if applicable, its transfer-out rate report by July 1, immediately following the point in time at which the 150% point for the cohort has elapsed. Institutions must prepare and make available information about athletic program participation rates and financial support (EADA) by October 15. Information on the school and its financial assistance programs must be current.
Everyone who requests information about employment at the school	A notice about the availability of the annual campus security report. The notice must include a list of the information from the institution's annual security report to which employees and prospective employees are entitled. The list must include brief descriptions of the required disclosures. The descriptions should be sufficient to allow employees and potential employees to understand the nature of the disclosures and make an informed decision whether to request the full report.	In response to an inquiry about employment, a school must provide direct individual notice to each prospective employee. A school may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an e-mail address. If the school makes the information available by posting it to its Web site, then the notice provided must 1. identify the information required to be disclosed; 2. provide the Internet or Intranet address where the information can be found; 3. state that, upon request, individuals are entitled to a paper copy; and 4. inform individuals how to request a paper copy.	The school must prepare its report annually by October 1. Immediately, upon request, the school must provide the full report.

Note that new information requirements have been added by the HEOA, as discussed in this chapterr

School Disclosure Requirements (continued)

Recipients	What They Receive	How It Must Be Provided	When It Must Be Provided
Prospective students	1. Information on financial assistance available to students enrolled in the school (pursuant to 34 CFR 668.42); 2. Information on the school (pursuant to 34 CFR 668.43); 3. Information about students' rights under FERPA. 4. Notice about the availability of the institution's annual campus security report (pursuant to 34 CFR 668.46). The notice must include: a. a list of the information in the report; b. brief descriptions of the required disclosures that are sufficient to allow students to understand the nature of the disclosures and make an informed decision whether to request the full report (please see the NPRM of 8/10/99 page 43583 for an example); and c. an opportunity to request a copy. 5. The institution's completion or graduation rate, and, if applicable, its transfer-out rate (pursuant to 34 CFR 668.45). 6. Information about athletic program participation rates and financial support (pursuant to 34 CFR 668.47).	Directly to prospective students through appropriate publications, mailings, or electronic media a school must provide individual notice of the availability of items 1 through 6. Upon request, institutions must provide their complete report on completion, graduation and, if applicable, transfer-out rates. Upon request, a school must provide a copy of its full annual security report to a prospective student. If provided electronically, notices and reports must be sent directly to an e-mail address.	Prior to a prospective student's enrolling or entering into any financial obligation with a school, the school must provide its report on completion, graduation, and transfer-out rates. Notice about the availability of the other reports should be included in the materials a school provides to prospective students. Immediately, upon request, the school must provide its security report on a direct, individual basis.
Prospective student-athletes and their 1. parents, 2. high school coaches, and 3. guidance counselors	A school that is attended by students receiving athletically related student aid must produce a report on the completion and graduation rates of student athletes pursuant to 34 CFR 668.48.	The information must be provided directly to the respective parties. It may be provided in writing (on paper) or through electronic mail but not simply by posting it to a Web site. If the NCAA provides an institution's completion and graduation rates of student athletes to high school coaches and counselors, the school is deemed to be in compliance with that portion of this requirement.	The school must provide the report at the time it makes an offer of athletically related student aid to a prospective student athlete. Annually by July 1, institutions that are attended by students receiving athletically related student aid must produce the report and make it available.
Faculty, students, and employees	Drug and alcohol prevention information pursuant to Public Law 101-226.	Schools must use a method that ensures that the information will reach every student, faculty member, and employee.	The school must ensure that students who enroll and employees who are hired after the initial distribution for the year, also receive the information.
The general public	A school that participates in any FSA program and has an intercollegiate athletic program must provide a report on athletic program participation rates and financial support (EADA) (pursuant to 34 CFR 668.47).	Through appropriate publications, mailings, or electronic media.	Annually, for the preceding year, the school must prepare the report and make it available by October 15.

Note that new information requirements have been added by the HEOA, as discussed in this chapter

Written Agreements Between Schools

CHAPTER 7

Two or more schools may enter into a consortium or contractual agreement so that a student can continue to receive Federal Student Aid (FSA) funds while studying at a school or organization other than his or her "home" school. (The home school is the one that will grant the student's degree or certificate.) This chapter discusses the specific requirements for such agreements.

Under a consortium or contractual agreement (including those for study-abroad programs), the home school must give credit for courses taken at the other schools on the same basis as if it provided the training itself. The underlying assumption of such an agreement is that the home school has found the other school's or organization's academic standards to be equivalent to its own, and a completely acceptable substitute for its own instruction.

A home school may decline to give credit for courses in which a student earns a grade that is not acceptable at the home school even though the host school has a policy of accepting that grade for its resident students. In addition, even though grades received through consortium or contractual agreements do not have to be included in the calculation of the student's grade point average (GPA), they must be included when calculating the quantitative component (the percentage of credits earned vs. attempted) of a student's satisfactory academic progress.

If not written for an individual student or group of students, agreements between schools can go on indefinitely. These agreements do not have to be renewed unless the terms of the agreement change.

CHAPTER 7 HIGHLIGHTS

- Consortium agreement
- Contractual agreement
- Study abroad/domestic exchange

- Related information

➔ Program Eligibility, Volume 2, Chapter 4
➔ "Regular Student in an Eligible Program," Volume 1, Chapter 1

Arrangements between institutions cite

34 CFR 668.5

Assessing your school's compliance

To review your school's compliance with the provisions of this chapter, see Activities 4 and 5 in the FSA Assessment module for "Institutional Eligibility," at

ifap.ed.gov/qahome/qaassessments/institutionalelig.html

Definitions

Consortium agreement—a written agreement between two or more eligible schools.

Contractual agreement—a written agreement between an eligible school and an ineligible school.

Home school—the school where the student is enrolled in a degree or certificate program.

Host school—the school where the student is taking part of his or her program requirements through either a consortium or contractual agreement.

Two plus two program—a partnership between a two-year and four-year school that facilitates a student's completing the last two years of the student's four-year degree.

Consortium agreement cite
34 CFR 668.5

CONSORTIUM AGREEMENT

A consortium agreement can apply to all FSA programs. Under a consortium agreement, students may take courses at a school other than the *home* school and have those courses count toward the degree or certificate at the home school. A student can only receive FSA assistance for courses that are applicable to the student's certificate or degree program.

Elements of a consortium agreement

A consortium agreement can be a blanket agreement between two or more eligible schools, or it can be written for a specific student. Such an agreement is often used when a student takes related courses at neighboring schools or when a student is enrolled in an exchange program with another eligible school for a term or more. A school could have

- one agreement for each student;
- a separate agreement with each host school; or
- a blanket agreement with a group of schools.

In a consortium agreement there is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school. Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting or state agency standards. The Department does not dictate the format of the agreement (which can be executed by several different offices) or where the agreement is kept. However, the following information should be included in all agreements:

- the school that will grant the degree or certificate;
- the student's tuition, fees, and room and board costs at each school;
- the student's enrollment status at each school;
- the school that will be responsible for disbursing aid and monitoring student eligibility; and
- the procedures for calculating awards, disbursing aid, monitoring satisfactory progress and other student eligibility requirements, keeping records, and returning funds in the event the student withdraws.

Usually, the home school is responsible for disbursing funds, but if the student is enrolled for a full term or academic year at the host school, it may be easier for the host school to monitor the student's eligibility and make payments.

When there is a written arrangement between eligible schools, any of the schools participating in the written arrangement may make FSA calculations and disbursements without that school being considered a third-party servicer. This is true even if the student is not currently taking courses at the school that is calculating and disbursing the aid.

The school that disburses an FSA award is responsible for maintaining information on the student's eligibility, how the award was calculated, what money has been disbursed, and any other documentation associated with the award (even if some of that documentation comes from other schools). Moreover, the school paying the student must return FSA funds if required (for example, in refund/return or overpayment situations). For details on how agreements affect Federal Pell Grant calculations, see *Volume 3–Calculating Awards and Packaging*.

CONTRACTUAL AGREEMENT

Provided the limitations in the following paragraphs are adhered to, an *eligible* institution may enter into a *contractual agreement* with an *ineligible school or organization* under which the ineligible school or organization provides part of the educational program of students enrolled at the eligible school.

Eligible schools are prohibited from entering into contracts with ineligible schools or organizations if the ineligible school or organization

- has had its eligibility to participate in the FSA programs terminated by the Department; or
- has voluntarily withdrawn from participation in the FSA programs under a termination, show-cause, suspension, or similar type proceeding initiated by the school's state licensing agency, accrediting agency, guarantor, or by the Department.

Limitations on contractual agreements

Under a contractual agreement, the eligible school is always the home school. The home school performs all the aid processing and disbursement functions for its students attending the ineligible school or organization. The home school is responsible for maintaining all records necessary to document student eligibility and receipt of aid (see *Chapter 9*).

For schools in a contractual agreement, there is a limit on the portion of the program that can be offered by the ineligible school. If both the home and ineligible schools are owned or controlled by the same individual, partnership, or corporation, no more than 25% of the educational program can be provided by the ineligible school. If the two schools are separately owned or controlled, the ineligible school can provide up to 50% of the educational program. However, in the case of separately owned schools, if the contracted portion is more than 25% of the program, the home school's accrediting agency or state agency (in the case of a public postsecondary vocational institution) must determine and confirm in writing that the agreement meets its standards for contracting out education services.

Arrangements with a study abroad organization cite
34 CFR 668.5

Eligibility of students in a study abroad program cite
34 CFR 668.39

Types of study-abroad programs
Study abroad program configurations include:

A home school sends students to a study abroad program at an eligible or ineligible foreign (host) school.
➔ The home school must have a consortium or contractual agreement with the foreign school.

A home school allows a student to complete a portion of the student's program at an eligible host school in the United States and that host school offers a study abroad program in conjunction with either an eligible or ineligible foreign school.
➔ The home and host schools in the United States must have a consortium agreement.
➔ The host school in the United States must have a consortium or contractual agreement with the foreign school.

A home school has a written arrangement with a study abroad organization that represents one or more foreign schools instead of a separate agreement directly with each foreign school that its students are attending.

For purposes of administering the FSA programs, the written agreement between the eligible institution and the study abroad organization must adequately describe the duties and responsibilities of each entity and meet the requirements of the regulations. A variant of the study abroad program occurs when a home school sends faculty and students to a foreign site. This does not represent a consortium or contractual study abroad program. Rather, the foreign site is considered an additional location under 34 CFR 600.32.

STUDY ABROAD OR DOMESTIC EXCHANGE PROGRAMS

A study abroad program must be part of a written contractual or consortium agreement between two or more schools. The home school must be located in the United States. The study abroad program does not have to be a required part of the eligible program at the home school in order for the student to be eligible to receive FSA funds. However, the credits earned through the study abroad or exchange program must be acceptable toward graduation in the student's program by the home school.

When there is a written arrangement between eligible schools, any of the schools participating in the written arrangement may make FSA program calculations and disbursements without that school being considered a third-party servicer. This is true even if the student is not taking courses at the schools that is calculating and disbursing the aid.

Students enrolled in study abroad programs with costs of attendance higher than those of the home school should have those costs reflected in the cost of attendance on which their aid is based. This may result in a student being eligible for additional FSA funds, including a higher Pell award, not to exceed the Pell award maximum.

Students in approved study abroad programs are entitled to FSA

Some eligible students have had problems receiving FSA program funds for study abroad or domestic-exchange programs because neither the student's home school nor the school the student was temporarily attending documented that the student was enrolled in an eligible program of study. These circumstances have caused otherwise eligible students to be denied financial assistance at both schools.

The law states that a student participating in a study abroad program approved by the home school is eligible for FSA funds, regardless of whether the program is required for the student's regular, eligible program of study, as long as

- the student is an eligible regular student enrolled in an eligible program at the home school; and
- the eligible school approves the program of study abroad for academic credit.

The Program Participation Agreement (PPA) requires participating schools to establish procedures that ensure that its students participating in study abroad programs receive the FSA funds to which they are entitled.

Distance Education

CHAPTER 8

In this chapter, we discuss the applicability of the FSA program requirements to programs offered through distance education. Two types of distance education are defined in the regulations: correspondence and telecommunications programs. Telecommunications programs are treated in the same way as traditional residential programs. Correspondence programs are subject to certain restrictions: no more than 50% of a school's programs may be offered through correspondence study, and no more than 50% of a school's regular students may be enrolled in correspondence programs.

Distance Education refers to any mode of instruction in which there is a separation, in time or place, between the instructor and student.

ED's eligibility regulations define two types of distance education:

- correspondence courses (including some courses offered on video cassettes), and
- telecommunications courses offered via television, audio or computer (including the Internet).

Schools use distance education to respond to students' needs for alternatives to the schedules and locations at which courses traditionally have been offered. The availability of new technologies including the Internet have spurred significant growth in the number and types of distance education programs schools offer.

A school may not refuse to provide FSA funds to a student because he or she is enrolled in correspondence or telecommunications courses unless the courses are not part of an eligible program.

CHAPTER 8 HIGHLIGHTS:

Telecommunications Courses
- ➔ Television, audio, or computer transmission through open broadcast, closed circuit, cable, microwave, or satellite
- ➔ Audio and computer conferencing
- ➔ Video cassettes or disc recordings if that course is delivered to students physically attending classes at the school providing the course during the same award year
- ➔ Regular and substantive interaction between students and the instructor

Correspondence Courses
- ➔ Definition of correspondence course
- ➔ School eligibility: limits on correspondence courses and correspondence students

Correspondence & telecommunications course definitions
34 CFR 600.2

Change in treatment of telecommunications courses

Under the Higher Education Reconciliaton Act of 2005 (HERA), courses offered by telecommunications are no longer considered correspondence courses, and students enrolled in telecommunications courses are no longer considered to be correspondence students. As a result, for an otherwise eligible institution, the 50% limitation on telecommunications courses and telecommunications enrollment no longer applies. The 50% limitations continue to apply to correspondence courses and students.

Based on the HERA changes, the definition of "correspondence course" was revised and a new definition of "telecommunications course" was added to 34 CFR 600.2 in the *Federal Register* of August 9, 2006.

Accreditation for distance education

The Department reminded schools in September 2006 that distance education programs must be evaluated by an accrediting agency that is recognized by ED for the purpose of evaluating distance education. This letter included specific instructions on notifying ED if the school intended to seek new accreditation, and updating the E-APP to reflect changes to the school's accreditation. GEN-06-17

Telecommunications & correspondence study at foreign schools

A program offered by a foreign school in whole or in part by telecommunications, by correspondence, or as a direct assessment program is not an eligible program. 34 CFR 600.51(d)

TELECOMMUNICATIONS COURSE

Telecommunications programs at domestic schools are considered eligible FSA programs if they have been accredited by an accrediting agency recognized by the Department for accreditation of distance education. They are not subject to the rules that apply to correspondence coursework, which are discussed in the next section.

A telecommunications course is one that is offered principally through the use of one or more technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between these students and the instructor, whether asynchronously or in "real-time."

These technologies include:

- Television, audio, or computer transmission through open broadcast, closed circuit, cable, microwave, or satellite, and
- audio and computer conferencing.

A course taught through video cassettes or discs is also considered a telecommunications course, but only if the course is delivered to students physically attending classes at the school providing the course during the same award year and if another technology is employed to support interaction between the students and the instructor.

Distance courses that do not qualify as a telecommunications course are considered to be correspondence courses. Programs offered at foreign schools in whole or in part through telecommunications are not eligible programs for FSA purposes.

CORRESPONDENCE COURSES

Unlike telecommunicatons courses, which are now treated in the same way as all other eligible programs, some restrictions apply to correspondence courses.

Definition of "correspondence course"

A correspondence course is a home-study course provided by a school under which the school provides instructional materials, including examinations on the materials, to students who are not physically attending classes at the school. When a student completes a portion of the instructional materials, the student takes the examinations that relate to that portion of the materials and returns the examinations to the school for grading.

- If a course is part correspondence and part residential training, the course is considered to be a correspondence course.

- If a school adds telecommunications technology, such as electronic delivery of course materials or an online discussion board, to a correspondence course, the school must ascertain the predominant method of instruction (correspondence or telecommunications), keeping in mind that a telecommunications course must use technology to support regular and substantive interaction between students and the instructor. The school must apply the rules for the predominant method, in administering its participation in the FSA programs.

- A course that is delivered in whole or in part through the use of video cassettes or video discs is a correspondence course unless the school also delivers comparable instruction to students attending resident classes at the school during the same award year.

School eligibility: limits on correspondence courses & correspondence students

If a school offers more than 50% of its courses by correspondence, the school loses its eligibility to participate in the FSA. Similarly, if 50% or more of a school's students are enrolled in its correspondence courses, the school loses its eligibility to participate in the FSA programs.

Note that the 50% limits apply to the school, not to its individual programs. An educational program composed entirely of correspondence courses could still be an eligible program if no more than 50% of the school's courses were offered through correspondence, and the program met other eligibility requirements.

This limitation may be waived for a 2-year associate or 4-year baccalaureate degree program if the school can demonstrate to the Department that students enrolled in correspondence courses received no more than 5% of the total FSA program funds awarded

Correspondence courses & institutional eligibility
34 CFR 600.7(a)(1))(i) and (ii)
HEA Sec. 102(a)(3)(A) and (B)

Videocassettes and discs example
A school offers an English 101 course via video cassette and computer conferencing. English 101 is also offered to students physically attending classes at the school during the same award year. In this case this course would be considered a telecommunications course.

The school also offers Art History 302 via video cassette. Art History 302 is **not** offered to students physically attending classes at the school during this award year. In this case this course would **not** be considered a telecommunications course for this award year. It is considered a correspondence course.

A combined correspondence and residential program example
A school offers a truck driving program. The first part of the program is offered via correspondence. After completing the correspondence portion of the program the student has to attend a residential site where he or she actually learns how to drive trucks.

This program is considered a correspondence program.

A school is the sum only of its eligible programs

Some postsecondary institutions offer programs that are eligible for FSA as well as programs that are not FSA-eligible. For FSA program purposes, we consider an eligible institution is the sum of its "eligible programs."

In order to minimize the effect on its institutional eligibility of offering programs solely by correspondence that do not lead to a degree, a school might choose to identify those programs as not part of its FSA eligible programs.

A program (and students enrolled therein) that was so identified would not be considered part of the school in these two formulas.

Attestation required cite

34 CFR 600.7(g)(2)

to its students in the award year. Also note that the limitations on correspondence courses and correspondence students do not apply to a school that mainly provides vocational adult education or job training (as defined under section 3(3C) of the Carl D. Perkins Vocational and Applied Technology Education Act of 1995).

The school's correspondence course calculation and correspondence student calculation must be attested to by a independent auditor.

Exceptions and other considerations

Some participating institutions contract with distance education providers that are not eligible to participate in the FSA programs. These participating institutions must ensure that they do not exceed the limitations on contractual arrangements (see *Chapter 7.*)

Note that correspondence students enrolled in certificate programs are not eligible for FSA funds. For a full discussion of when a school may pay a student for correspondence study, see *Volume 1, Chapter 1.* Also see *Volume 3, Chapter 2* for limitations on the cost of attendance for correspondence students and *Volume 3, Chapter 1* for the timing of disbursements to correspondence students.

Calculating the percentage of correspondence courses

• If a school offers a course both by correspondence and residential training, the course counts twice, as a correspondence course and as a residential course. Thus, it would count as one in the numerator and as two in the denominator.

• Regardless of how many sections of a course or program are offered during the award year (as a residential or as a correspondence course), the course is counted only once under each type.

• A program not offered in courses or modules counts as one correspondence course.

Using the latest complete award year, the formula for determining the percentage of correspondence courses is as follows:

$$\frac{\text{number of school's correspondence courses}}{\text{total number of school's courses}} = \text{\% of correspondence courses}$$

Calculating the percentage of correspondence students

• All enrolled regular students must be counted. (A regular student is "a person enrolled for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by the school.")

• A school must use a straight head count of enrolled students, including full-time and part-time students and students who don't receive aid as well as FSA recipients.

• If a student withdrew from the school and received a full refund the student is not counted.

Using the latest complete award year, the formula for determining the percentage of enrolled students is as follows:

$$\frac{\text{number of regular students enrolled in the school's correspondence courses}}{\text{number of regular students enrolled in all of the school's courses}} = \text{\% of correspondence students}$$

CHAPTER 9

Recordkeeping, Electronic Processes, & Privacy

Schools must maintain detailed records to show that FSA funds are disbursed according to statutory and regulatory requirements. These records must be made available authorized individuals or organizations in the course of audits, program reviews, or investigations. Personally-identifiable information in these records may only be released to other parties under certain conditions specified in the FERPA regulations. Required information may be collected and stored electronically, subject to appropriate safeguards.

REQUIRED RECORDS

A school must keep comprehensive, accurate program and fiscal records related to its use of FSA program funds. The importance of maintaining complete, accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school is capable of meeting the administrative and fiscal requirements for participating in the FSA programs. In addition, records must demonstrate proper administration of FSA program funds and must show a clear audit trail for FSA program expenditures. For example, records for each FSA recipient must clearly show that the student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations.

In addition to the general institutional recordkeeping requirements discussed here, a school must also comply with all program-specific recordkeeping requirements contained in the individual FSA regulations

Records related to school eligibility

A school must establish and maintain on a current basis any application the school submitted for FSA program funds. Other program records that must be maintained include:

- Program Participation Agreement, Approval Letter, and Eligibility and Certification Approval Report (ECAR)
- Application portion of the FISAP
- Accrediting and licensing agency reviews, approvals, and reports
- State agency reports
- Audit and program review reports
- Self-evaluation reports
- Other records, as specified in regulation, that pertain to factors of financial responsibility and standards of administrative capability

CHAPTER 9 HIGHLIGHTS

- Required records
  - → program records
  - → fiscal records
  - → loan program records
- Record maintenance
  - → record retention periods
  - → acceptable formats
  - → special requirements for SARs and ISIRs
- Access to records & personnel
  - → location & timely access
  - → reasonable access to personnel
  - → FSA recipient information
- Privacy of student & parent information (FERPA rules)
- Related information
  - → Ability to Benefit, Volume 1 Chapter ?

FSA Assessment module

To assess your compliance with the provisions of this chapter see Activity 2 under "Fiscal Management" at **ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html**

Recordkeeping cite

34 CFR 668.24

Loan program record cite
34 CFR 668.24, 34 CFR 682.610, and 34 CFR 685.309(c)

Records relating to student eligibility

A school must keep records that substantiate the eligibility of students for FSA funds, such as:

- Cost of attendance information
- Documentation of a student's satisfactory academic progress (SAP)
- Documentation of student's program of study and the courses in which the student was enrolled
- Data used to establish student's admission, enrollment status, and period of enrollment
- Required student certification statements and supporting documentation
- Documents used to verify applicant data, and resolve conflicting information
- Documentation of all professional judgment decisions
- Financial aid history information for transfer students

Fiscal records

A school must keep fiscal records to demonstrate its proper use of FSA funds. A school's fiscal records must provide a clear audit trail that shows that funds were received, managed, disbursed, and returned in accordance with federal requirements.

The fiscal records that a school must maintain include, but are not limited to:

- Records of all FSA program transactions
- Bank statements for all accounts containing FSA funds
- Records of student accounts, including each student's institutional charges, cash payments, FSA payments, cash disbursements, refunds, returns, and overpayments required for each enrollment period
- General ledger (control accounts) and related subsidiary ledgers that identify each FSA program transaction (FSA transactions must be separate from school's other financial transactions)
- Federal Work-Study payroll records
- FISOP portion of the FISAP

A school must also maintani records that support data appearing on required reports, such as:

- Pell Grant Statements of Accounts
- Cash requests and quarterly or monthly reports from the G5 payment system
- FSA program reconciliation reports
- Audit reports and school responses
- State grant and scholarship award rosters and reports
- Accrediting and licensing agency reports
- Records used to prepare the Income Grid on the FISAP

Record retention requirements

From § 668.24 Record retention and examinations.

Program Records
A school must establish and maintain, on a current basis, any application for FSA funds and program records that document—
• the school's eligibility to participate in the FSA programs,
• the FSA eligibility of the school's programs of education,
• the school's administration of the FSA programs,
• the school's financial responsibility,
• information included in any application for FSA program funds, and
• the school's disbursement of FSA program funds.

Fiscal records
A school must account for the receipt and expenditure of all FSA program funds in accordance with generally accepted accounting principles.

A school must establish and maintain on a current basis—
• financial records that reflect each FSA program transaction, and
• general ledger control accounts and related subsidiary accounts that identify each FSA program transaction and separate those transactions from all other school financial activity.

Required records
A school must maintain records for each FSA recipient that include, but are not limited to—
• The Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine a student's eligibility for FSA program funds
• Application data submitted to the Department, lender, or guaranty agency by the school on behalf of the student or parent
• Documentation of each student's or parent borrower's eligibility for FSA program funds (e.g., records that demonstrate that the student has a high school diploma, GED, or the ability to benefit)
• Documentation relating to each student's or parent borrower's receipt of FSA program funds, including but not limited to:

  • The amount of the grant, loan, or FWS award; its payment period; its loan period, if appropriate; and the calculations used to determine the amount of grant, loan, or FWS award;

  • The date and amount of each disbursement of grant or loan funds, and the date and amount of each payment of FWS wages;

  • The amount, date, and basis of the school's calculation of any refunds/returns or overpayments due to or on behalf of the student; and

  • The payment of any refund/return or overpayment to the FSA program fund, a lender, or the Department, as appropriate.

• Documentation of and information collected at any initial or exit loan counseling required by applicable program regulations
• Reports and forms used by the school in its participation in an FSA program, and any records needed to verify data that appear in those reports and forms
• Documentation supporting the school's calculation of its completion or graduation rates, and transfer-out rates (see Chapter 6).

Perkins & FWS records

In addition, participants in the:

• Perkins Loan Program must follow procedures in Section 674.19 for documenting the repayment history for each borrower for that program; and

• FWS Program must follow procedures established in Section 675.19 for documentation of work, earnings, and payroll transactions for the program.

(See *Volume 6—Campus-Based Programs*).

Closed-school records

If a school closes, stops providing educational programs, is terminated or suspended from the FSA programs, or undergoes a change in ownership that results in a change of control, it must provide for the retention of required records. It must also provide for access to those records for inspection and copying by the Department. For a school that participates in the FFEL Program, the school must also provide access for the appropriate guaranty agency.

Retaining records for a branch that closes

If a school has an additional location or branch that closes, the school might want to maintain its loan records beyond the end of the three-year record retention requirement in order to respond to the Department or to refute borrower claims of eligibility for discharge.

Loan program records

There are special record keeping requirements in the Direct and FFEL loan programs. A school must maintain—

- A copy of paper or electronic loan certification or origination record, including the amount of the loan and the period of enrollment.
- The cost of attendance, estimated financial assistance, and estimated family contribution used to calculate the loan amount (and any other information that may be required to determine the borrower's eligibility, such as the student's Federal Pell Grant eligibility or ineligibility).
- The date(s) the school disbursed the loan funds to the student (or to the parent borrower), and the amount(s) disbursed. (For loans delivered to the school by check, the date the school endorsed each loan check, if required.)
- Documentation of the confirmation process for each academic year in which the school uses the multi-year feature of the Master Promissory Note. This may be part of the borrower's file, but acceptable documentation can also include a statement of the confirmation process that was printed in a student handbook or other financial aid publication for that school year. The documentation may be kept in paper or electronic form. There is no retention limit for this documentation; you must keep it indefinitely because it may affect the enforceability of loans.

A school must keep records relating to a student or parent borrower's eligibility and participation in the Direct Loan or FFEL program for three years after the end of the award year in which the student last attended the school. A school must keep all other records relating to the school's participation in the Direct Loan or FFEL program for at least three years after the end of the award year in which the records are submitted.

RECORD RETENTION PERIODS

Schools must retain all required records for a minimum of three years from the end of the award year. However, the starting point for the three-year period is not the same for all records. For example, FFEL/DL reports must be kept for 3 years after the end of the award year in which they were submitted, while borrower records must be kept for 3 years from the end of the award year *in which the student last attended.*

Different retention periods are necessary to ensure enforcement and repayment of Perkins loans, which are normally held by the school. Perkins Loan repayment records, including cancellation and deferment records, must be kept for three years from the date that the loan was assigned to the Department, cancelled, or repaid. Perkins original promissory notes and original repayment schedules must be kept until the loan is satisfied or needed to enforce the obligation (for more information, see *Volume 6—Campus-Based Programs*).

A school may retain records longer than the minimum period required. Moreover, a school may be required to retain records involved in any loan, claim, or expenditure questioned in any FSA program review, audit, investigation, or other review, for more than three years (see chapter 12 for information on program reviews and audits). If the 3-year retention period expires before the issue in question is resolved, the school must continue to retain all records until resolution is reached.

There are also additional record retention requirements that apply to schools granted waivers of the audit submission requirements.

Records cite

34 CFR 668.24
34 CFR 668.27

Retaining FISAP records

Schools participating in the Campus-based programs must keep the Fiscal Operations Report and Application to Participate (FISAP) and any records necessary to support their data (e.g., the source data for the income grid) for 3 years from the end of the award year in which the FISAP is submitted.

For instance, records for a FISAP submitted during the 2009-2010 award year must be kept until at least June 30, 2013, three years from the last day of the 2009-2010 award year.

Minimum record retention periods

Pell, ACG/SMART, TEACH grants
Campus-Based Programs ..... 3 years from the end of the award year for which the aid was awarded

Except:

- Fiscal Operations Report (FISAP) and supporting records ..... 3 years from the end of the award year in which the report was submitted
- Perkins repayment records* ..... until the loan is satisfied, or the documents are needed to enforce the obligation
- Perkins original promissory notes * ..... 3 years from the date the loan is assigned to ED, canceled, or repaid

FFEL and Direct Loans

- Records related to borrower's eligibility and participation ..... 3 years from the end of the award year in which the student last attended
- All other records, including any other reports or forms ..... 3 years from the end of the award year in which the report was submitted

* after 12/87, includes original repayment schedule, though manner of retention remains same as promissory note)

** before 12/87, included original repayment schedule

New media formats

The requirement providing for other media formats acceptable to the Department allows for the use of new technology as it is developed. The Department will notify schools of acceptable media formats; schools should not apply for approval of a media format.

Requirements for electronic promissory notes

34 CFR 668.24(d)(3)(i) through (iv).

RECORD MAINTENANCE

Acceptable formats

A school must maintain all required records in a systematically organized manner. Unless a specific format is required, a school may keep required records in:

- hard copy
- microform
- computer file
- optical disk
- CD-ROM
- other media formats

Record retention requirements for the Institutional Student Information Record (ISIR) are discussed below. All other record information, regardless of the format used, must be retrievable in a coherent hard copy format (for example, an easily understandable printout of a computer file) or in a media format acceptable to the Department.

Any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be maintained in its original hard copy or in an imaged media format. This includes tax returns, verification statements, and Student Aid Reports (SARs) used to determine eligibility, and any other document when a signature seal, etc., contained on it is necessary for the document to be used for the purposes for which it is being retained.

A school may maintain a record in an imaged media format only if the format is capable of reproducing an accurate, legible, and complete copy of the original document. When printed, the copy must be approximately the same size as the original document.

Please note that promissory notes that are signed electronically, must be stored electronically and the promissory note must be retrievable in a coherent format.

Special requirements for SARs and ISIRs

Special maintenance and availability requirements apply for SARs and ISIRs used to determine eligibility. It is essential that these basic eligibility records be available in a consistent, comprehensive, and verifiable format for program review and audit purposes.

Because the SAR is a hard copy document, it must be maintained and available in its original hard copy format or in an imaged media format. The ISIR, an electronic record, must be maintained and available in its original format (*e.g.*, as it was archived using EDExpress software supplied to the school). A school that uses EDExpress has the ability to preserve the ISIR data that it has maintained during the applicable award year by archiving the data to a disk or other computer format.

EXAMINATION OF RECORDS

Location

A school must make its records available to the Department at a location of the institution designated by the Department. These records must be readily available for review, including any records of transactions between a school and the financial institution where the school deposits any FSA funds.

A school is not required to maintain records in any specific location. For example, it may be more appropriate for a school to maintain some records in the financial aid office while maintaining others in the business office, the admissions office, or the office of the registrar. The responsible administrator in the office maintaining the records should be aware of all applicable record retention requirements.

Cooperation with agency representatives

A school that participates in any FSA program, and the school's third-party servicers, if any, must cooperate with the agencies and individuals involved in conducting any audit, program review, investigation, or other review authorized by law (see sidebar).

Timely access

A school must cooperate by providing timely access to requested records, pertinent books, documents, papers, or computer programs for examination and copying by any of the agents listed above. The records to which timely access must be provided include, but are not limited to, computerized records and records reflecting transactions with any financial institution with which the school or servicer deposits or has deposited any FSA program funds.

FSA recipient information

If requested by the Department, a school or servicer must provide promptly any information the school or servicer has regarding the last known address, full name, telephone number, enrollment information, employer, and employer address of a recipient of FSA program funds who attends or attended the school. A school must also provide this information, upon request, to a lender or guaranty agency in the case of a borrower under the FFEL Program.

Reasonable access to personnel

A school must also provide reasonable access to all personnel associated with the school's or servicer's administration of the FSA programs so that any of the agents listed above may obtain relevant information. A school or servicer must allow those personnel to supply all relevant information and allow those personnel to be interviewed without the presence of the school's or servicer's management (or tape-recording of the interviews by the school or servicer).

Cooperation with agency representatives

Cooperation must be extended to the following individuals and their authorized representatives:

- an independent auditor,
- the Secretary of the Department of Education,
- the Department's Inspector General, and
- the Comptroller General of the United States.

A school must also provide this cooperation to any guaranty agency in whose program the school participates, and to the school's accrediting agency.

Resources for developing a FERPA policy

Anyone involved in developing a school's policy or anyone who would like a copy of the Department's model notification for postsecondary schools, may review and download the notification from the Family Policy Compliance Office Web site at **www.ed.gov/policy/gen/guid/fpco/index/html**

"Sole Possession" Records

The term education record does not include records that are kept in the sole possession of the maker of the record (often called sole possession records). Sole possession records are

- used as a memory or reference tool,
- not accessible or revealed to any other person except a temporary substitute for the maker of the record, and
- typically maintained by the school official unbeknownst to other individuals.

Records that contain information taken directly from a student or that are used to make decisions about the student are not sole possession records.

PRIVACY OF STUDENT INFORMATION (FERPA RULES)

The Family Educational Rights and Privacy Act (FERPA) sets limits on the disclosure of personally identifiable information from school records, and defines the rights of the student to review the records and request a change to the records.

With exceptions such as those noted in this section, FERPA generally gives postsecondary students the right

- to review their education records,
- to seek to amend inaccurate information in their records, and
- to provide consent for the disclosure of their records.

These rules apply to all education records the school keeps, including admissions records (only if the student was admitted) and academic records as well as any financial aid records pertaining to the student. Therefore, the financial aid office is not usually the office that develops the school's FERPA policy or the notification to students and parents, although it may have some input.

Student's & parents' rights to review educational records

A school must provide a student with an opportunity to review his or her education records within 45 days of the receipt of a request. A school is required to provide the student with copies of education records, or make other arrangements to provide the student access to the records, if a failure to do so would effectively prevent the student from obtaining access to the records. While the school may not charge a fee for retrieving the records, it may charge a reasonable fee for providing copies of the records, provided that the fee would not prevent access to the records.

FERPA responsibilities & student rights

A school is required to—

✔ annually notify students of their rights under FERPA;
✔ include in that notification the procedure for exercising their rights to inspect and review education records; and
✔ maintain a record in a student's file listing to whom personally identifiable information was disclosed and the legitimate interests the parties had in obtaining the information (does not apply to school officials with a legitimate educational interest or to directory information).

A student has the right to—

✔ inspect and review any education records pertaining to the student;
✔ request an amendment to his/her records; and
✔ request a hearing (if the request for an amendment is denied) to challenge the contents of the education records, on the grounds that the records are inaccurate, misleading, or violate the rights of the student.

While the rights under FERPA have transferred from a student's parents to the student when the student attends a postsecondary institution, FERPA does permit a school to disclose a student's education records to his or her parents if the student is a dependent student under IRS laws.

Note that the IRS definition of a dependent is quite different from that of a dependent student for FSA purposes. For IRS purposes, students are dependent if they are listed as dependents on their parent's income tax returns. (If the student is a dependent as defined by the IRS, disclosure may be made to either parent, regardless of which parent claims the student as a dependent.)

Prior written consent to disclose the student's records

Except under one of the special conditions described in this section, a student must provide written consent before an education agency or school may disclose personally identifiable information from the student's education records.

The written consent must—

- state the purpose of the disclosure,
- specify the records that may be disclosed,
- identify the party or class of parties to whom the disclosure may be made, and
- be signed and dated.

If the consent is given electronically, the consent form must—

- identify and authenticate a particular person as the source of the electronic consent, and
- indicate that person's approval of the information contained in the electronic consent.

The FERPA regulations include a list of exceptions where the school may disclose personally identifiable information from the student's file without prior written consent. Several of these allowable disclosures are of particular interest to the financial aid office, since they are likely to involve the release of financial aid records.

Disclosures to school officials

Some of these disclosures may be made to officials at your school or another school who have a legitimate interest in the student's records. Typically, these might be admissions records, grades, or financial aid records. Disclosure may be made to:

- other school officials, including teachers, within the school whom the school has determined to have legitimate educational interests.
- to officials of another postsecondary school or school system, where the student receives services or seeks to enroll.

Subpoena cites

20 U.S.C. 1232g(b)(1)(J)(i) and (ii), (b)(2)(B);
20 U.S.C. 1232g(b)(4)
34 CFR. 99.31(a)(9)
34 CFR 99.32

Ex-parte orders & terrorism

"Terrorism" and "drimes of terrorism" are defined in
18 U.S. Code 2331 and 2332b(g)(5)(B)

Patriot Act Changes

A Dear Colleague Letter on changes made to FERPA by the 2001 Patriot Act is posted in PDF format at
www.ed.gov/policy/gen/guid/fpco/pdf/htterrorism.pdf

Issued April 12, 2002 by ED's Family Policy Compliance Office
Web site: www.ed.gov/offices/OM/fpco
E-mail: FERPA@ED.Gov

Third-party housing records

Whether the rent is paid to the third party by the school on behalf of the student or directly by the student, a student housing facility owned by a third party that has a contract with a school to provide housing for the school's students is considered "under the control" of the school. Therefore, records (maintained by either the third-party or the school) related to the students living in that housing are subject to FERPA.

FERPA sources

The relevant law is the Family Educational Rights and Privacy Act of 1974. Do not confuse FERPA with the Privacy Act of 1974 that governs the records kept by government agencies, including the application records in the federal processing system.

The Department's Family Policy Compliance Office maintains an online library of FERPA guidance at: www.ed.gov/policy/gen/guid/fpco/ferpa/library/index.html

FERPA also affects the disclosure of records that are created and maintained by campus law enforcement units (for law enforcement purposes). This topic is discussed in the *Handbook for Campus Crime Reporting*, available as a downloadable PDF file from EDPUBS <**www.edpubs.org**>.

FERPA citations

34 CFR 99.10-12 Right of parent/student to review records
34 CFR 99.20-22 Right of parent/student to request amendment to records or hearing
34 CFR 99.30 When prior consent required to disclose information
34 CFR 99.31 When prior consent not required to disclose information
34 CFR 99.32 Recordkeeping requirement
34 CFR 99.33 Limitations on redisclosure
34 CFR 99.34 Disclosure to other agencies/institutions
34 CFR 99.35 Disclosure for federal/state program purposes

If your school routinely discloses information to other schools where the student seeks to enroll, it should include this information in its annual privacy notification to students. If this information is not in the annual notice, the school must make a reasonable attempt to notify the student at the student's last known address.

Disclosures to government agencies

Disclosures may be made to authorized representatives of the U.S. Department of Education for audit, evaluation, and enforcement purposes. "Authorized representatives" includes employees of the Department—such as employees of the Office of Federal Student Aid, the Office of Postsecondary Education, the Office for Civil Rights, and the National Center for Education Statistics—as well as firms that are under contract to the Department to perform certain administrative functions or studies. In addition—

- Disclosure may be made if it is in connection with financial aid that the student has received or applied for. Such a disclosure may only be made if the student information is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.

- A school may release personally identifiable information on an F, J, or M nonimmigrant student to U.S. Immigration and Customs Enforcement (formerly the Immigration and Naturalization Service) in compliance with the Student Exchange Visitor Information System (SEVIS) program without violating FERPA.

Disclosures in response to subpoenas or court orders

FERPA permits schools to disclose education records, without the student's consent, in order to comply with a lawfully issued subpoena or court order.

In most cases, the school must make a reasonable effort to notify the student who is the subject of the subpoena or court order before complying, so that the student may seek protective action. However, the school does not have to notify the student if the court or issuing agency has prohibited such disclosure.

A school may also disclose information from education records, without the consent or knowledge of the student, to representatives of the U.S. Department of Justice in response to an *ex parte* order issued in connection with the investigation of crimes of terrorism.

Documenting the disclosure of information

Except as noted below, school must keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This record must be maintained in the student's file as long as the educational records themselves are kept.

Privacy of health records (HIPPA) and FERPA

The Health Insurance Portability and Accountability Act of 1996 (HIPPA) sets standards for the confidentiality of health records applies to health care providers, private benefit health plans, and health care clearinghouses. It does not apply to other types of organizations whose receipt or maintenance of health records is incidental to their normal course of business.

Your schools' Disability Services office normally obtains and maintains health records for each student who applies for services or waivers. So, the receipt and maintenance of health records by students services' units is well established.

Note: In most cases, a student receiving a waiver from a school's academic progress policy would also have applied for services from your school's Disability Services office. Since most financial aid offices are not used to handling medical records, you may find it more practical to have the Disability Services office maintain the record, and reference that record in your file in the financial aid office. (Of course, you will have to ensure that the record maintenance requirements are complied with.)

For more information on HIPPA, see the U.S. Department of Health & Human Services:
www.hhs.gov/ocr/hipaa/
HIPPA regulations are published as:
45 CFR Parts 160, 162, and 164

For instance, if student records are requested by Department reviewers in the course of a program review, the school must document in each student's file that the student's records were disclosed to representatives of the Department. The easiest way for the school to do this is to photocopy a statement to this effect and include it in each student's file. A statement such as the following would be appropriate for a review of the FSA programs conducted by a Department regional office.

> These financial aid records were disclosed to representatives of the U.S. Department of Education, Region __, on (Month/Day/Year) to determine compliance with financial aid requirements, under 34 CFR Part 99.31(a)(4).

When redisclosure is anticipated, the additional parties to whom the information will be disclosed must be included in the record of the original disclosure. For instance, to continue the example for an FSA program review, the following statement might be added:

> The School Eligibility Channel may make further disclosures of this information to the Department's Office of Inspector General, and to the U.S. Department of Justice, under 34 CFR 99.33(b). Schools should check with the program review staff to find out if any redisclosure is anticipated.

There are some exceptions to this requirement. A school does not have to record instances where the request is made by:

- The parent or eligible student.
- A school official who has a legitimate educational interest.
- A party with written consent from the parent or eligible student.
- A party seeking directory information.
- Certain court orders or subpoenas.

FERPA & crime records

There are two different FERPA provisions concerning the release of records relating to a crime of violence. One concerns the release to the victim of any outcome involving an alleged crime of violence (34 CFR 34 CFR 99.31(a)(13)). A separate provision permits a school to disclose to anyone the final results of any disciplinary hearing against an alleged perpetrator of a crime of violence where that student was found in violation of the school's rules or policies with respect to such crime or offense (34 CFR 99.31(a)(14)).

E-Sign Act

The Electronic Signatures in Global and National Commerce Act (E-Sign Act) was enacted on June 30, 2000. The E-Sign Act provides, in part, that a signature, contract or other record relating to a transaction may not be denied legal effect, validity or enforceability solely because it is in electronic form, or because an electronic signature or electronic record was used in its formation.

Disclosures via Web site

Subject to certain conditions, disclosure may be made through Internet or Intranet Web sites.
CFR 34 668.41(b) & (c)

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 – Notices and Authorizations. See *Volume 4* for more information on notices and authorizations for disbursements..

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 Web site that contains the required notifications and disclosures.
For additional information on electronic transactions involving student loans, see Section 2 of ***Standards for Electronic Signatures in Electronic Student Loan Transactions***, in GEN-01-06, May 2001.

THE E-SIGN ACT & INFORMATION SECURITY

The E-Sign Act permits lenders, guaranty agencies and schools to use electronic signatures and electronic records in place of traditional signatures and records that, under the HEA and underlying regulations, otherwise must be provided or maintained in hard-copy format.

The E-Sign Act provides specifically for the creation and retention of electronic records. Therefore, unless a statute or regulation specifically requires a school to provide or maintain a record or document on paper, your school may provide and maintain that record electronically. Similarly, unless a statute or regulation specifically requires schools to obtain a pen and paper signature, you may obtain the signature electronically as long as the electronic process complies with the E-Sign Act and all other applicable laws.

Obtaining voluntary consent for electronic transactions

Before conducting electronic transactions to provide to a recipient of FSA funds, the recipient must affirmatively consent to the use of an electronic record. The recipient's consent must be voluntary and based on accurate information about the transactions to be completed.

The consent must be obtained in a manner that reasonably demonstrates that the individual is able to access the information to be provided in an electronic form. For example, if you are going to send financial information by email, you could send a request for consent to the recipient via email, require the recipient to respond in a like manner, and maintain a record of that response.

Safeguarding confidential information in electronic processes

Any time a school uses an electronic process to record or transmit confidential information or obtain a student's confirmation, acknowledgment or approval, the school must adopt reasonable safeguards against possible fraud and abuse. Reasonable safeguards a school might take include:

- password protection,
- password changes at set intervals,
- access revocation for unsuccessful log-ins,
- user identification and entry-point tracking,
- random audit surveys, and
- security tests of the code access.

If you use an electronic process to provide notices, make disclosures and direct students to a secure Web site, you must provide direct individual notice each year to each student that you are going to do so. 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.

Establishing & maintaining an information security program

The Federal Trade Commission has ruled that most colleges are subject to the provisions of the Financial Services Act's Security Provisions (also known as the Financial Services Modernization Act). In the regulation, the commission created a definition of financial institutions that includes most colleges on the basis of the financial relationships they have with students, donors, and others. Consequently, colleges must draft detailed policies for handling financial data covered by the law, such as parents' annual income, and must take steps to protect the data from falling into the wrong hands.

Financial institutions, including postsecondary institutions, are required to have adopted an information security program by May 23, 2003, under the FTC rule. For specific requirements, see the box on "FTC Standards for Safeguarding Customer Information" on the following pages.

Thus, while schools have maximum flexibility in choosing a system that provides for electronic requests for release of personally identifiable information, they must ensure that their systems provide adequate safeguards.

Information security requirements

➔ Federal Trade Commission regulations: 16 CFR 313.3(n) and 16 CFR 314.1–5

➔ Financial Services Modernization Act of 1999 (also known as the Gramm-Leach-Bliley Act or GLB Act)
Pub. L. No. 106-102
Sections 501 and 505(b)(2)

➔ U.S. Code: 15 U.S.C. 6801(b), 6805(b)(2).

Effective dates

Your school was required to implement an information security program that meets these requirements no later than May 23, 2003.

The FTC regulations include a "grandfathering" provision for contracts made with nonaffiliated third parties to perform services for your school or functions on your school's behalf; this provision expired on May 24, 2004.

Reporting security breaches to students and ED

Schools are strongly encouraged to inform their students and the Department of any breaches of security of student records and information. The Department considers any breach to the security of student records and information as a demonstration of a potential lack of administrative capability.
(See *Chapter 10, Administrative Capability*)

FTC Standards for Safeguarding Customer Information

Postsecondary educational institutions participating in the FSA programs are subject to the information security requirements established by the Federal Trade Commission (FTC) for financial institutions.

Customer information that must be safeguarded

These requirements apply to all customer information in your school's possession, regardless of whether such information pertains to students, parents, or other individuals with whom your school has a customer relationship, or pertains to the customers of other financial institutions that have provided such information to you.

Customer information means any record containing nonpublic personal information (see definition *) about a customer of a financial institution, whether in paper, electronic, or other form, that is handled or maintained by or on behalf of you or your affiliates.

** Definition of "nonpublic personal information": Personally identifiable financial information; and any list, description, or other grouping of consumers (and publicly available information pertaining to them) that is derived using any personally identifiable financial information that is not publicly available.*

Establishing & maintaining an information security program

As a financial institution covered under these information security requirements, your school must develop, implement, and maintain a comprehensive information security program.

** Definition of "information security program": the administrative, technical, or physical safeguards you use to access, collect, distribute, process, protect, store, use, transmit, dispose of, or otherwise handle customer information.*

The information security program must be written in one or more readily accessible parts and contain administrative, technical, and physical safeguards that are appropriate to the size and complexity of the school, the nature and scope of its activities, and the sensitivity of any customer information at issue.

The safeguards shall be reasonably designed to achieve the following objectives:

- Insure the security and confidentiality of customer information,
- Protect against any anticipated threats or hazards to the security or integrity of such information, and
- Protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Required elements of an information security program

Designated coordinators. Your school must designate an employee or employees to coordinate its information security program.

Risk Assessment. Your school must identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction, or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks.

At a minimum, the school's risk assessment should include consideration of risks in each relevant area of your operations, including:

- Employee training and management,
- Information systems, including network and software design, as well as information processing, storage, transmission, and disposal, and
- Detecting, preventing, and responding to attacks, intrusions, or other systems failures.

Safeguards & Testing/Monitoring. Your school must design and implement information safeguards to control the risks you identify through risk assessment, and regularly test or otherwise monitor the effectiveness of the safeguards' key controls, systems, and procedures.

Evaluation & Adjustment. Your school must evaluate and adjust its information security program in light of the results of the required testing and monitoring, as well as for any material changes to your operations or business arrangements or any other circumstances that it has reason to know may have a material impact on your school's information security program.

Overseeing service providers. A service provider is any person or entity that receives, maintains, processes, or otherwise is permitted access to customer information through its provision of services directly to your school. Your school must take reasonable steps to select and retain service providers that are capable of maintaining appropriate safeguards for the customer information at issue and require your service providers by contract to implement and maintain such safeguards.

Sources:
FTC regulations: 16 CFR 313.3(n) and 16 CFR 314.1-5
Gramm-Leach-Bliley Act: Sections 501 and 505(b)(2)
U.S. Code: 15 U.S.C. 6801(b), 6805(b)(2).

CHAPTER 10

Administrative Capability

To participate in the Federal Student Aid (FSA) programs, a school must demonstrate that it is administratively capable of providing the education it promises and of properly managing the FSA programs. This chapter discusses the requirements a school must meet to demonstrate its administrative capability.

REQUIRED ELECTRONIC PROCESSES

The regulations require that a school be able to use the FSA electronic processes in order to be considered administratively capable of participating in the FSA programs.

In order for a school to exchange data with the FSA Systems, it must have Internet access through its network or through an Internet Service Provider. Your school will also need to enroll in the Student Aid Internet Gateway (SAIG) and establish a data mailbox. In the past, most schools have prepared data records in a software package such as EDExpress and transmitted the records as batch files to the SAIG mailbox. The Department's systems send edited records back to the SAIG mailbox, where the school downloads the records and uses its software to update the records in its own database.

Schools must use COD's common record format, complying with the published schema for the corresponding award year, to send and receive origination and disbursement data for Pell Grants, ACG/SMART grants, and Direct Loans. This common record format uses Extensible Markup Language (XML).

To create and edit student records, your school may use the Department's EDExpress software, or develop its own software, or rely on a third-party software vendor. If you are not using EDExpress software to prepare your records, it is your responsibility to ensure that the software you use is capable of generating COD records in XML format.

As an alternative, you can now create and edit student records directly on many of our Web sites, such as COD, CPS, and NSLDS. When creating and editing records on the Web, you do not use PC software and you do not have to transmit the changes through your SAIG mailbox.

CHAPTER 10 HIGHLIGHTS

- Required electronic processes
- Administrative requirements for the financial aid office
  - → Coordinating official
  - → Consistency of information
  - → Adequate staffing
  - → Checks & balances, and separation of function
- Reporting to NSLDS, DLSC, & guarantors
  - → Reporting enrollment status to NSLDS
  - → Reporting borrower separation information to guarantor or DLSC
  - → Transfer monitoring through NSLDS
- Satisfactory academic progress
- Cohort default rates
- Withdrawal rates
- Debarment & suspension certification

- Related information
  - → Crimes against FSA programs, Chapter 1
  - → General Participation Requirements, Chapter 3
  - → Financial Standards, Chapter 11

Administrative capability cite

34 CFR 668.16

FSA Assessmentst

To assess your school's compliance with the provisions of this chapter see the FSA Assessment modules on "Automation," "Default Prevention & Management, and "Satisfactory Academic Progress" at: ifap.ed.gov/qahome/fsaassessment.html

Summary of required electronic processes

To be in compliance with the administrative capability requirements of 34 CFR 668.16(o), a school must—

- use the E-App to submit and update the school's eligibility information: **www.eligcert.ed.gov**
- enroll in the Student Aid Internet Gateway (SAIG): **www.fsawebenroll.ed.gov**
- use *FAA Access* or its SAIG mailbox to exchange FAFSA or ISIR data with the Department's Central Processing System: **http://www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp or www.saigportal.ed.gov**
- use the COD Website or its SAIG mailbox to exchange award and disbursement data for Pell Grants, ACG/SMART grants, and Direct Loans: **cod.ed.gov** or **www.saigportal.ed.gov**
- use the eCampus-Based (eCB) System to file the FISAP application and report (see *Volume 6*): **www.cbfisap.ed.gov**
- submit to the National Student Loan Data System (NSLDS) the school's Federal Perkins Loan data, student enrollment records, FSA program overpayments, and NSLDS Transfer Student Monitoring records: **https://www.nsldsfap.ed.gov/secure/logon.asp**
- electronically submit the school's annual compliance and financial statement audits, and any other required audits: **ezaudit.ed.gov**
- use the Default Management Web site to receive its draft and official cohort default rate data electronically: **ifap.ed.gov/DefaultManagement**
- use the Information for Financial Aid Professionals (IFAP) Web site to review Dear Colleague Letters, announcements, or Federal Registers: **ifap.ed.gov**

Electronic processes cite

34 CFR 668.16 (o)
DCL GEN-04-08, September 2004
Federal Register, 09-14-2004, 55418-55420

Systems help

For help with questions about specific systems, such as application processing and software (CPS.SAIG), COD, and NSLDS, see the "Help" link on the Information for Financial Aid Professionals site:
ifap.ed.gov

Information for Financial Aid Professionals (IFAP)

Program information such as Dear Colleague/Partner letters, announcements, and Federal Registers, previously mailed to participating institutions, is now communicated, for the most part, through our IFAP Web site (ifap.ed.gov). One of the most useful features of this Web site is its notification service, which sends you daily or weekly e-mails that summarize recent postings to IFAP. (Go to "Member Services" on IFAP and select Subscription Options after you've registered.)

Even if you use a third-party servicer to manage your student aid activities, you are responsible for knowing about all new requirements posted on IFAP.

The IFAP site also has links to all major FSA Web sites and services, and a "Help" link that includes contact information for FSA call centers and customer service offices.

System Configurations

From time to time ED modifies the minimum system requirements schools must meet in order to participate in the Department's electronic processes. This Technical Specifications Table lists the minimum configurations required beginning in the 2005–2006 award year. When reviewing these specifications, a school should be aware that its system requirements (processor speed, RAM, hard-drive storage, etc.) will depend on which FSA functions the school uses, the number of records processed, and school database interfaces.

Although all of the designated electronic processes can be performed using the minimum configuration, we strongly recommend the optimal configuration, particularly in cases where a school sends or receives 4,000 or more records in an XML document (batch). This is because the new XML file formats used by EDExpress and COD (and in the future by CPS) are larger and require greater storage and computing power. For the same reason, we would encourage a school to consider moving away from "Dial-up" and instead use a high-speed Internet connection. Doing so will significantly reduce both transmission time and transmission interruptions.

	Minimum Configuration	Optimal Configuration
IBM or Fully IBM-compatible PC	1.2 GHz Processor	2.8 GHz/333 MHz Processor
	512 MB RAM	1 GB RAM
	60 GB Hard Drive	80 GB Hard Drive
	48x CD-ROM Drive (CD-RW recommended)	48x CD-ROM Drive (CD-RW recommended)
	Windows compatible keyboard and mouse	Windows compatible keyboard and mouse
Monitor and Video Card	Capable of Super Video Graphics Adapter (SVGA) resolution (800x600) or higher	Capable of Super Video Graphics Adapter (SVGA) resolution (800x600) or higher
Internet Connection	56 Kbps Modem (meets or is upgradable to V.90 standard)	High speed Internet connection (e.g., DSL, cable)
Printer	Laser printer capable of printing on standard paper (8.5" x 11")	Laser printer capable of printing on standard paper (8.5" x 11")
Operating System	Windows 2000 or Windows XP Professional recommended	Windows 2000 or Windows XP Professional recommended

Coordinating official—definition of capable individual

An individual is "capable" if he or she is certified by the state in which the school is located, if state certification is required. Other factors affecting capability include the individual's successful completion of FSA program training provided or approved by the Department, and previous experience and documented success in FSA program administration.

Death of a student

If a student dies during the award year, the school isn't required to resolve conflicting information.

Discrepant tax data

Because conflicting data often involve tax information, FAAs must have a fundamental understanding of tax issues that can affect need analysis. You should know

- whether an individual is required to file a tax return;
- an individual's correct filing status; and
- only one person can claim another as an exemption.

Publication 17 of the IRS, *Your Federal Income Tax*, is a useful resource for the aid office. You can view it on the Web at

www.irs.gov

or you can order a copy from the IRS at

800-829-3676

For additional information on resolving tax issues, please see: the *Application and Verification Guide*.

ADMINISTRATIVE REQUIREMENTS FOR THE FINANCIAL AID OFFICE

Coordinating official

A participating school must designate a capable individual to administer the FSA programs and to coordinate aid from these programs with all other aid received by students attending the school. To properly package and most effectively use the various types of student assistance (federal, school, state, private, etc.), the coordinating official must be aware of all aid received by students attending the school, regardless of the source. When creating a student's financial aid package, in order to ensure that a student's aid does not exceed his or her need, an aid administrator must include aid the student is receiving from external sources as well as institutional aid and FSA program assistance. Therefore, *a school's operations must be administered in a way that ensures all the information the school receives that might affect a student's FSA eligibility is communicated to the coordinating official and to the financial aid office.*

Consistency of information & conflicting information

A school must have a system of identifying and resolving discrepancies in all FSA-related information received by any school office. *A school must resolve discrepancies for all students, not just those selected for verification.* Resolution includes determining what information is correct, and documenting the school's findings in the student's file.

Such a system must include a review of—

- all student aid applications, need analysis documents, MRRs, POPs from COD, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant,
- the Student Aid Report/ISIR for a student—even if a school has previously verified the information on a student's SAR/ISIR, the school must review all information on subsequent SARs/ISIRs, and resolve discrepancies,
- any documents, including any copies of state and federal income tax returns, that are normally collected by the school to verify information received from the student or other sources, and
- any other information submitted or normally available to the school regarding a student's citizenship, previous educational experience, documentation of the student's social security number, or other factors relating to the student's eligibility for funds under FSA programs.

For instance, if a student receives veterans benefits through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student's aid application and are counted as a resource for the Campus-Based programs and estimated financial assistance for the Direct Loan and FFEL programs.

Other examples include—

- a school's admissions or registrar's office must provide the aid office with any information it has that might affect a student's eligibility such as the student's enrollment in an ineligible program, or enrollment in summer classes immediately preceding a fall term of enrollment; and
- a school's business office must inform the aid office whenever it receives information about a student receiving an outside scholarship.

There is a distinction between how long you need to be alert for conflicting information and how long you have to actually resolve a conflict. Even if the processing year has ended, you must continue to resolve conflicting information unless—

- all aid for period of enrollment has been disbursed, and
- at the time of disbursement, there was no conflicting information, and
- the student is no longer enrolled at the school (and is not intending to reenroll).

You may not ignore a document in your files unless a student is no longer enrolled. If you have conflicting information in your files, you must resolve it as expeditiously as possible. If you become aware of conflicting information for a student who is no longer enrolled, and there is aid to be disbursed, you must resolve the conflict before making the late or postwithdrawal disbursement.

If aid (that the school was unaware of) is received after the end of a period of enrollment for a student who is intending to reenroll, that aid must be treated as estimated financial assistance for either the period of enrollment just completed, or for the subsequent period of enrollment. (See the discussion of estimated financial assistance and packaging in *Volume 3, Chapter 7*.)

Remember, if any office at your school has information that might affect a student's eligibility for FSA funds, it must provide that information to the school's designated coordinating official. That individual in turn must forward it to the financial aid office where procedures must be in place to ensure that any conflicting information is resolved and documented before the student receives any (or any additional) FSA funds.

Examples of conflicting information

Confilicting information may include information related to a student's eligibility such as—

- citizenship status,
- accuracy of SSN,
- default or overpayment status,
- changes in student's academic status (including grade level progression),
- COA elements,
- other student financial assistance or resources, and
- inconsistent information used in calculating the student's EFC.

Conflicting information does not include such things as—

- a household size that differs from number of exemptions on a tax return;
- dependency under IRS rules vs. ED definition of dependency;
- a roster of candidates for an outside scholarship, as opposed to a list of recipients;
- privacy protected information, such as information from professional counselors, chaplains, doctors, etc.;
- assumptions made by the CPS;
- a FAFSA filed using estimated income; and
- a student who has an expired INS document, but secondary confirmation match is successful.

Sources of conflicting information

- unsolicited tax returns or schedules,
- information provided by the student to the financial aid office,
- supplemental financial aid applications,
- other offices within the school,
- offices at other educational institutions (not just aid offices),
- ED,
- scholarships and information from outside sources,
- state agencies such as Voc. Rehab., WIA, State Scholarship Agencies, etc.,
- tips from outside sources,
- transcripts from other postsecondary, institutions,
- SARs or ISIRs,
- verification,
- C Flags,
- Reject Codes, and
- Comment Codes.

Separation of function

For further guidance on the separation of functions, contact the appropriate School Participation Team (see "Contacts" on the Financial Aid Professional portal).

Family defined

A member of an individual's family is a parent, sibling, spouse, child, spouse's parent or sibling's, or child's spouse.
Definition of control cite
34 CFR 600.31(b)
Ownership interest cite
34 CFR 668.15(f)

OIG Referrals

Department regulations (34 CFR 668.16(g)) require a school to refer to the Department's Office of Inspector General (OIG) any credible information indicating that an applicant for Federal Student aid may have engaged in fraud or other criminal misconduct in connection with his or her application. Commonly falsified items include false claims of independent student status, false claims of citizenship, use of false identities, forgery of signatures of certifications, and false statements of income.

Remember that fraud is the intent to deceive as opposed to a mistake. If you suspect such intent on the part of a student, report it to the OIG by phoning 1-800-MISUSED.

Schools must also refer to the OIG any third-party servicer who may have engaged in fraud, breach of fiduciary responsibility, or other illegal conduct involving the FSA Programs.

It is always appropriate for a financial aid administrator to consult with a school's legal counsel prior to referring suspected cases of fraud or misconduct to an agency outside of the school. Additional information on IG referrals is available in *Volume 1 — Student Eligibility*.

Counseling

Schools must provide adequate financial aid counseling to all enrolled and prospective students and their families. In addition, schools must also provide entrance and exit counseling for student borrowers in the Perkins, FFEL, and Direct Loan programs. For a complete discussion of loan counseling requirements, see *Chapter 6* in this volume, and *Volume 6—Campus-Based Programs* (for Perkins disclosure requirements).

Adequate staffing

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional and clerical personnel. The number of staff that is adequate depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school's application for approval to participate in the FSA programs.

System of checks and balances

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of authorizing payment and disbursing or delivering funds so that no one person or office exercises both functions for any student receiving FSA funds. Small schools are not exempt from this requirement even though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well, but not both authorization and disbursement. These two functions must be performed by individuals who are not members of the same family and who do not together exercise substantial control over the school. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affect both authorization and disbursement.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority (or the ability) to perform both functions. In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar's office. Finally, your system should only allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes.

SATISFACTORY ACADEMIC PROGRESS

To be considered administratively capable, a school must have a satisfactory academic progress policy that, for an FSA recipient, is the same as or more strict than the school's standards for a student enrolled in the same educational program who is not receiving assistance under an FSA program

Because satisfactory progress issues are most often raised in specific student eligibility cases, we discuss the details of satisfactory progress standards in *Volume 1* of the FSA Handbook. You should carefully review the discussion in *Volume 1* if your school is developing or amending its satisfactory progress policy.

Satisfactory progress references

School policy:
34 CFR 668.16(e),
Student eligibility:
34 CFR 668.32(f),
34 CFR 668.34

For a more detailed discussion of applying satisfactory progress standards, please see *Volume 1, Student Eligibility.*

Basic elements of a satisfactory progress policy

As discussed in Volume 1, a school's policy must certain basic elements:

- a **qualitative component** consisting of grades or comparable factors that are measurable against a norm,
- a **quantitative component** that consists of a maximum time-frame in which a student must complete his or her educational program, subdivided into **increments**, and
- measurement of progress at the end of each increment.

In addition, your school's policy must explain:

- the effect of ESL courses and remedial courses on progress,
- how progress is measured if a student changes majors or seeks to earn additional degrees,
- how course repetitions are handled,
- the procedures for appealing a satisfactory progress determination, and
- the procedures for reestablishing satisfactory progress.

The policy must include provisions for *consistent application* of the standards to all students within categories (e.g., full-time, part-time, undergraduate, and graduate students), and educational programs established by the school. Generally the quantitative and qualitative standards used to judge academic progress include all periods of the student's enrollment. Even periods in which the student did not receive FSA funds must be counted.

"C" average required after 2 years

In addition to any school-determined standards, federal law requires that a student enrolled in an program of study of more than 2 academic years must, once the student has been enrolled for two academic years, have a "C" average or its equivalent, *or have an academic standing consistent with the school's requirement for graduation.* If your school does not use letter grades, it must define the equivalent of a "C" average.

Enrollment Reporting Requirements

34 CFR 682.610 FFEL
34 CFR 685.309(b) Direct Loans
"Dear Colleague" letter GEN-96-5
"Dear Colleague" letter GEN-96-17
See "NSLDS Reference Materials" on IFAP for NSLDS Newsletters, Updates, and other information

Receiving Roster Files

A school (or its servicer) must sign up to receive Roster Files through www.fsawebenroll.ed.gov/PMEnroll/index.jsp

Updating enrollment information on the Web

You can create or update student enrollment status by using the "Enroll" tab on the NSLDS Web site for aid professionals:

https://www.nsldsfap.ed.gov/

Support: **1-800-999-8219**

Enrollment Reporting/SSCR Technical References

For more information on reporting enrollment information to NSLDS, including record layouts, error codes, etc. , see the **Enrollment Reporting Guide** (formerly the SSCR User's Guide), which is available online on the **ifap.ed.gov** site (see NSLDS Reference Materials > NSLDS User Documentation)

If you will be using the SSCR software package for Enrollment Reporting, see the **SSCR Desk Reference,** which includes record layouts, error codes, etc. and is available at: **www.fsadownload.ed.gov**

Enrollment Status Codes

These codes are listed in the Record Layouts in the SSCR Technical Reference. Data submitted to the Student Loan Clearinghouse uses most of these codes.

A = Approved Leave of Absence
D = Deceased
F = Full-time
G = Graduated
H = Half-time or more, but less than full time
L = Less than half-time
W = Withdrawn (voluntary or involuntary)
X = Never attended
Z = Record not found

SHARING INFORMATION WITH NSLDS, THE DL SERVICING CENTER, AND GUARANTORS

Reporting student enrollment data to NSLDS

All schools participating (or approved to participate) in the FSA programs *must* have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends Roster files electronically to your school (or its designated servicer) through its SAIG mailbox. The file includes all of the school's students who are identified in NSLDS as Stafford (Direct and FFEL) borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at your school—you also must report information for students who received some or all of their FSA loans at other schools but are currently attending your school.

Your school (or servicer) must certify the information and return the Roster file within 30 days of receiving it. You may also go to **www.nsldsfap.ed.gov** and update information for your students online. You're required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date. Changes in enrollment to less than half-time, graduated, or withdrawn must be reported within 30 days. However, if a Roster file is expected within 60 days, you may provide the data on that roster file.

If the Roster file that you are returning contains records that don't pass the NSLDS Enrollment Reporting edits, you will receive a response file with the records that didn't pass. Within 10 days, you'll need to make the necessary corrections to these records and resubmit them. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes.

If your school reports enrollment data to the NSLDS, it does not have to complete SSCRs received directly from guaranty agencies. (Receiving an SSCR report from a guaranty agency may be an indication that your school has not reported to NSLDS within the last six months.) However, you must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. You must continue to provide loan holders and loan servicers with a borrower's enrollment status and other information needed to locate the borrower for deferment and other repayment purposes.

Updating borrower information at separation

Within 60 days after the exit counseling session, your school must provide the Direct Loan Servicing Center or the guaranty agency that was listed in the borrower's student aid records any updated information about: the borrower's name; address; references; future permanent address; Social Security Number; the identity and address of the borrower's expected employer, the address of the borrower's next of kin, and the borrower's driver's license number and state of issuance.

Sharing information about delinquent/defaulted borrowers

To promote loan repayment, DL schools are encouraged to notify the Direct Loan Servicing Center if they receive new information about a delinquent borrower's location or employment. The Direct Loan Servicing Center sends participating schools a monthly electronic report of all delinquent and defaulted Direct Loan borrowers who took out loans while attending the school. The report, which contains the borrowers' names, addresses, and phone numbers, is organized by the number of days past due so that schools can contact and counsel borrowers to avoid default. The school may also wish to work with borrowers who have defaulted on their Direct Loans to help these borrowers bring their loans out of default.

An FFEL school may make agreements to provide the holders of delinquent loans with information about the delinquent borrower's location or employment. An FFEL school may also try to contact the borrower and counsel him or her to avoid default.

FFEL schools may ask a guaranty agency to provide information about students who were enrolled at the school who have defaulted on their Stafford loans. The guarantor may not charge for this information. The school may also ask the guarantor to notify the school whenever a lender requests default aversion assistance on a loan made at your school, and provide the borrower's name, address, and Social Security Number. (The guaranty agency may charge a reasonable fee for this service.) Your school may only use the information to remind the borrower to repay his or her loan(s).

If you've requested it, the guaranty agency must also notify your school when loans to its students are sold, transferred, or assigned to another holder. (The notification must include the address and telephone number of the new loan holder.) This notification requirement only applies to loans that are in the grace period or in repayment, and only if your school was the last school the borrower attended before the loan entered repayment. (For instance, if a student received several Stafford loans while earning a bachelor's degree at your school, but pursued a master's degree at another school before those loans entered repayment, the guarantor is not required to notify you if the loan is sold.)

Privacy: Sharing student records with Lenders

A student authorizes his or her school to release information to lenders by signing the promissory note as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow as well as locating the borrower. Examples of such information are enrollment status, financial assistance, and employment records.

Loan information from the guarantor

Upon request, the guarantor must inform the school of students in default on FFELs.
34 CFR 682.401(b)(24)

If the lender requests preclaims assistance, the guarantor must inform the school of this request, if the school has requested such notification.
34 CFR 682.404(a)(4)
Sec. 428(c)(2)(H) of the HEA

The guarantor must notify the school when a loan made at that school changes hands, if the school requests such information.
Sec. 428(b)(2)(F) of the HEA
34 CFR 682.401(b)(25)

Financial aid history cite

34 CFR 668.19
DCL GEN-00-12
DCL GEN-01-09, July 2001 (including July 16, 2001, update)

Transfer student monitoring process

You must verify the eligibility of transfer students for FSA funds. You may either check the student's financial aid history on the NSLDS Web site for professionals, or wait seven days after you've submitted the student's information for monitoring to receive a response from NSLDS.

To begin using the "inform" feature, you must designate a contact on the "School Transfer Profile" page at:

www.nsldsfap.ed.gov

Financial Aid History & Transfer Monitoring

A school must consider a student's financial aid history in making FSA program awards. The regulations **require** that schools use NSLDS data to obtain information about a student's financial aid history.

In order to receive students' financial aid history, *your school must register* for the Transfer Student Monitoring Process**.**

Through the transfer student monitoring process, NSLDS will monitor a transfer student's financial aid history and alert you to any relevant changes—other than the default and overpayment information reported in the postscreening process—that may affect the student's current award(s).

You must send NSLDS identifying information for students transferring to your school so that NSLDS can use transfer monitoring to notify you of changes to the student's financial aid history. You may send information for students who have expressed an interest in attending your school, even if they have not yet formally applied for admission.

You can find a complete discussion of this requirement and the transfer student monitoring process in *Volume 1—Chapter 3*.

COHORT DEFAULT RATES

Generally speaking, a cohort default rate (CDR) is the percentage of a school's student borrowers who enter repayment on Stafford loans during a particular fiscal year and who default before the end of the next fiscal year. (There are other criteria and exceptions — see the complete definition in the *Cohort Default Rate Guide*.) In addition, separate CDRs are calculated for a school's Perkins loans.

Release of draft and official rates for FFEL and DL programs

The Department releases draft default rates in February to allow schools an opportunity to review and correct the data that will be used to calculate their official cohort default rates. In the early fall of each year, the Department issues the official cohort default rates. The rates that will be issued in September 2008, are based on the cohort of students who entered repayment in fiscal year 2006 (the 2006 federal fiscal year runs from October 1, 2005 – September 30, 2006). These rates will be electronically delivered to schools and posted on the Web. If your school is located in the U.S., it is required to be enrolled in the eCDR process for electronic delivery of the rates (see sidebar note for instructions).

Effect of cohort default rates

A school is **not** administratively capable when—

- the cohort default rate for Perkins loans made to students for attendance at the school exceeds 15% (see *Volume 6—Campus-Based Programs* for details), or
- the cohort default rate for Federal Stafford/SLS loans or for Direct Subsidized/Unsubsidized Loans made to students for attendance at the school equals or exceeds 25% for the three most recent fiscal years, or if the most recent cohort default rate is greater than 40%.

When a high default rate demonstrates a lack of administrative capability, the Department may choose to provisionally certify such a school.

In addition to affecting a school's administrative capability and limiting the school's participation in the FSA programs, a high default rate may make a school ineligible to participate in the FFEL, Direct Loan, Pell Grant, or Perkins programs. For detailed information on default requirements refer to the *Cohort Default Rate Guide* (posted on IFAP—see sidebar).

Default prevention & management plan

New schools are required to implement a default prevention and management plan prior to certification. In addition, a school that undergoes a change in ownership that results in a change in control or a school that changes its status as a main campus, branch campus, or additional location must also implement a default management plan.

The eCDR Process

The official default rates are sent electronically to all domestic schools in the fall of each year. You must enroll in the eCDR process to receive your rates.

If your school is not enrolled, go to:
www.fsawebenroll.ed.gov
On this Web page, choose "Enroll" and then select the radio button for "Modify Existing Services for a Destination Point."

We will continue to mail default rates to foreign schools until all foreign schools have enrolled in the eCDR Process.

Default rates on the Web

The official cohort default rates for all schools participating in the FSA programs are posted on the Web at:
www.ed.gov/FSA/defaultmanagement

Default rates and suspension cite

34 CFR 668.16(m)(1)
Consequences of default cite
34 CFR 668.187
Provisional certification
34 CFR 668.16(m)(2)(i)
Exemption from default plan
HEA: Sec. 487(a)(14)(C)
34 CFR 668.14(b)(15)(B)(ii)

Sample Default Plan

A "Sample Default Prevention and Management Plan." was issued as an attachment to GEN-05-14. The sample plan is also posted in the collection of "Default Rate Materials" on the IFAP Web site.

Default Rate changes NEW

The HEOA made several changes to the cohort default rate calculation, standards, and exceptions, which will be phased in over the next few years: In particular:
• Beginning with FY 2009, the default calculation for schools will be based on defaults during a 3-year period (rather than 2-year).
• Beginning FY 2012,the school cohort default rate threshold percentage increases.
For more information, see DCL 08-12.

Cohort Default Rate Guide

For more technical information on default rates, please refer to the **Cohort Default Rate Guide**. The Guide is updated continuously on the IFAP Web site.

ifap.ed.gov/DefaultManagement/finalcdrg.html

Contacting Default Prevention & Management

Default Prevention & Management responds to questions about FFEL/DL cohort default rates, and reviews FFEL/DL cohort default rate challenges, adjustments, and appeals. It also provides technical assistance and outreach to schools to assist them in lowering their default rates.

Web: **ifap.ed.gov/DefaultManagement**
Phone: 202-377-4258
Hotline: 202-377-4259
FAX: 202-275-4511
E-MAIL: fsa.schools.default.management@ed.gov

"Enrolled" for purposes of withdrawal rates

A student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school. Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

Schools applying to participate are exempt from submitting a default plan if—

- the school, including its main campus and any branch campus, does not have a cohort default rate greater than 10%, and
- the new owner of the school does not own and has not owned any other school that had a cohort default rate greater than 10% during the owner's tenure.

WITHDRAWAL RATES

New schools (schools that seek to participate in an FSA program for the first time) must have an undergraduate withdrawal rate for regular students of no more than 33% for an award year in order to be considered administratively capable.

When calculating the withdrawal rate, all regular, enrolled students must be included. The definition of enrolled does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, is expelled from the school, or receives a refund of 100% of his or her tuition and fees. A student who withdraws from one or more courses or programs but does not withdraw entirely from the school, does not meet the definition of withdrawn. Instead, this action is considered a change in enrollment status (e.g., the student reduced his credit hours from 12 to 6).

DEBARMENT AND SUSPENSION CERTIFICATION

Debarment of school or its principals

In order to protect the public interest, it is the policy of the federal government to conduct business only with responsible individuals. In order to implement this policy, the government takes debarment and suspension actions against individuals whom it determines constitute a current risk to federal agencies. If a school (or its principals) is debarred or suspended by a federal agency, it is prohibited from participating in any FSA program, so long as the agency's procedures include due process protections that are equivalent to those provided by ED.

The principals of the school include its owners, directors, officers, partners, employees, and any other persons with management or supervisory responsibilities. A principal may also be someone who is not employed by the school but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or Campus-Based funds). For example, a principal may be someone whether or not employed by the school who—

- is in a position to handle Federal funds;
- is in a position to influence or control the use of those funds; or
- occupies a technical or professional position capable of substantially influencing the development or outcome of an activity required to perform the covered transaction.

Before a school may receive FSA funding, it must certify that neither the school nor its employees have been debarred or suspended by a federal agency. (You can find this certification in the Program Participation Agreement and in the Web-based FISAP package available to schools participating in the Campus-Based programs—see *Chapter 3*.)

Institutions participating in the FSA programs have a fiduciary responsibility to safeguard FSA funds, and ensure those funds are used for the benefit of the students for whom they are intended. We expect participating institutions to thoroughly examine the background of individuals they employ (or are considering employing) in management or supervisory positions. If a school discovers that a person employed in a management or supervisory capacity has been suspended, or debarred by a federal agency, the school must remove that person from such a position or risk losing its FSA eligibility. Moreover, a school may not enter into a relationship (and must terminate an ongoing relationship) with a lender, third-party servicer, or loan servicer the school determines has been debarred or suspended.

Debarment and suspension cite

Executive Order 12549
Federal Acquisition Regulations
(48 CFR Part 9, Subpart 9.4)
34 CFR Part 85

Similar debarment and suspension limitations apply to lenders, third-party servicers, loan servicers, and any individuals who provides services described in 34 CFR 668.2 or 682.200 to a FSA recipient whether nor not they are employed by the school as described in 34 CFR 600.85.995(b).

Checking debarment/suspension status online

The "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" is available for review at a Web site maintained by the General Services Administration.

http://epls.arnet.gov/

You should keep a copy of the search results in your records.

Covered transactions

For purposes of the debarment/suspension rules, covered transactions include:
1. disbursement of FSA funds to a student or borrower,
2. certification by an educational institution of eligibility for an FSA loan,
3. guaranteeing a loan made under an FSA program, and
4. acquisition or exercise of any servicing responsibility for a grant, loan, or work study assistance under an FSA program.

Lower-tier transactions

Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service or with a loan collection or billing agency.

Sample certification statement from lower-tier organization

The Department disseminated the following language in April 1989 as a model that schools may use to obtain the required certification statement from a lower-tier organization.

> "The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participating in this transaction by any Federal department or agency.
>
> Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal."

Federal Register, May 26, 1988, page 19211, disseminated in Dear Colleague Letter GEN-89-21.

Certifying current or prospective employees or contractors

The certification provided by the school is a material representation of fact relied upon by the Department when it enters into a Participation Agreement with the school. Moreover, a school is expected to have knowledge and information normally possessed by a prudent person in the ordinary course of business dealings. Although the Department doesn't dictate how a school must ensure that its principals/employees have not been debarred or suspended by a federal agency, we do hold the school responsible for any information it could reasonably have been expected to know in the course of ordinary operations. In addition, we expect the school to expend a reasonable amount of effort ensuring that it and its employees are in compliance. If the Department learns that a prospective participant knowingly rendered an erroneous certification, in addition to other remedies available, the Department may terminate the participation of the institution.

A school chooses the method and frequency for making a determination about the eligibility of its principals. This might include asking current and prospective employees and contractors, in person or in writing, about their debarment or suspension histories. In addition, a school might also examine the List of Parties Excluded from Federal Procurement and Nonprocurement Programs to find out if an individual or organization is debarred or suspended. A school should discuss with its attorney the procedures appropriate to its circumstances.

The employees who award FSA funds and those who disburse them should be always be included in those whose backgrounds are examined. In addition, employees who participate in other transactions from which the regulations exclude individuals who have been debarred or suspended should be included. A school should consult with its attorney on the individuals it must certify.

The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's FSA eligibility, so long as that person is not involved in any covered transactions.

Lower-tier covered transactions

A school must not enter into lower-tier covered transactions with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. A school must obtain a certification from any lower-tier organization if the amount of the lower-tier transaction is $25,000 or more. The lower-tier organization must inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

Financial Standards

CHAPTER 11

In this chapter, we discuss the financial standards schools must maintain to participate in the Federal Student Aid (FSA) programs, such as the composite score and refund reserve standards, as well as the criteria for evaluating the past performance of the school and persons affiliated with the school.

In order to participate in the FSA programs a school must demonstrate that it is financially responsible. To provide the Department with the information necessary to evaluate a school's financial responsibility, schools are required to submit financial information to the Department every year. A school must provide this financial information in the form of an audited financial statement as part of a combined submission that also includes the school's compliance audit. For-profit schools have six months from the end of the schools' fiscal year to provide the combined submission; other schools have nine months.

What follows is an overview of the financial responsibility standards. Schools should refer to Subpart L of the Student Assistance General Provisions for complete information.

The Department determines whether a school is financially responsible based on the school's ability to:

- provide the services described in its official publications and statements;
- properly administer the FSA programs in which the school participates; and
- meet all of its financial obligations.

The financial responsibility standards can be divided into two categories: (1) general standards, which are the basic standards used to evaluate a school's financial health, and (2) performance and affiliation standards, which are standards used to evaluate a school's past performance and to evaluate individuals affiliated with the school.

CHAPTER 11 HIGHLIGHTS

- Standards for public schools
- Standards for proprietary or private non-profit schools
  - → Composite score
  - → Refund reserve standards
  - → Returning funds in a timely manner
  - → Current in debt payments
- Alternatives to the general standards
  - → Letter of credit
  - → Zone alternative
  - → Provisional certification
- Past performance & affiliation standards
  - → Past performance of a school
  - → Past performance of persons affiliated with a school

Related information

→ General Participation Requirements, Chapter 3
→ Administrative Capability, Chapter 10

Financial responsibility cites

Sec. 498(c) of the Higher Education Act
34 CFR 668 Subpart L

School Participation Teams

For information regarding accounting and compliance issues, a school should contact its School Participation Team (see the "Contacts" listing on the Financial Aid Professional Portal **www.fsa4schools.ed.gov**

Use of eZ-AUDIT required

Since June 16, 2003, schools have been required to submit their compliance audits, audited financial statements, and letters confirming their status as public schools through the Department's eZ-AUDIT Electronic Financial Reporting System. See chapter 12 for more information on required audit submissions.

Change in ownership

When a change in ownership occurs, the Department applies the standards in 34 CFR 668.15.

GENERAL STANDARDS FOR PUBLIC SCHOOLS

A public school is financially responsible if its debts and liabilities are backed by the full faith and credit of the state or other government entity. The Department considers a public school to have that backing if the school notifies the Department that it is designated as a public school by the state, local, or municipal government entity, tribal authority, or other government entity that has the legal authority to make that designation. The school must also provide the Department with a letter from an official of the appropriate government entity confirming the school's status as a public school. A letter from a government entity may include a confirmation of public school status for more than one school under that government's purview. The letter is a onetime submission and should be submitted as a separate document.

Public schools also must meet the past performance and affiliation standards discussed below, and must submit financial statements prepared in accordance with generally accepted accounting principles (GAAP) and prepared on the accrual basis.

GENERAL STANDARDS FOR PROPRIETARY OR PRIVATE NONPROFIT SCHOOLS

A proprietary or private nonprofit school is financially responsible if the Department determines that—

- the school has a composite score of at least 1.5;
- the school has sufficient cash reserves to make the required refunds, including the return of Title IV funds (these requirements are known as the refund reserve standards);
- the school is meeting all of its financial obligations, including making required refunds, including the return of Title IV funds and making repayments to cover Title IV program debts and liabilities; and
- the school is current in its debt payments.

These requirements are discussed in more detail below.

Even if a school meets all of the general requirements, the Department does not consider the school to be financially responsible if—

- in the school's audited financial statement the opinion expressed by the auditor was adverse, qualified, or disclaimed, or the auditor expressed doubt about the continued existence of the school as a going concern (unless the Department determines that a qualified or disclaimed opinion does not have a significant bearing on the school's financial condition), or
- the school violated one of the past performance requirements discussed below.

Composite score

The composite score standard combines different measures of fundamental elements of financial health to yield a single measure of a school's overall financial health. This method allows financial strength in one area to make up for financial weakness in another area. In addition, this method provides an equitable measure of the financial health of schools of different sizes.

The composite score methodology takes into account the differences between proprietary schools and private nonprofit schools. The variance takes into account the accounting differences between these sectors of postsecondary schools. However, the basic steps used to arrive at the composite score are the same. These steps are described in the chart on the following pages.

Refund reserve standards

One of the standards that a school must satisfy, in order to be considered financially responsible, is that it must have sufficient cash reserves to return Title IV funds when a student withdraws. A school is considered to have sufficient cash reserves if it:

- is located in a state that has a tuition recovery fund approved by the Department and the school contributes to that fund; or
- for its two most recently completed fiscal years, the school made all required returns in a timely manner (see *Volume 5, Chapter 2* for more information on returns, including timely payment).

Returning funds in a timely manner

Unearned funds must be returned no later than 45 days after the date of the school's determination that the student withdrew. ED considers the school to have returned funds, depending upon the method it uses to return them. Specifically, the regulations provide that a school has returned funds when it has:

- deposited or transferred the funds into the bank account it maintains for federal funds (see sidebar) no later than 45 days after the date it determines that the student withdrew;
- initiated an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;
- initiated an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs an FFEL lender to adjust the borrower's loan account for the amount returned; or
- issued a check no later than 45 days (as supported by the school's records) after the date it determines that the student withdrew.

If a check is used to return unearned funds, the Department requires that the check be endorsed by the bank used by the FFEL lender or ED no later than 60 days after the school's determination that a student withdrew in order to be considered a timely return.

Additional information on composite scores

For complete information on the calculation of the composite score, schools should refer to Appendices A and B of Subpart L in the General Provisions regulations.

The Department issued guidance on the treatment of long-term and other debt in calculating these ratios in DCL-GEN-01-02. That guidance was updated in DCL GEN-03-08.

Treatment of long-term debt cite

DCL GEN 03-08, July 2003
34 CFR 668, Subpart L, Appendices A & B

Ratios cite

34 CFR 668.171(b)(3)

Tuition Recovery Funds

When a state submits a tuition recovery fund for approval by the Department, the Department will consider the extent to which the recovery fund:
• provides returns to both in-state and out-of-state students;
• complies with FSA requirements for the order of return of funds to sources of assistance; and
• is replenished if any claims arise that deplete the fund.

Refund reserve standard cite

34 CFR 668.173

Returning funds cite

34 CFR 668.172(c).

For withdrawn students, returns funds in a timely manner cite

34 CFR 668.22

Calculating a composite score

The first step in calculating a school's composite score is to determine the school's primary reserve, equity, and net income ratios by using information from the school's audited financial statement. These ratios take into account the total financial resources of the school. The Primary Reserve Ratio represents a measure of a school's viability and liquidity. The Equity Ratio represents a measure of a school's capital resources and its ability to borrow. The Net Income Ratio represents a measure of a school's profitability.

Upon review, some items from a school's audited financial statement may be excluded from the calculation of the ratios. For example, the Department may exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs, from the ratio calculations. (See box below for regulatory list of exclusions.)

All long-term debt obtained for the school's purposes may be included for purposes of the Primary Reserve Ratio calculation. However, it is important to note that the overall level of debt obtained for long-term purposes that can be included in the numerator of the Primary Reserve Ratio is limited under the regulations. It cannot exceed the amount of the school's net property, plant, and equipment.

A strength factor score is then calculated for each ratio using equations established by the Department. A strength factor score reflects a school's relative strength or weakness in a fundamental element of financial health, as measured by the ratios. Specifically, the strength factor scores reflect the extent to which a school has the financial resources to: 1) replace existing technology with newer technology; 2) replace physical capital that wears out over time; 3) recruit, retain, and retrain faculty and staff (human capital); and 4) develop new programs.

A weighting percentage is applied to each strength factor score to obtain a weighted score for each ratio. The weighting percentages reflect the relative importance that each fundamental element has for a school in a particular sector (proprietary or private nonprofit).

The sum of the weighted scores equals the school's composite score. Because the weighted scores reflect the strengths and weaknesses represented by the ratios and take into account the importance of those strengths and weaknesses, a strength in the weighted score of one ratio may compensate for a weakness in the weighted score of another ratio.

Once a composite score is calculated, it is measured along a common scale from negative 1.0 to positive 3.0 as indicated in the diagram on the next page. This scale reflects the probability a school will be able to continue operations and meet its obligations to students and the Department.

Exclusions

Excluded items. In calculating an institution's ratios, the Secretary—

(1) Generally excludes extraordinary gains or losses, income or losses from discontinued operations, prior period adjustments, the cumulative effect of changes in accounting principles, and the effect of changes in accounting estimates;

(2) May include or exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs;

(3) Excludes all unsecured or uncollateralized related-party receivables;

(4) Excludes all intangible assets defined as intangible in accordance with generally accepted accounting principles; and

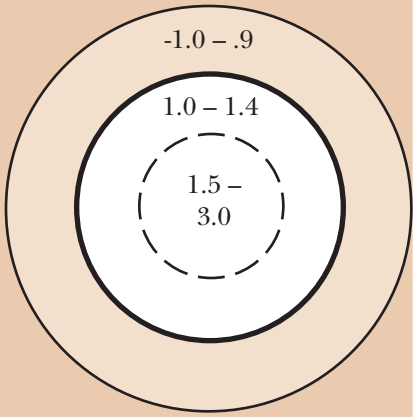
(5) Excludes from the ratio calculations Federal funds provided to an institution by the Secretary under program authorized by the HEA only if—

(i) In the notes to the institution's audited financial statement, or as a separate attestation, the auditor discloses by name and CFDA number, the amount of HEA program funds reported as expenses in the Statement of Activities for the fiscal year covered by that audit or attestation; and

(ii) The institution's composite score, as determined by the Secretary, is less than 1.5 before the reported expenses arising from those HEA funds are excluded from the ratio calculations.

34 CFR 172(c)

Composite score scale



1.5 to 3.0 Financially responsible without further oversight.

1.0 to 1.4 In the "Zone." The school is considered financially responsible but additional oversight is required.

–1.0 to .9 Not financially responsible. The school must submit letter of credit of at least 50% of its FSA funding. The school may be permitted to participate under provisional certification with smaller letter of credit—with a minimum of 10% of its FSA funding.

Example: Calculation of a composite score for a proprietary institution*

Calculation of Ratios

Primary Reserve Ratio $= \frac{\text{Adusted equity}}{\text{Total expenses}} = \frac{\$760{,}000}{\$9{,}500{,}000} = 0.080$

Equity Ratio $= \frac{\text{Modified equity}}{\text{Modified expenses}} = \frac{\$810{,}000}{\$2{,}440{,}000} = 0.332$

Net Income Ratio $= \frac{\text{Income before taxes}}{\text{Total revenues}} = \frac{\$510{,}000}{\$10{,}010{,}000} = 0.051$

Calculation of Strength Factor Score

Primary Reserve Strength Factor Score = 20 x Primary Reserve Ratio
20 x 0.080 = 1.600

Equity Strength Factor Score = 6 x Equity Ratio
6 x 0.332 = 1.992

Net Income Strength Factor Score = 1 + (33.3 x Net Income Ratio)
1 + (33.3 x 0.051) = 2.698

Calculation of Weighted Score

Primary Reserve Weighted Score = 30% x Primary Reserve Strength Factor Score
0.30 x 1.600 = 0.480

Equity Weighted Score = 40% x Equity Strength Factor Score
0.40 x 1.992 = 0.797

Net Income Weighted Score = 30% x Net Income Strength Factor Score
0.30 x 2.698 = 0.809

Composite Score

Sum of All Weighted Scores 0.480 + 0.797 + 0.809 = 2.086 rounded to 2.1

* The definition of terms used in the ratios and the applicable strength factor algorithms and weighting percentages are found in the Student Assistance General Provisions (regulations) (34 CFR 668) Subpart L, Appendix A for proprietary schools and Appendix B, for private nonprofit schools.

Deposit to operating account or separate federal bank account

A school that maintains a separate federal bank account must deposit to that account, or transfer from its operating account to its federal account, the amount of unearned program funds, as determined under the Return of Title IV funds regulations. The date the school makes that deposit or transfer is the date used to determine whether the school returned the funds within the 30-day timeframe permitted in the regulations.

Unless the Department requires a school to use a separate account, the school may use its operating account for FSA purposes. In this case, the school must designate that account as its federal bank account, and have an auditable system of records showing that the funds have been allocated properly and returned in a timely manner. If there is no clear audit trail, the Department can require the school to begin maintaining FSA funds in a separate bank account.

34 CFR 668.163(a)

Making new awards with returned funds

After a school has returned unearned funds to its federal account, provided those funds were originally received from the Department or from an FFEL lender under a process that allows the school to reuse the unearned funds, the school can use the funds to make disbursements to other eligible students.

Compliance thresholds for timely return of funds

The Department provides for a small margin of error in determining that a school has paid all required refunds and returns on time. The Department considers a school to have paid returns in a timely manner if—

- there is less than a 5% error rate in a sample of returns (composed of students for whom the school was required to return unearned funds) examined in a compliance audit conducted under 34 CFR 668.23, an audit conducted by the Office of the Inspector General (OIG), or a program review conducted by the Department or guaranty agency; or
- there are no more than two late returns in the sample (regardless of the number or percentage of late returns in the sample).

In addition, if the reviewer or auditor finds a material weakness or reportable condition in the school's report on internal controls relating to the return of unearned Title IV program funds, the Department considers the school to have not paid Returns in a timely manner.

Letter of credit required when funds are not returned in timely manner

Public schools and schools covered by a state tuition recovery fund that has been approved by the Department are not subject to the letter of credit requirements. If any other school exceeds the compliance thresholds in either of its two most recently completed fiscal years, the school must submit an irrevocable letter of credit acceptable and payable to the Department. The letter of credit must be equal to 25% of the returns the school made or should have made during its most recently completed fiscal year.

A school that is required to submit a letter of credit must do so no later than 30 days after the earlier of the date that:

- the school is required to submit its compliance audit;
- the OIG issues a final audit report;
- the designated department official issues a final program review determination;
- the Department issues a preliminary program review report or draft audit report, or a guaranty agency issues a preliminary report showing that the school did not return unearned funds for more than 10% of the sampled students; or
- ED sends a written notice to the school requesting the letter of credit that explains why the school has failed to return unearned funds in a timely manner.

If the finding in the preliminary report is that the school did not return unearned funds in a timely manner for 10% or fewer of the sampled students, a school would generally be required to submit the letter of credit only if the final report shows that the school did

not return unearned funds in a timely manner for 5% or more of all students for whom returns were required. If the final report indicates that a letter of credit is required, the school would have to submit it no later than 30 days after the final report is issued.

Exceptions to the letter of credit requirement

A school is not required to submit a letter of credit of less than $5,000. However, to meet the reserve requirement, such a school would need to demonstrate that it has available at all times cash reserves of at least $5,000 to make required returns.

In addition, a school may delay submitting a letter of credit while it asks for reconsideration of a finding that it failed to return unearned Title IV program funds in a timely manner. A school may request that the Department reconsider its finding if the school submits documents showing that:

- the unearned Title IV program funds were not returned in a timely manner solely because of exceptional circumstances beyond the school's control and that the school would not have exceeded the applicable threshold had it not been for the exceptional circumstances; or
- it did not fail to make timely returns.

A school that submits an appeal, together with all required supporting documents by the date the letter of credit would be due is not required to submit a letter of credit unless the Department notifies the school that its request has been denied.

Current in debt payments

A school is not current in its debt payments if

- it is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements or audit opinion; or
- fails to make a payment in accordance with existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover funds under those obligations.

Address for Letters of Credit

Letters of credit are submitted to:

Director
Performance Improvement & Procedures,
U.S. Department of Education
Federal Student Aid
830 First Street, NE,
Washington, DC 20002-8019

Alternative standards and requirements cite
34 CFR 668.175

Information to be provided under zone alternative
The school must provide timely information regarding any of the following oversight and financial events:
- Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
- Any event that causes the institution, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audited financial statement;
- Any violation by the institution of any loan agreement;
- Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
- Any withdrawal of owner's equity from the institution by any means, including by declaring a dividend; or
- Any extraordinary losses, as defined in accordance with Accounting Principles Board (APB) Opinion No. 30.

The school may also be required to:
- submit its financial statement and compliance audits earlier than the time specified under §668.23(a)(4); and
- provide information about its current operations and future plans.

Cite: 34 CFR 668.175(d)(2)

ALTERNATIVES TO THE GENERAL STANDARDS

If a school does not meet the general standards for financial responsibility, the Department may still consider the school to be financially responsible or may allow the school to participate under provisional certification if the school qualifies for an alternative standard.

If the Department determines that a school that does not meet one or more of the general standards and does not qualify for an alternative, the Department may initiate a limitation, suspension, or termination action against the school (see *Chapter 12* for more information).

Letter of credit alternative for new school

A new school (a school that seeks to participate in the FSA programs for the first time) that does not meet the composite score standard (i.e., has a composite score of less than 1.5) but meets all other standards may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50% of the FSA program funds that the Department determines that the school will receive during its initial year of participation.

Letter of credit alternative for participating school

A participating proprietary or private nonprofit school that fails to meet one or more of the general standards or is not financially responsible because it has an adverse audit opinion may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50% of the FSA program funds that the school has received during its most recently completed fiscal year. The school is then considered to be financially responsible.

Zone alternative

A participating school that fails to meet the composite score standard (i.e., has a composite score of less than 1.5) but meets all other standards may demonstrate financial responsibility for up to three consecutive fiscal years if the Department determines that the school's composite score is equal to 1.0 to 1.4 for each of those years and the school meets specific monitoring requirements.

This alternative gives a school the opportunity to improve its financial condition over time without requiring the school to post a letter of credit or participate under provisional certification. Under the zone alternative, a school's operations, including its administration of the FSA programs, are monitored more closely. If a school does not score at least 1.0 in one of the three subsequent fiscal years or does not improve its financial condition to attain a composite score of at least 1.5 by the end of the three-year period, the school must satisfy another alternative standard to continue participating. In addition, if a school fails to comply with the information reporting or payment method requirements, the Department may determine that the school no longer qualifies under this alternative.

Under the zone alternative, a school—

- must request and receive funds under the cash monitoring or reimbursement payment methods, as specified by the Department (see *Volume 4, Chapter 3*);
- must provide timely information regarding certain oversight and financial events (see sidebar);
- may be required to submit its financial statement and compliance audit earlier than normally required (see Chapter 12 for more information on audit submission deadlines); and
- may be required to provide information about its current operations and future plans.

The school must also require its auditor to express an opinion, as part of the school's compliance audit, on the school's compliance with the requirements of the zone alternative, including the school's administration of the payment method under which the school received and disbursed FSA program funds.

Provisional certification for school not meeting standards

If a participating proprietary or private nonprofit school fails to meet one or more of the general standards or is not financially responsible because it has an unacceptable audit opinion, the Department may permit the school to participate under provisional certification for up to three years.

The Department may permit a school that is not financially responsible to participate under provisional certification if the school is not financially responsible because it:

- does not satisfy the general standards;
- has an unacceptable audit opinion; or
- has a past performance problem that has been resolved.

If the Department permits a school to participate under provisional certification, the Department will require the school:

- to submit to the Department a letter of credit, payable and acceptable to the Department, for a percentage of the FSA program funds received by the school during its most recent fiscal year. (This percentage must be at least 10% and could be as great at 100%.)
- to demonstrate that it has met all of its financial obligations and was current on its debt payments for its two most recent fiscal years.

Moreover, the school must comply with the requirement under the zone alternative that it provide timely information regarding certain oversight and financial events. Finally, a school that is required to post a letter of credit will be placed on heightened cash monitoring or reimbursement.

If a school is still not financially responsible at the end of a period of provisional certification, the Department may again permit provisional certification. However, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's FSA program participation. The same persons may be required to agree to be jointly and severally liable for any FSA program liabilities.

The Department is not required to offer provisional certification to a school. It is an alternative that the Department may choose to offer in exceptional circumstances.

Provisional certification for school where persons or entities owe liabilities

If a school is not financially responsible because the persons or entities that exercise substantial control over the school owe an FSA program liability, the Department may permit the school to participate under provisional certification if:

- the persons or entities that owe the liability repay or enter into an agreement with the Department to repay the liability; in lieu of this, the school may assume the liability and repay or enter into an agreement to repay the liability; and
- the school meets all the general standards of financial responsibility (In addition, the school must demonstrate that it has met all of its financial obligations and was current on its debt payments for its two most recent fiscal years.); and
- the school submits to the Department a letter of credit, payable and acceptable to the Department, for an amount determined by the Department. (This amount must be equal to at least 10% of the FSA program funds received by the school during its most recent fiscal year.)

The school also must comply with the requirements under the zone alternative.

In addition, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's FSA program participation. The same persons may be required to agree to be jointly and severally liable for any FSA program liabilities.

PAST PERFORMANCE AND AFFILIATION STANDARDS

In addition to meeting the numeric standards of financial responsibility and fulfilling all its financial obligations, a school must demonstrate that it properly administers the FSA programs in which it participates. Past actions of the school or individuals affiliated with the school may reveal mismanagement of FSA program funds, thereby demonstrating that a school is not financially responsible. Therefore, in evaluating the way a school administers the FSA programs, the Department considers the past performance of both the school and individuals affiliated with the school.

Past performance of a school

A school is not financially responsible if the school:

- in the last five years, has been subject to a limitation, suspension, or termination action or has entered into an agreement to resolve a limitation, suspension, or termination action initiated by the Department or a guaranty agency;
- in either of its two most recent FSA program reviews or audits, has had findings for the current fiscal year or two preceding fiscal years that required repayment of more than 5% of the FSA program funds received by the school;
- has been cited during the last five years for failing to submit audits as required; or
- has failed to satisfactorily resolve any compliance issues identified in program reviews or audit reports, upheld in a final decision of the Department.

Past performance of persons affiliated with a school

A school is not financially responsible if any person who exercises substantial control over the school (or any members of the person's family alone or together) owes a liability for an FSA program violation or has ever exercised substantial control over another school (or a third-party servicer) that owes a liability for an FSA program violation, unless that person, family member, school, or servicer demonstrates that the liability is being repaid in accordance with an agreement with the Department.

The Department may consider a school that does not meet this requirement to be financially responsible if the school:

- notifies the Department that the individual repaid to the Department an acceptable portion of the liability, in accordance with the regulations;
- notifies the Department that the liability is currently being repaid in accordance with a written agreement with the Department; or
- demonstrates to the satisfaction of the Department: (1) why the person who exercises substantial control should nevertheless be considered to lack that control, or (2) why the person who exercises substantial control and each member of that person's family does not or did not exercise substantial control over the school or servicer that owes the liability.

Notifying the Department of change of control

A school must report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control trigger a review to determine if the school is financially responsible (see *Chapter 5*).

Fidelity bond coverage for employees

In the past, schools were required to maintain fidelity bond coverage for their employees. This is no longer a federal requirement for schools that participate in the FSA programs. However, by state law some schools are still required to maintain fidelity bond coverage. Even if a school is not required to do so, it may choose to maintain fidelity bond coverage to protect itself when losses occur because of a lack of integrity, on the part of the school's employees or officers.

Program Integrity

CHAPTER 12

In this chapter we discuss the responsibilities of schools, accrediting agencies, states, and the Department for ensuring the integrity of the Federal Student Aid (FSA) programs. We present ED's School Participation Teams, the Quality Assurance Program, the ISIR Analysis Tool, and the Experimental Sites Initiative. We also remind you of a school's responsibilities when its participation in one or more of the FSA programs ends.

THE DEPARTMENT'S ROLE

One of the Department's functions is to oversee the FSA programs to help ensure that they are administered properly. Here we discuss the two major types of oversight activities—audits and program reviews.

Program reviews and audits are conducted to identify compliance problems at the school and identify corrective actions. If a school is cited in a program review or audit for improperly disbursing FSA program funds, the school must restore those funds as appropriate.

If a school is cited in a program review or audit for other serious program violations, the school may be subject to corrective action and sanctions, such as fines, emergency action, or limitation, suspension, or termination discussed later in this chapter.

FSA AUDIT REQUIREMENTS FOR SCHOOLS

A school that participates in any FSA program, including a participating foreign school, generally must have an independent auditor conduct an annual audit of the school's compliance with the laws and regulations that are applicable to the FSA programs in which the school participates (a compliance audit), and an audit of the school's financial statements (a financial statement audit).

While a compliance audit covers the school's administration of the FSA programs, a financial statement audit provides the Department with information necessary to evaluate a school's status *vis-a-vis* the financial standards (see *Chapter 11*).

The type of compliance audit a school or servicer must undergo depends on its type of control: public, for-profit, or nonprofit.

- All for-profit schools must have an FSA compliance audit conducted under the Inspector General's *Audit Guide* (for FSA school audits), which is available on the IFAP Web site.
- Public and nonprofit schools must comply with the Single Audit Act. The Single Audit Act requires these schools to have an audit conducted in accordance with the Office of

CHAPTER 12 HIGHLIGHTS

- The Department's Role
- Audit Requirements
- Access to Records
- Program Reviews
- Case Management
- Corrective actions & sanctions
- Requirements when a school ceases to be an eligible institution
- Requirements when a school's FSA participation ends
- Loss of eligibility or withdrawal from loan programs
- Quality Assurance Program
- Experimental Sites

FSA Assessments

To assess your school's compliance with the provisions of this chapter see the FSA Assessment module for "Institutional Eligibility," at **ifap.ed.gov/qahome/qaassessments/institutionalelig.html**

Statutory & regulatory cites

Part H of the HEA
State role cite
Sec. 495 of the HEA
Accrediting agency cite
Sec. 496 of the HEA
Criteria used by ED for recognition of accrediting agencies cite
34 CFR 602

Audit Guide (for FSA Schools)

The official title of the Inspector General's audit guide for the FSA programs is *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.*

Audit requirements & waiver
HEA: Sec. 487(c)
20 USC 1094
34 CFR 668.23(a)(1) to (5)
Waiver: 34 CFR 668.27

Independent CPA/auditor
An independent certified public accountant or government auditor, except that a government auditor must meet the Government Auditing Standards qualification and independence standard, including standards related to organizational independence.

Audit reference guides
The Audit Guide and the "Blue Book" are available on the IFAP Web site under "Publications":
ifap.ed.gov

The G5 Users Guide is available at
gapsweb.ed.gov

Opportunity to send comments to Small Business Ombudsman
The Small Business and Agriculture Regulatory Enforcement Ombudsman and 10 Regional Fairness Boards were established to receive comments from small businesses about federal agency enforcement actions. The Ombudsman annually will evaluate the enforcement activities and rate each agency's responsiveness to small business. If you wish to comment on the enforcement actions of the Department of Education, call 1-888-REG-Fair (1-888-734-3247).

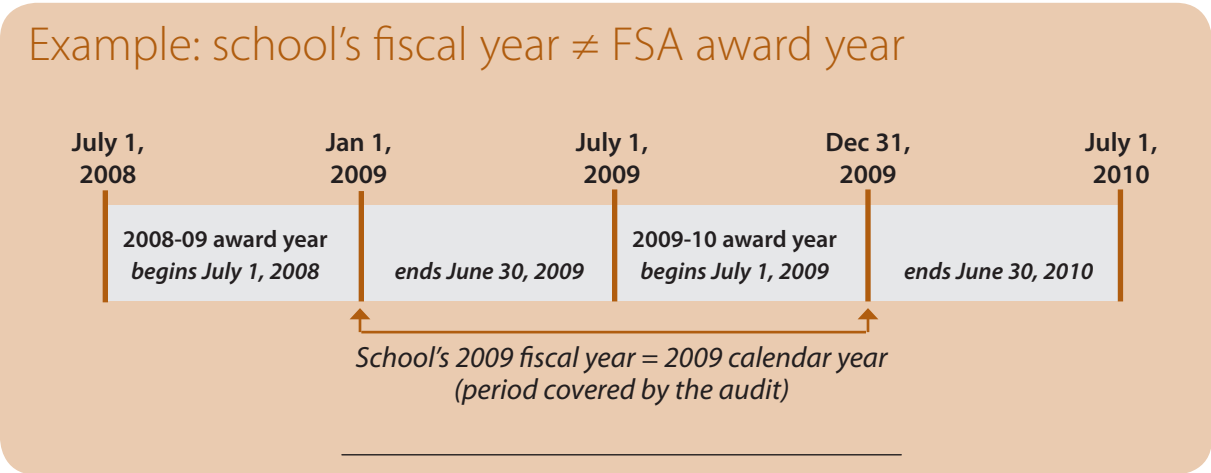
Management and Budget's (OMB) Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. (Circular A-133 allows an FSA compliance audit under the criteria of the *Audit Guide* under limited circumstances.)

The Office of Inspector General (OIG) also conducts audits, usually in cases where there is concern over a school's administration of the FSA programs. An OIG or other federal audit does not satisfy the requirement that a school have annual compliance and financial statement audits performed by an independent public accountant.

Simultaneous FSA audit submissions

A school that has an audit performed under the *Audit Guide* for FSA schools must submit both the compliance audit and the audited financial statements within six months of the end of the school's fiscal year. Both the compliance audit and the financial statement audit must be performed on a fiscal-year basis. In addition, both audits must be prepared by an independent public accountant in accordance with the Generally Accepted Accounting Principles (GAAP) and audited in accordance with the Generally Accepted Government Auditing Standards (GAGAS). The compliance audit and financial statement audit may be performed by different auditors. However, the audits must be submitted as one package.

In cases where the school's fiscal year does not coincide with an award year, the school's compliance audit will cover parts of two award years (see example below).



State and Accrediting Agency Roles

Accrediting agency role & requirements for recognition

The goal of accreditation is to ensure that education provided by postsecondary educational institutions meets an acceptable level of quality. The Department recognizes agencies that meet established criteria, and such recognition is a sign that an agency has been determined to be a reliable authority on the quality of the institutions or programs the agency accredits.

An accrediting agency can be recognized by the Department for institutional or programmatic accreditation. An institutional accreditation agency accredits an entire institution. A programmatic accrediting agency accredits specific educational programs, departments, or schools within an institution.

An agency must have standards that effectively address the quality of a school or program in the following areas:

- success with respect to student achievement in relation to mission, including, as appropriate, consideration of course completion, state licensing examination, and job placement rates;
- curricula;
- faculty;
- facilities, equipment, and supplies;
- fiscal and administrative capacity as appropriate to the specific scale of operations;
- student support services;
- recruiting and admissions practices, academic calendars, catalogs, publications, grading, and advertising;
- measures of program length and the objectives of the degrees or credentials offered;
- record of student complaints received by, or available to, the agency;
- record of compliance with the school's FSA program responsibilities, based on items such as default rate data and the results of compliance audits and program reviews and any other information that the Department may provide to the agency; and
- any additional accreditation standards the accrediting agency deems appropriate.

There are many additional statutory requirements a national accrediting agency must meet to qualify for recognition. For example, an accreditation agency must:

- consistently apply and enforce standards for accreditation that ensure that the education or training offered by an institution or program, including any offered through correspondence or telecommunications, is of sufficient quality to achieve its stated objectives for the duration of the school's accreditation period;
- perform, at regularly established intervals, on-site inspections and reviews of institutions of higher education (that may include unannounced site visits) with particular focus on educational quality and program effectiveness;
- agree to submit any dispute involving the final denial, withdrawal, or termination of accreditation to initial arbitration prior to any other legal action; and
- if it is an institutional accrediting agency, maintain adequate substantive change policies that ensure that any substantive change to the educational mission, program, or programs of an institution after an agency has accredited or preaccredited the institution does not adversely affect the capacity of the institution to continue meeting the agency's standards

Information and a complete list of agencies recognized by the Department can be found at
www.ed.gov/admins/finaid/accred/index.html
Agency standards cite: Sec 496(a)(5) of the HEA; 34 CFR 602.16.

State role

The Higher Education Amendments of 1998, Public Law 105-244, require that each state (through at least one state agency) must:

- furnish the Department, upon request, with information regarding licensing and other authorization for a school to operate in that state;
- promptly notify the Department of revocations of licensure or authorization; and
- promptly notify the Department of credible evidence that a school has committed fraud in the administration of the FSA programs or has substantially violated a provision of the HEA.

Rescinding the waiver

The Department rescinds a waiver if the school:

- disburses $200,000 or more of FSA program funds for an award year;
- undergoes a change in ownership that results in a change of control; or
- becomes the subject of an emergency action or a limitation suspension, fine, or termination action initiated by the Department or a guaranty agency.

90/10 Disclosure

At the end of the waiver period, *for each individual year in the waiver period* (in accordance with 34 CFR 668.23(d)(4)), the auditor for a proprietary school must disclose whether the school met the 90/10 requirement of 34 CFR 600.5 and the conditions of institutional eligibility in 34 CFR 600.7 and 34 CFR 600.8(e)(2).

The school must also submit a financial statement audit for the last year of the waiver period.

See *Chapter 3* for more information about the 90/10 calculation

Waivers of the FSA audit requirement

A school may request a waiver of the annual audit requirement for up to three years if it disburses less than $200,000 dollars a year in FSA funds (and meets other regulatory conditions in 34 CFR 668.27). If such a waiver is approved, at the end of the waiver period the school must submit a compliance audit covering each individual fiscal year in the waiver period and a financial statement audit for the last year of the waiver period.

The regulations do *not* waive the requirement that a school audit its administration of the FSA programs; they waive the requirement that these audits be submitted on an annual basis. Therefore, if a school is granted a waiver for three years, when the waiver period expires and the school must submit its next compliance audit, that audit must cover the institution's administration of the FSA programs since the end of the period covered by its last submitted compliance audit. In that audit, the auditor must audit, and attest to, the institution's annual 90/10 determination for the waived period.

This exception to the annual audit requirement may not be granted for the award year preceding a school's required recertification.

If the Department grants the waiver, the school does not have to submit its compliance or audited financial statement until six months after—

- the end of the third fiscal year following the fiscal year for which the school last submitted a compliance audit and audited financial statement; or
- the end of the second fiscal year following the fiscal year for which the school last submitted compliance and financial statement audits if the award year in which the school will apply for recertification is part of the third fiscal year.

A school's waiver request may include the fiscal year in which that request is made, plus the next two fiscal years.

A school remains liable for repaying any FSA funds it improperly expends during the waiver period. A compliance audit is the vehicle for discovering improper expenditures. Therefore, a school will be required to pay any liabilities when the school eventually submits a compliance audit for the fiscal years in which it made improper expenditures.

Qualifying for waiver

To qualify for a waiver, a school must demonstrate that it:
• is not a foreign school;
• disbursed less than $200,000 in FSA program funds during each of the two completed award years prior to the audit period;
• agrees to keep records relating to each award year in the unaudited period for two years after the end of the regular record retention period for the award year;
• has participated in the FSA programs under the same ownership for at least three award years preceding the school's waiver request;
• is financially responsible under the general requirements of financial responsibility, and does not rely on the alternative standards and requirements of exceptions to participate in the FSA programs;
• is not receiving funds under the reimbursement or cash monitoring system of payment;
• has not been the subject of a limitation, suspension, fine or termination proceeding, or emergency action initiated by the Department or a guaranty agency in the three years preceding the school's waiver request;
• has submitted its compliance audits and audited financial statements for the previous two fiscal years, and no individual audit disclosed liabilities in excess of $10,000; and
• submits a letter of credit in the amount as determined below, which must remain in effect until the Department has resolved the audit covering the award years subject to the waiver.
For purposes of this section, the letter of credit amount is 10% of the total FSA program funds the school disbursed to or on behalf of its students during the award year preceding the school's waiver request.

Examples of effects of waivers

Example 1: The school is still required to have its administration of the FSA programs audited for the waiver period. If a school is granted a waiver for three years, when the waiver period expires, the next audit must cover the school's administration of the FSA programs since the end of the period covered by its last submitted compliance audit. For example, if a school's fiscal year coincides with an award year (July 1–June 30), it submits a compliance audit for its fiscal year that ends on June 30, 2004, and then receives a waiver so that its next compliance audit is due six months after the end of its 2006–2007 fiscal year. When it submits that audit, it must cover the 2004–2005, 2005–2006, and 2006–2007, fiscal years.

Example 2: If a school's fiscal year ends June 30, 2007 and the school receives a waiver on May 1, 2007, the next compliance audit is due six months after the end of the school's 2009-2010 fiscal year.

Submission dates cite
34 CFR 668.23(a)(4)

Submission dates for FSA audits

A school's or servicer's annual compliance and financial statements audits performed under the *Audit Guide* must be based upon the fiscal year and submitted to the Department within six months after the end of the school's or servicer's fiscal year. (These requirements do not apply to audits performed under the Single Audit Act that are due as specified in OMB Circular A-133.)

The following chart lists audit due dates and the period the audit must cover for audits due in 2008 and 2009. (The chart provides information for the most common institutional fiscal-year-end dates.)

Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the FSA programs. Each subsequent audit must cover the period since the end of the period covered by the preceding audit that is accepted by the Department.

Audit submission due dates

School's fiscal year end date	*Both audits due*	*Period audited (financial and compliance)*
Sept 30, 2008	March 31, 2009	Oct 1, 2007 through Sept 30, 2008
Dec 31, 2008	June 30, 2009	Jan 1, 2008 through Dec 31, 2008
March 31, 2009	Sept 30, 2009	April 1, 2008 through March 31, 2009
June 30, 2009	Dec 31, 2009	July 1, 2008 through June 30, 2009

School's fiscal year end date	*Both audits due*	*Period audited (financial and compliance)*
Sept 30, 2009	March 31, 2010	Oct 1, 2008 through Sept 30, 2009
Dec 31, 2009	June 30, 2010	Jan 1, 2009 through Dec 31, 2009
March 31, 2010	Sept 30, 2010	April 1, 2009 through March 31, 2010
June 30, 2010	Dec 31, 2010	July 1, 2009 through June 30, 2010

FSA compliance audit submission requirements

Compliance audits must be conducted in accordance with:

- the general standards and the standards for compliance audits contained in the U.S. General Accountability Office's (GAO's) Government Auditing Standards; and
- applicable audit guides from the Department's Office of the Inspector General.

In conducting an audit, a for-profit school or servicer and its auditor should use the latest *Audit Guide* for FSA schools, the accounting and recordkeeping manual for the FSA programs (known as *The Blue Book*), and the *G5 Users Guide*, as applicable.

The independent auditor or auditing firm the school or servicer uses for its required nonfederal audit may be the same one that usually audits the school's or servicer's fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of FSA funds.

The Department may require a school to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, other federal agencies, or accrediting agencies.

Financial statements must use accrual basis & GAAP standards

Financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP), and audited by an independent auditor in accordance with GAGAS and other guidance contained in OMB Circular A-133, or in the Department's ***Audit Guide*** (for FSA school audits).

FSA audited financial statement requirements

A school's audited financial statement must cover the school's most recently completed fiscal year. The Department uses the information in a school's audited financial statement to evaluate the school's status *vis-a-vis* the financial standards (see *Chapter 11*). In addition to a school's audited financial statement, the Department may require that the school submit additional information. For example, the Department may require a school to submit or provide access to the auditor's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, the Department can require a school to submit audited financial statements more frequently than once a year.

FSA consolidated statements

In some cases, a school's relationship with another entity may cause the Department to require a school to submit additional financial statements both of the school and the entity, such as audited consolidated financial statements; audited full consolidated financial statements; audited combined financial statements; or, under certain circumstances, audited financial statements of one or more related parties. This occurs when the Department determines that the activities or financial health of another entity may impact upon the school's total financial health. So that the Department can make this determination, a school must include in its audited financial

90/10 Rule cite
34 CFR 600.5 and
34 CFR 668.23(d)(4)

Circular A-133 & the Single Audit Act
Office of Management and Budget (OMB) Circular A-133 was issued pursuant to the Single Audit Act of 1984. The Single Audit Act was amended in 1996—the current requirements are found in Chapter 75 of title 31, U.S. Code.

Circular A-133 is titled "Audits of States, Local Governments, and Nonprofit Organizations " and is applicable to nonprofit postsecondary schools, states, local governments, and Indian tribal governments. For many schools, this is a combined audit of all the federal programs at that school. OMB circular A-133 is available through the OMB Home Page at

www.whitehouse.gov/omb/circulars/index.html

or by calling OMB's Publication Office at

(202) 395-3080.

Annual financial statement
Section 487(c) of the HEA provides that all schools participating in the federal student aid programs must submit *annual financial statements* to the Department. This applies to all schools, including non-profit schools that are otherwise exempt from submitting annual audited financial statements under the A-133 standards.

Federal Audit Clearinghouse
Nonprofit and public institutions submit their A-133 audits to—
Federal Audit Clearinghouse
Bureau of the Census
1201 East 10th Street
Jeffersonville, Indiana 47132

statements a detailed description of related entities based on the definition of a related entity in the *Statement of Financial Accounting Standards* (SFAS) 57. In addition, the description must include all related parties and a level of detail that would enable the Department to readily identify the related party. This information may include, but is not limited to, the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the school, financial or otherwise, regardless of when it occurred.

Required disclosure of 90/10 revenue test

A proprietary school must disclose the percentage of its revenues derived from the FSA programs that the school received during the fiscal year covered by the audit as a footnote to its audited financial statements. The calculation of this percentage and the funds included must be arrived at using the *cash basis of accounting*. A school that converts from a for-profit to a nonprofit status must report its compliance with the 90/10 revenue test for the first year after its conversion. Guidance on footnote disclosures can be found in the *FSA Audit Guide*, in 34 CFR 600.5, and in appropriate accounting references. Information regarding the calculation of this percentage (the 90/10 Rule) is found in *Chapter 3*.

Single Audit Act & A-133 audit guidelines

In lieu of audits performed under the *FSA Audit Guide,* some schools are required to have audits performed under the guidelines of the Single Audit Act (also known as "A-133 Audits" because the guidelines for the audits are provided in OMB Circular A-133). Audits performed under the Single Audit Act satisfy the Department's audit requirements.

Audits performed under the Single Audit Act have distinct auditing and submission requirements and must be submitted to the Federal Audit Clearinghouse. (A copy of the audit must also be submitted to the Department through the eZ-Audit Web site.) A school submitting an audit under the guidelines of the Single Audit Act must use the submission deadlines established by the Single Audit Act.

Under the requirements of Circular A-133, a school that expends less than $500,000 of federal funds during a fiscal year is exempt from submitting an annual A-133 audit. (The former criteria of $300,000 was increased for fiscal years ending after December 31, 2003.) However, a school that spends less than $500,000 in all federal funds is still required to submit a financial statement to the Department within 6 months after the close of its fiscal year. The financial statement does not have to be audited by a CPA, and may be created as compiled or reviewed statements. If the school has prepared a set of audited financial statements for its own use, or for another entity, the school must submit those audited financial statements to the Department no later than 6 months after the end of the institution's fiscal year.

Circular A-133 permits the submission of program-specific audits if an entity expends funds in only one federal program *and* the program's regulations do not require a financial statement audit. The FSA program regulations require a financial statement audit. Therefore, *a school may not submit a program-specific audit to satisfy the Department's audit submission requirements.*

Circular A-133 also now allows an independent auditor to use professional judgment to determine whether certain federal programs must be included in the scope of an audit. An independent auditor can exclude certain program components, such as FSA program funds, if they fall below a predetermined dollar and risk threshold.

The independent auditor must make an annual assessment of the dollar and risk conditions, determine whether such exclusions are appropriate, and whether any FSA programs must be included within the scope of the audit. You can find additional information on this topic in the latest Compliance Supplement to Circular A-133.

Third party servicers

Guidance for audits of third-party servicers is found in the January 2000 Department of Education's "Audit Guide, Audits of Federal Student Aid Programs at Participating Institutions and Institution Servicers."

Citations:
34 CFR 668.23(a)(3) and (c)
34 CFR 668.23(d)(5)

Having the audit performed

The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in *Chapter 9*.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

Audits for third-party servicers

Audit requirements also apply to third-party servicers. If a servicer contracts with several FSA schools, a single compliance audit can be performed that covers its administrative services for all schools. If a servicer contracts with only one FSA school and that school's own audit sufficiently covers the functions performed by the servicer, the servicer does not have to submit a compliance audit. A servicer must submit its compliance audit within six months after the last day of the servicer's fiscal year. The Department may require a servicer to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

In addition to submitting a compliance audit, a servicer that enters into a contract with a lender or guaranty agency to administer any aspect of the lender's or guaranty agency's programs must submit annually audited financial statements. The financial statements must be prepared on an **accrual basis** in accordance with GAAP and audited by an independent auditor in accordance with GAGAS and any other guidance contained in audit guides issued by the Department's Office of the Inspector General.

If the Department determines that, based on audit findings and responses, a third-party servicer owes a liability for its administration of the FSA programs, the servicer must notify each school that it contracts with of the liability. Generally, unless they submit an appeal, schools and servicers owing liabilities must repay those liabilities within 45 days of being notified by the Department.

A school may never use a third-party servicer's audit in place of its own required audit, because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers. (See *Chapter 3* for more information on third-party servicers.)

eZ-Audit applicability

This requirement applies to any compliance audits or financial statements required under 34 CFR 600.20(a) or (b) to begin or continue participating in the FSA programs, any financial statements required due to a change in ownership resulting in a change in control as provided under 34 CFR 600.20(g), any compliance audits and financial statements required annually under 34 CFR 668.23, and any compliance audits and financial statements required when a school ceases to participate in the FSA programs as provided under 34 CFR 668.26(b).

Information about eZ-audit

Web site: **http://ezaudit.ed.gov**
E-mail contact: **fsaezaudit@ed.gov**
eZ-Audit Help Desk: **877-263-0780.**

Cooperation with audit & review process

Throughout the audit process, and for other examinations such as program reviews and state reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the United States, the appropriate guaranty agency and accrediting agency.

At the end of the on-site review, the auditor conducts an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but it also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. The exit interview is a good time to resolve any disagreements before the final report is prepared.

The final report is prepared by the auditor and submitted to the school or servicer.

Review of FSA audit submissions

The Department reviews the audit report for format, completeness, and to ensure that it complies with the government's auditing standards.

We will use the general information to make an initial determination of whether the audits are materially complete and conducted in accordance with applicable accounting standards. Based on the financial data, we will also make a preliminary determination as to whether your school is financially responsible with respect to the financial responsibility ratios, or in the case of a change in ownership resulting in a change in control, whether the school satisfies the financial ratio requirements (see *Chapter 11*). Later, the Department will review submissions to determine whether the school must provide additional information or ED should take further action.

Based on the audit findings and the school's or servicer's written explanation, the Department will determine if any funds were spent improperly. Unless the school or servicer has properly appealed the decision, the school or servicer must repay any improperly spent funds within 45 days.

Access to records

Once the audit is complete, the school or servicer must give the Department and the OIG access to all records and documents needed to review the audit. A school that uses a third-party servicer must give the Department and the OIG access to all records and documents needed to review a third-party servicer's compliance or financial statement audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will give the Department and the OIG access to the records and documents related to the audit, including work papers. Cooperation includes providing timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.

eZ-Audit

eZ-Audit is a Web-based application launched by the Department on April 1, 2003. It provides a paperless single point of submission for financial statements and audits (i.e., compliance reports). **eZ-Audit** provides automatic error checking as you enter the data and before submission. In addition, it gives you instant acknowledgment of receipt.

Since June 16, 2003, all schools that participate in the Federal Student Aid Programs have been required to submit financial statements and compliance audits to FSA electronically through the eZ-Audit process (including copies of the A-133 reports that nonprofit and public institutions file with the Federal Audit Clearinghouse).

Nonprofit and public institutions are still required to submit their A-133 audits in writing to the Federal Clearinghouse.

The eZ-Audit process

To access the eZ-Audit Web site you must be a registered user. Each school must select an eZ-Audit Institution Administrator who will be responsible for managing your school's access to the eZ-Audit Web site. This Institution Administrator will receive the user name and password necessary for your school's access, and will be responsible for granting access to others you name as additional users.

Each registered user must sign and retain the eZ-Audit Rules of Behavior. (For registration instructions and to download the Rules of Behavior. Please visit **ezaudit.ed.gov**).

Once you have obtained your school ID, you will access the appropriate page on the Audit Web site, and —

1. enter general information about your school's compliance audit and financial statement;
2. enter specific financial data directly from its audited financial statement; and
3. attach authentic electronic copies of the audit originals.

After you have entered the required information, you must attach a copy of the audit prepared and signed by the independent auditor. The copy must be in a PDF, non-editable format created using Adobe Acrobat version 5.0 or higher.

Program Reviews

The Department gives priority in program reviews to schools that meet criteria specified in the law as follows:
- a school has a high cohort default rate or dollar volume of default;
- a school has a significant fluctuation in Pell Grant awards or FSA loan volume, that is not accounted for by changes in the programs
- a school is reported to have deficiencies or financial aid problems by the appropriate state agency or accrediting agency;
- a school has high annual dropout rates; and
- it is determined by the Department that the school may pose a significant risk of failing to comply with the administrative capability or financial responsibility requirements.

In addition, the Department is required to:
- establish guidelines designed to ensure uniformity of practice in the conduct of program reviews;
- make copies of all review guidelines and procedures available to all participating schools;
- permit schools to correct administrative, accounting, or recordkeeping errors if the errors are not part of a pattern and there is no evidence of fraud or misconduct; and
- inform the appropriate state and accrediting agency whenever it takes action against a school.

PROGRAM REVIEWS

The Department conducts program reviews to confirm that a school meets FSA requirements for institutional eligibility, financial responsibility, and administrative capablity.

A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews are not conducted annually at every school. Priority is given to schools that meet certain criteria as specified in the law.

During a program review, Department reviewers evaluate the school's compliance with FSA requirements, assess liabilities for errors in performance, and identify actions the school must take to improve its future administrative capabilities. The reviewers will:

- analyze the school's data and records and identify any weaknesses in the school's procedures for administering FSA funds;
- determine the extent to which any weaknesses in the school's administration of FSA funds may subject students and taxpayers to potential or actual fraud, waste, and abuse;
- identify corrective actions that will strengthen the school's future compliance with FSA rules and regulations;
- quantify any harm resulting from the school's impaired performance and identify liabilities where noncompliance results in loss, misuse, or unnecessary expenditure of federal funds; and
- refer schools for administrative action to protect the interests of students and taxpayers, when necessary.

Scope of the review

A program review may be either a general assessment review or a focused review. A general assessment review is the most common type of review and is normally conducted to evaluate the school's overall performance in meeting FSA administrative and financial requirements. A focused review is normally conducted to determine if the school has problems with specific areas of FSA program compliance.

For general assessment and some focused reviews, the review team will identify students whose files will be reviewed. In general, a review sample consists of 15 randomly selected students from each award year under review. The academic file, student account ledger, student financial aid file, and the admissions file for each student in the review sample will be analyzed.

Reviewers will also examine institutional records that are not specific to individual students. These records include required policies and procedures, fiscal records, and consumer information (i.e. the school's Web site, school catalog(s), pamphlets, etc.).

It may be necessary for the reviewer to conduct interviews with school officials including academic or education personnel or the Registrar, admissions personnel, financial aid personnel, fiscal office personnel, placement officer, and/or campus security personnel. In addition, the reviewer may interview students.

Notification of the review

Most reviews are announced up to 30 days prior to the review by a telephone call to the President and financial aid administrator. The school is also sent written notice of the review and is asked to provide relevant materials prior to the start of the review (i.e., policies and procedures, consumer publications, a list of FSA recipients, etc.). The school will also be expected to make other records available on-site at the start of the review. In some cases, notice for the review is given the day before the review (via overnight delivery or fax), the morning of the review (via fax), or at the time the review team arrives at the school.

Schools are required to cooperate with the Department in the event of a program review and provide unrestricted access to any and all information requested to conduct the review. Failure to provide this access to the program review team may lead to an adverse administrative action.

Entrance and exit/status conference

The review team will hold an entrance conference with school officials at the beginning of the review. The purpose of the entrance conference is to provide school officials with information about the review and the program review process, and for reviewers to learn how Federal Student Aid is processed at the school.

The review team will hold an exit or status conference at the end of a program review. The purpose of the exit conference is to inform school officials about the next steps in the process, summarize preliminary findings, advise school officials of any immediate changes that must be made, and/or provide details of any remaining outstanding items. If the fieldwork is not complete or the data has not been fully analyzed, a status meeting is conducted. A return visit may be necessary or an exit conference may be conducted via telephone after further analysis is completed.

Written report

The program review team prepares a written report after completion of the review. In most instances, this report will be sent to the school within approximately 60 days of the review. The school may

Location of the review

Program reviews are typically conducted at the institution. However, in some circumstances institutions are asked to submit copies of selected records to the Department for review at its offices, and interviews are conducted via telephone rather than in person.

Administrative subpoena authority

The Amendments of 1998 give the Department the authority to issue administrative subpoenas to assist in conducting investigations of possible violations of the provisions of FSA programs. In addition, the law authorizes the Department to request the Attorney General to invoke the assistance of any court of the United States for purposes of enforcing a subpoena if necessary.

Administrative subpoena authority cite:
Sec. 490A of the HEA

Access to records

Access includes the right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or the presence of the school's or a servicer's tape recorder.
Access and examination cite
34 CFR 668.24(f)

Case Management

Case management is the Department's approach to oversight of schools that participate in the FSA programs. School Participation Management conducts program reviews, reviews compliance audits and financial statements, reviews recertification applications, and provides the Department with a picture of a school's overall compliance through the use of School Participation Teams.

FSA's School Eligibility Channel (SEC) coordinates the case management approach. School Participation Teams are staffed by personnel in the regions and in Washington, DC, and each is assigned a portfolio of schools. Each team is responsible for oversight functions for the schools in its portfolio. These functions include audit resolution, program reviews, financial statement analysis, recertification, and method of payment.

The entire team will evaluate information on the school from a variety of sources to identify any compliance issues at the school. The team can then assess potential risk to the FSA programs and determine appropriate action. Once appropriate actions are decided upon, the case manager assigned to the school ensures that the recommended actions are taken.

School Participation Teams will collect and review information on a school from many sources including, but not limited to:

- applications for recertification,
- financial and compliance audits,
- state agencies,
- accrediting agencies and licensing boards,
- student complaints, and
- Department databases.

Possible actions

A School Participation Team may decide to take actions that include, but are not limited to:

- renewing full recertification or awarding only provisional certification;
- initiating a program review;
- establishing liabilities;
- developing a strategy for providing technical assistance,
- transferring the school to the cash monitoring or reimbursement payment method (see *Volume 4—Processing Aid and Managing FSA Funds*);
- requiring a letter of credit; and
- referring the school for an enforcement action.

Actions do not always have to be negative. For example, the School Participation Team can recommend a school for participation in the Quality Assurance Program.

The Department will use a system of risk analysis as well as other tools to identify schools with the greatest need for oversight. The Department will use analysis by various Department data systems to generate a risk score for a school. This will enable the Department to target resources to those schools that present the highest risk to the government.

Case management provides the additional benefit of permitting a school to contact one team that will have all information on the school available in one place. (For a list of phone numbers for the regional School Participation Teams, see the "Help" link on the IFAP Web site: **ifap.ed.gov**

respond to this report if it wishes to offer additional information to support its position or if it disagrees with any of the report's findings. When the Department has fully considered the school's response and any additional documentation provided by the school, the Department will send a Final Program Review Determination (FPRD) letter to the school.

Appealing audit and program review determinations

The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a Final Audit Determination Letter and explains the appeals procedures. For a program review, the final determination letter is identified as a Final Program Review Determination Letter 34 CFR Part 668 Subpart H.

Final Program Review Determination (FPRD)

An FPRD is a report that includes each finding identified in the program review report, the school's response, and the Department's final determination. The FPRD may require the school to take further action to resolve one or more of the findings. This action may include making student level adjustments in COD and the G5 payment system, and paying liabilities to the Department, student, or lenders on behalf of the student.

Any funds the school owes as a result of the FPRD, must be repaid within 45 days of the school's receipt of the FPRD unless the school submits an appeal to the Department. The cover letter of the FPRD provides instructions on how to file an appeal. If payment or an appeal is not received within 45 days, the Department may elect to use administrative offset to collect the funds owed.

Reviews conducted by Guaranty Agencies

The FFEL Program regulations require guaranty agencies to conduct program reviews at postsecondary schools. A guaranty agency must conduct biennial (once every two years) on-site reviews of ***at least all schools*** for which it is the principal guaranty agency that have a cohort default rate for either of the two preceding fiscal years that exceeds 20%.

Schools that the Department requires to take specific default reduction measures and schools where the total amount of loans entering repayment in each of those fiscal years does not exceed $100,000 are exempted. Alternatively, a guaranty agency may use its own criteria to select schools for the biennial on-site reviews if the Department approves the agency's proposed alternative selection methodology.

Two copies of the guaranty agency's report are forwarded to the Department, including the school's payment if liabilities were assessed.

A program review conducted by a guaranty agency is similar to a Department program review, consisting of an entrance interview, a review of student records, an exit interview, and a written report. However, the guaranty agency's review will focus on how the school meets FFEL-specific requirements, such as:

- certification of the loan application;
- maintenance of records supporting the student's loan eligibility;
- processing procedures and payment of loan monies; and
- prompt lender notification when the student changes enrollment status, such as complete withdrawal.

Regulations on corrective actions & sanctions

For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions regulations and Section 600.41 of the Institutional Eligibility regulations.

Actions due to program violations or misrepresentation

If a school has violated the FSA program regulations, the Department may (at its sole discretion) allow the school to respond to the problem and indicate how it will correct it. However, if the school has repeatedly violated the law or regulations, or the Department has determined that the violations are egregious, the Department may take an emergency action, fine the school, or initiate a limitation, suspension, or termination of FSA program participation.

Criminal penalties cite

Sec. 490 of the HEA

CORRECTIVE ACTIONS AND SANCTIONS

Sanctions

Sanctions include emergency actions, fines, limitations, suspensions, and terminations (see descriptions on next page). The Department may initiate actions against any school that:

- violates the law or regulations governing the FSA programs, its PPA, or any agreement made under the law or regulations; or
- substantially misrepresents the nature of its educational programs, its financial charges, or its graduates' employability. For details on misrepresentation, see Chapter 6.

In addition, the Department has the authority to terminate a school or program that no longer meets the eligibility criteria given in *Chapter 1*.

Similarly, the Department may also sanction a third-party servicer that performs functions related to the FSA programs. Further, the Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all schools or servicers within the group has violated any of the FSA program requirements or has been suspended or debarred from program participation. (See *Chapters 1* and *3*.)

Criminal penalties

The law provides that any person who knowingly and willfully embezzles, misapplies, steals, obtains by fraud, false statement, or forgery, or fails to refund any funds, assets, or property provided or insured under Title IV of the Higher Education Act, or attempts to commit any of these crimes will be fined up to $20,000 or imprisoned for up to five years, or both. If the amount of funds involved in the crime is $200 or less, the penalties are fines up to $5,000 or imprisonment up to one year, or both.

Any person who knowingly and willfully makes false statements, furnishes false information, or conceals material information in connection with the assignment of an FSA program loan or attempts to do so, will, upon conviction, be fined up to $10,000 or imprisoned for up to one year, or both. This penalty also applies to any person who knowingly and willfully:

- makes, or attempts to make, an unlawful payment to an eligible lender of loans as an inducement to make, or to acquire by assignment, a loan insured under such part.
- destroys or conceals, or attempts to destroy or conceal, any record relating to the provision of FSA program assistance with intent to defraud the United States or to prevent the United States from enforcing any right obtained by subrogation under this part.

Sanctions & Corrective Actions

Emergency action
The Department may take an emergency action to withhold FSA program funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the Department official must determine that:

- The school is misusing federal funds.
- Immediate action is necessary to stop this misuse.
- The potential loss outweighs the importance of using established procedures for limitation, suspension, and termination.

The school is notified by registered mail (or other expeditious means) of the emergency action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all FSA programs and prohibits the school from disbursing FSA program funds or certifying FFEL applications. The action may not last more than 30 days unless a limitation, suspension, or termination proceeding is initiated during that period. In that case, the emergency action is extended until the proceeding, including any appeal, is concluded. The school is given an opportunity to show cause that the action is unwarranted.

Fine
The Department may fine a school up to $27,500 for each statutory or regulatory violation. In determining the amount of the fine, the Department considers the gravity of the offense, the nature of the violation, and the school's size. The school is notified by certified mail of the fine action, the amount of the fine, and the basis for the action. A school has twenty days from the date of mailing to submit a written request for a hearing or to submit written material indicating why the fine should not be imposed.

Limitation
Under a limitation, the Department imposes specific conditions or restrictions upon a school as it administers FSA program funds. As a result, the school is allowed to continue participating in the FSA programs. A limitation lasts for at least 12 months. If the school fails to abide by the limitation's conditions, a termination proceeding may be initiated.

Suspension
A suspension removes a school from participation in the FSA programs for a period not to exceed 60 days (unless a limitation or termination proceeding has been initiated, or the Department and the school agree to an extension). A suspension action is used when a school can be expected to correct an FSA program violation in a short time.

Corrective action
As part of any fine, limitation, or suspension proceeding, the Department may require a school to take corrective action. This may include making payments to eligible students from its own funds or repaying illegally used funds to the Department. In addition, the Department may offset any funds to be repaid against any benefits or claims due the school.

Termination
A termination ends a school's participation in the FSA programs. A school that has violated the law or regulations governing the FSA programs, its PPA, or any other agreement made under FSA regulations and was terminated from participating in the FSA programs generally may not apply to be reinstated for at least 18 months.

Possibility of reinstatement
A school requesting reinstatement in the FSA programs must submit a fully completed E-App to the Department and demonstrate that it meets the standards in 34 CFR Part 668. As part of the reinstatement process, the school must show that it has corrected the violation(s) on which its termination was based, including repaying all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. The Department may approve the request, deny the request, or approve the request subject to limitations (such as granting the school provisional certification). If the Department approves the reinstatement request, the school will receive a new ECAR and enter into a new PPA.

Notification requirement

34 CFR 600.40

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(d) Except as otherwise provided in this part, if an institution ceases to satisfy any of the requirements for eligibility under this part—

(1) It must notify the Secretary within 30 days of the date that it ceases to satisfy that requirement; and

(2) It becomes ineligible to continue to participate in any HEA program as of the date it ceases to satisfy any of the requirements.

NOTIFYING ED WHEN A SCHOOL'S FSA PARTICIPATION ENDS

A school may stop participating in the FSA programs voluntarily or it may be required to leave involuntarily, as described below. In either situation, there are required closeout procedures to follow (see following section).

In general, a school that ceases to be eligible must notify the School Eligibility Channel within 30 days of its loss of eligibility to participate in the FSA programs. .

Involuntary withdrawal from FSA participation

A school's participation ends in the following circumstances:

- the school closes or stops providing instruction for a reason other than normal vacation periods or as a result of a natural disaster that directly affects the school or its students (see details on next page);
- the school loses its accreditation (see details on next page);
- the school loses its state licensure;
- the school loses its eligibility (see details on next page);
- the school's PPA expires;
- the school's participation is terminated under Subpart G;
- the school's provisional certification is revoked by the Department;
- the school's cohort default rate exceeds allowable limits; or
- the school files a petition for bankruptcy or the school, its owner, or its CEO is responsible for a crime involving FSA funds.

Voluntary withdrawal from FSA participation

For any number of reasons, a school may voluntarily withdraw from participating in one or all of the FSA programs. For instance, a school might wish to withdraw from the Perkins Loan Program to work on lowering high student-loan cohort default rates. To withdraw from one or all of the FSA programs, the school must notify the Department via the electronic application. For more information on these requirements and procedures, contact the appropriate School Participation Team.

A school that withdrew voluntarily (for instance, to lower its default rate) can request to participate again without the waiting period required for a school that was terminated from the program involuntarily or withdrew voluntarily while under a show-cause or suspension order.

Withdrawing from the FSA programs while under a termination order or other sanction—or to avoid being placed under them—is not considered a voluntary withdrawal.

School closes or stops providing instruction

If the school closes its main campus or stops providing instruction on its main campus, its loss of eligibility includes all its locations and programs.

If a school ceases to provide educational instruction in all FSA-eligible programs, the school should make arrangements for its students to complete their academic programs. If the school chooses to enter into a formal teachout arrangement, the school should contact the appropriate School Participation Team for guidance.

School loses primary accreditation

When a school loses its institution-wide accreditation, the Department generally may not certify or recertify that school to participate in any FSA program for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause or after a school has voluntarily withdrawn under a show cause or suspension order. If a school wishes to be reinstated, it must submit a fully completed E-App to the Department.

The Department will not recertify a school that has lost its institution-wide accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. In addition, if a school voluntarily withdrew from accreditation during the last two years under a show cause or suspension order, the Department will not recertify the school unless the original order is rescinded by the accrediting agency. Finally, a school may not be recertified on the basis of accreditation granted by a different accrediting agency during the two-year period.

There are two exceptions to the two-year rule:

1. If the Department determines that loss of institution-wide accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation.
2. If a school's institution-wide accrediting agency loses its Department recognition, the school has up to 18 months to obtain new accreditation.

Note that it is possible for accreditation to be withdrawn from one of the programs at a school without affecting the accreditation (and eligibility) of other programs at the school.

School loses eligibility

A school loses its eligibility to participate in the FSA programs when it no longer meets the requirements of 34 CFR Part 600, certain requirements of Part 668, or when the Department terminates the school under Subpart G of the General Provisions.

Closeout of branch or location

A separate closeout audit is not required if a school closes an additional location or a branch campus because the next due compliance audit for the school must report on the use of FSA program funds at the closed location. However, the school must notify the Department of the additional location or branch closure. See *Chapter 5* for information on reporting information to the Department.

Recovery of loan discharges when branch/location closes

If an additional location or branch of an institution closes and borrowers who attended the school obtain loan discharges by reason of the closure of the location or branch (or improper ATB or loan certifications), the Department will pursue recovery against the larger institution, its affiliates, and its principals. (20 USC 1087(c)(1).

CLOSEOUT PROCEDURES

When participation ends

When a school's participation in an FSA program ends—for whatever reason—the school must immediately notify the Department and comply with the following minimum requirements:

- within 45 days of the effective ending date of participation, submit to the Department all financial reports, performance reports, and other reports required by each appropriate FSA program regulation, as well as a dated letter of engagement for an audit by an independent Certified Public Accountant of all FSA program funds received. The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.
- report to the Department on the arrangements for retaining and storing (for the remainder of the appropriate retention period described in 34 CFR 668.24) all records concerning the school's management of the appropriate FSA programs. (See *Chapter 9*.)
- tell the Department how the school will provide for collecting any outstanding FSA program student loans held by the school.
- refund students' unearned FSA student assistance. (See *Volume 5—Chapter 2*.)

Additional closeout procedures

In addition, a school that closes must refund to the federal government or, following written instructions from the Department, otherwise distribute any unexpended FSA funds it has received (minus its administrative cost allowance, if applicable). The school must also return to the appropriate lenders any loan proceeds the school received but has not disbursed to students. If the school's participation in the Leveraging Educational Assistance Partnership (LEAP) Program ends, the school must inform the state and follow the state's instructions.

Unpaid commitments

If a school's participation ends during a payment period (or enrollment period for FFEL programs), but the school continues to provide education in the formerly eligible program until the end of the payment or enrollment period, the school may use the FSA program funds in its possession to—

- satisfy unpaid Pell Grant or Campus-Based program commitments made to students for that payment period or for previously completed payment periods before the school's participation ended;

Note: The school may request additional funds from the Department to meet these commitments.

- satisfy any unpaid FFEL commitments made to students for that period of enrollment by delivering subsequent FFEL disbursements to the students or by crediting them to the students' accounts (only if the first disbursement already was delivered or credited before the school's participation ended);
- use the FSA program funds in its possession to satisfy unpaid Direct Loan commitments made to students for that period of enrollment before participation ended by delivering subsequent Direct Loan disbursements to the students or by crediting them to their accounts (if the first disbursement already was delivered or credited to the students' accounts before the school's participation ended).

  Note: The school may request additional funds from the Department to fulfill this commitment.

If you need additional information, contact the School Participation Team for your region (see "Contacts" on the Financial Aid Professional portal, **fsa4schools.ed.gov**).

LOSS OF ELIGIBILITY OR WITHDRAWAL FROM LOAN PROGRAMS

If a school is notified that it has lost its eligibility to participate in the Direct Loan or FFEL programs and the school does not intend to appeal the decision, it must immediately inform all current and prospective students of its loss of eligibility. The school must also explain that it can no longer certify Stafford and PLUS loans for students or parents. If the school appeals its loss of eligibility within the required timeframe, the school may continue certifying Stafford and PLUS loans during the appeal process. Once a final decision on the appeal is made, the school must take the actions described in the Department's final appeal determination letter.

A student enrolled at a school that loses eligibility or discontinues participation in the Direct or FFEL programs, can continue to receive interest subsidies if the student enrolls and remains enrolled at an eligible school.

If a school plans to withdraw from participation in the Direct Loan and/or FFEL programs, it must notify the appropriate guaranty agency or agencies (for FFEL schools) and the Department (for schools with either loan program) of its decision in writing. Once the effective date of withdrawal has been established, the school is prohibited from disbursing loan funds to the student. However, if your school made a first disbursement to the student before it lost eligibility, it may still be able to make a subsequent disbursement to that student. (See the conditions in 34 CFR 668.26(d).)

Applying to join the QA Program

Schools that are interested in becoming a QA Program participant should contact the QA staff at the following e-mail address — **quality.assurance@ed.gov**

Experimental Sites contact

For further information on the Experimental Sites Initiative, please write the Experimental Sites Team at **ExperimentalSites@ed.gov**

Statutory authority

Quality Assurance Program
Sec. 487A(a) of the HEA
20 U.S.C. 1094a(a)
Experimental Sites Initiative
Sec. 487A(b) of the HEA
20 U.S.C. 1094a(b)

Approved Areas of Experimentation

Experiments involving the following requirements resulted in legislative change:

- Thirty Day Delay (HERA 2006)
- Multiple Disbursement (HERA 2006)
- Ability-to-Benefit (HEOA 2008)

QUALITY ASSURANCE PROGRAM

Under the Quality Assurance (QA) Program, participating schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration and delivery of the FSA programs and services. Its mission is to help schools attain, sustain, and advance exceptional student aid delivery and service excellence.

Schools participating in the QA Program are exempt from certain verification requirements. In exchange, they must develop a school-specific verification program based on data gathered and analyzed from QA Program activities. FSA provides a Web-based software application—the ISIR Analysis Tool (which is described in detail on the following pages)—to help schools analyze how well their verification procedures are working. All schools can benefit from using this software tool; however, only schools participating in the QA Program receive the verification flexibility.

EXPERIMENTAL SITES INITIATIVE

If a school believes that it has a better way to administer aspects of the FSA programs than the methods required by statute or regulation, it may apply to be an experimental site. This partnership between ED and schools encourages them to develop and test alternative approaches to streamline procedures and processes, eliminate delays, and remove administrative barriers for students and staff. Schools participating in this initiative are required to report specific performance data to ED annually on the progress of the experiments.

The Higher Education Opportunity Act continues the authority for the Experimental Sites Initiative. The Department plans to publish a Notice in the *Federal Register* inviting ideas for new experiments, and we encourage all schools to consider submitting proposals after the Notice is published. In the Notice, schools will be asked to design and implement rigorous experiments that include, as appropriate, control and experimental groups to test and measure the alternative interventions. These groups may be within a single school or from one or more other schools. We will also strongly encourage schools to establish consortia of different types of schools that would test the impact of an experiment on as wide a cross-section of the community as possible.

FSA Assessments

The FSA Assessments are intended to help all schools examine and improve operations. The assessments can help you:

1. Anticipate and address problems;
2. Spot-check the systems you are using to manage information;
3. Prepare for your audit or other review;
4. Maximize the efficiency of your staff in handling their duties; and
5. Revise your approaches according to your campus needs, and do so continually.

To enhance their effectiveness, the FSA Assessments include activities to test compliance and procedures. They also are linked to the latest regulations, Blue Book, Dear Colleague Letters, Federal Registers, and other related documents. Downloadable Microsoft Word documents include the hyperlinks as well.

The Policies and Procedures assessment is a new addition to the FSA Assessments. It helps schools create new policies and procedures, or cross-reference with documents that include policies and procedures.

FSA Assessments can be found under "Tools for Schools," on the IFAP site (**ifap.ed.gov**). At the end of each assessment you will find links to:
• Management Enhancements (for dealing with areas that need improvement), and
• Policies and Procedures (for developing new or evaluating existing policies and procedures.

The FSA Assessments currently available are

- Student Eligibility
- Satisfactory Academic Progress
- FSA Verification
- Institutional Eligibility
- Default Prevention & Management
- Consumer Information
- Fiscal Management
- Return of Title IV Funds
- Perkins Due Diligence
- Perkins Repayment
- Perkins Cancellation
- Perkins Awarding & Disbursement
- Perkins Forbearance & Deferment
- Federal Work-Study
- FSEOG
- Automation
- Policies and Procedures

ISIR ANALYSIS TOOL

The ISIR Analysis Tool is-a Web-based application that analyzes FAFSA data reported on the ISIR. A school uses the information to fine tune its own institutional verification procedures.

The ISIR Analysis Tool compares initial and paid-on ISIR transactions to determine if changes in student reported information had an impact on EFC and Pell eligibility. Users upload initial and paid-on records from FSA's ISIR Datamart into a database in the ISIR Analysis Tool. Users can construct queries, develop custom formats, and field increments to obtain data from the tool that can help identify problematic areas, zeroing in on specific EFC ranges, data elements, and populations. This data can help a school customize its verification procedures and consumer information provided to students and parents. In addition, the data can identify sections of the FAFSA that may be most confusing to applicants and their families. Such information can help FSA improve verification selection criteria through the Central Processing System
.
The ISIR Analysis Tool provides a full complement of report and analytical capabilities utilizing state-of-the-art Web technology. The reports generated from the ISIR records can help a school identify groups of students for whom CPS edits are missing and develop discretionary verification procedures that focus on students making changes that affect the EFC and Pell eligibility.

To use the ISIR Analysis Tool, your school must enroll in FAA Access to CPS Online. For more information, please refer to:
www.fsawebenroll.ed.gov

For additional guidance about using the ISIR Analysis Tool, a school should use the resources available at:
ifap.ed.gov/qahome/guidance.html.

CHAPTER 1

Academic Calendar, Payment Periods & Disbursements

Award limits are generally connected to a period of time and to credit or clock-hours attended. For instance, all of the programs except Federal Work-Study have a maximum amount that can be awarded for an academic year or award year. Measurement of time is important for another reason. In most cases, awards from the Federal Student Aid (FSA) programs must be paid in at least two installments. For most programs, the amount and timing of the payments is based on the academic terms or payment periods in the program.

ACADEMIC YEAR REQUIREMENTS

Every eligible program, including graduate programs, must have a defined academic year. The academic year is used to determine the student's eligibility for FSA Pell Grant and Stafford loan awards.

A school may have different academic years for different academic programs. For example, a school may choose to define the academic year for a term-based program differently from a nonterm program. In some cases the definition *must* be different, such as in the case of a clock-hour program and a credit-hour program. For FSA purposes, the academic year is defined in weeks of instructional time and for undergraduate programs in credit or clock hours. The program's academic year does not have to coincide with a program's academic calendar.

A school may treat two versions of the same academic program (day and night, for example) as separate programs and define different academic years for each version. If your school establishes separate versions of a program, with different academic years, but allows individual students to take courses from both versions, your school must be able to demonstrate which program the student is actually enrolled in. Generally, to be considered enrolled in a particular program or version of a program, a student must be taking at least 50% of his or her coursework in that program.

Although a school may have different academic years for different programs, it must use the same academic year definition for **all** FSA awards for students enrolled in a particular program, and for all other FSA program purposes.

CHAPTER 1 HIGHLIGHTS

Academic Year requirements
Academic calendars & terms
Payment Periods
Grant and Perkins Loan programs
- Standard and nonstandard terms
- Clock-hour and nonterm credit-hour

FFEL and Direct Loan programs
- Standard terms and substantially equal nonstandard terms
- Clock-hour, nonterm credit-hour, and nonstandard terms not substantially equal in length

"Successfully complete"
"Substantially equal" terms
Clock-hour/Credit-hour conversion
Direct Assessment payment periods
Disbursement Issues *NEW*
(imported from Volume 4)
Payment Period completion requirements
NEW (imported from Volume 4)
Timing of disbursements *NEW*
(imported from Volume 4)

Related topics

Payment periods when student reenters a program after withdrawing—see Volume 5, Chapter 2.
Annual loan limit progression--see Volume 3, Chapter 6.

FSA Assessments

To assess your school's compliance with the provisions of this chapter see the FSA Assessment module for "Institutional Eligibility," at:
FSA Assessment: Fiscal Management (All Programs) http://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html

Citations

Award Year: 34 CFR 600.2
Academic Year: 34 CFR 668.3
Payment Period: 34 CFR 668.4
Weeks of instructional time: 34 CFR 668.3(b)
Weeks of instructional time are used in the Pell, and Stafford calculations (Chapters 3 and 6 of this Volume).

Note that the Department has not set a regulatory standard for the number of hours of instructional time that make up one day of instruction. This has been left to the reasonable interpretation of schools and their accrediting agencies.

Reductions in academic year length

Schools that provide 2- or 4-year associate or baccalaureate degree programs may apply to ED if they want to establish a full academic year of less than 30 weeks of instructional time. ED is permitted to grant a reduction for good cause to no less than 26 weeks of instructional time. For further details on submitting such a request, see 34 CFR 668.3 (c) & HEOA Section 481.

Weeks of instructional time in an academic year

An academic year for a credit-hour or direct assessment program must be defined as at least 30 weeks of instructional time, and for a clock-hour program, at least 26 weeks of instructional time.

The number of weeks of instructional time is based on the period that begins on the first day of classes in the academic year and ends on the last day of classes or examinations. For all FSA programs, a week of instructional time is any period of 7 consecutive days in which at least 1 day of regularly scheduled instruction, examination, or (after the last day of classes) at least 1 scheduled day of study for examinations occurs. Instructional time does not include periods of orientation, counseling, homework, vacation, or other activity not related to class preparation or examination. Therefore, the weeks of instructional time may be less than the number of calendar weeks that elapse between the first day of classes and the last day of classes or examinations.

Credit or clock hours in an academic year

The law and regulations set the following minimum standards for coursework earned by a full-time student in an academic year in an *undergraduate* educational program (including direct assessment programs):

- 24 semester or trimester credit hours or 36 quarter credit hours for a program measured in credit hours; or
- 900 clock hours for a program measured in clock hours

There is no minimum hours component to the definition of an academic year for *graduate and professional* programs. For purposes of FFEL and DL programs, a loan period certified for an academic year in a graduate or professional program would include the weeks of instructional time in the academic year and the hours a full-time student is expected to complete in those weeks. See Chapter 6 for more details on loan limits.

Awards affected when a program does not meet one of the academic year standards

The FSA academic year that a school defines for a program has to meet the regulatory minimums for both clock or credit hours AND weeks of instructional time. In some instances, the academic year may not coincide with the academic calendar of the school. These cases may affect Pell and loan disbursements, and, in FFEL and Direct Loans, annual loan limits and annual loan limit progression.

For example, awards would be affected if a program is an academic year in length in credit or clock hours but not in weeks of instructional time. Also, for a program greater than an academic year in length, awards would be affected if the completion of the credit or clock hours in the program's academic year do not coincide with completing the weeks of instructional time in the academic year.

Counting weeks of instructional time

August						
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	**24**	**25**	**26**	**27**	**28**
29	30	**31**				

September						
			1	**2**	**3**	4
5	6	**7**	**8**	**9**	**10**	11
12	13	**14**	**15**	**16**	**17**	18
19	20	**21**	**22**	**23**	**24**	25
26	27	**28**	**29**	**30**		

October						
					1	2
3	4	**5**	**6**	**7**	**8**	9
10	11	**12**	**13**	**14**	**15**	16
17	18	**19**	**20**	**21**	**22**	23
24	25	**26**	**27**	**28**	**29**	30
31						

November						
	1	**2**	**3**	**4**	**5**	6
7	8	**9**	**10**	**11**	12	13
14	15	**16**	**17**	**18**	**19**	20
21	22	**23**	24	25	26	27
28	29	**30**				

December						
			1	**2**	**3**	4
5	6	**7**	**8**	**9**	**10**	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

This graphic illustrates how you would count weeks of instructional time in a 16-week term where classes are held Monday through Friday. In this hypothetical term, August 1st is a Sunday, and classes begin on August 23rd and end December 3rd, with examinations held December 6th-10th.

Note that the school holds no classes on Labor Day (September 6th) on this calendar, Veterans Day (November 12th), and Thanksgiving break (November 24th-26th). The circles indicate the points at which each of the weeks of instructional time begin. There are 16 weeks of instructional time.

*Note that this example is not meant to illustrate any specific calendar year.

Typical length of standard terms

For additional information on this topic, this issue was addressed in the preamble to the General Provisions regulations published on November 29, 1996 (Federal Register, Volume 61, No. 231, Page 60581).

Credits and nonstandard terms

Remember, just because progress in a program is measured in semester or quarter credits, this does not necessarily mean that the program is offered in semester or quarter terms. Also, even though a school may label a term as a quarter, semester, or trimester it may be considered a nonstandard term for Federal Student Aid purposes if it does not conform to the Federal Student Aid standards for a semester, trimester, or quarter.

Combining terms examples

See the example at the end of this section for guidance on combining concurrent and consecutive terms.

ACADEMIC CALENDARS & TERMS

Schools offer programs with many kinds of academic calendars that differ from the traditional Fall-Spring school year. For purposes of the FSA programs, there are three basic types of academic calendars: standard term, nonstandard term, and nonterm.

Generally, a term is a period in which all classes are scheduled to begin and end within a set time frame, and academic progress is measured in credit hours. However, if these periods overlap within a program, they may not be treated as a term-based program for FSA purposes. Term-based programs can have either standard terms or nonstandard terms.

Standard terms: semesters, trimesters, and quarters

Semesters and trimesters are terms that are generally 14 to 17 weeks long. An academic calendar that uses semesters traditionally has two terms, in the fall and spring, and a trimester academic calendar traditionally has three terms, in the fall, spring, and summer. Academic progress is measured in semester credit hours, and full-time is at least 12 semester credits.

Similarly, quarter terms are approximately 10 to 12 weeks in length and the academic calendar includes three quarters in the fall, winter, spring, and often a summer term. Academic progress is measured in quarter credit hours, and full-time is at least 12 quarter credits.

You may combine shorter terms or modules to meet the requirements of a standard term such as a semester. For example: a program is offered in 8 nonstandard terms, each 6 weeks in length, and students earn 6 quarter credits in each term. You may choose to combine each consecutive pair of nonstandard terms and consider the program to be offered in 4 quarters.

In certain limited cases for academic programs offered in standard terms, a short nonstandard term may be treated as part of one of the standard terms, and the combined terms may be considered to be a single standard term. For example, a program is offered in a calendar consisting of two 15-week semesters and a 4-week intersession. To consider the program as consisting only of semesters, the intersession may be treated as part of one of the two semesters as long as the same treatment is applied for all FSA purposes to all students enrolled in the program. In addition, hours taken in the intersession must count towards a student's enrollment status for the combined term and costs for the intersession must be appropriately included in the cost of attendance.

If you choose not to combine a nonstandard term in this manner, the program must be treated as a nonterm program for FFEL and DL, and a formula 3 program for Pell, ACG/SMART & TEACH. The fact that you did not combine the term does not negate the requirement that a student must be considered for FSA aid if enrolled and eligible in the term.

Nonstandard terms

Nonstandard terms are terms (where all coursework is expected to begin and end within a set period of time) that are not semester, trimester, or quarter terms. In some cases, the terms may be of unequal length, though it is also possible for programs with terms of equal length to be considered nonstandard. For instance, a school could offer a program with six consecutive 5-week modules, with each module counting as a nonstandard term.

Unlike standard terms, the length of the term is not necessarily associated with the type of credit hours awarded. Some nonstandard terms are the length of a semester (14-17 weeks) but award quarter credits. Others are the length of a quarter (10-12 weeks) but award semester credits.

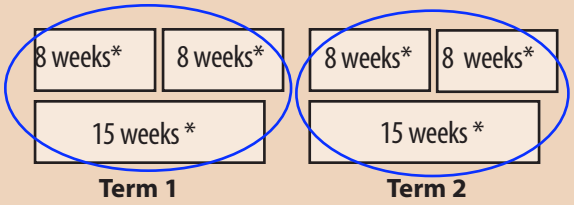
Nonterm characteristics

If a program measures progress in clock hours, it is always treated as a nonterm program. A program that measures progress in credit hours is considered to be using a nonterm calendar if it has:

- courses that do not begin and end within a set period of time;
- courses that overlap terms;
- self-paced and independent study courses that overlap terms; or
- sequential courses that do not begin and end within a term.

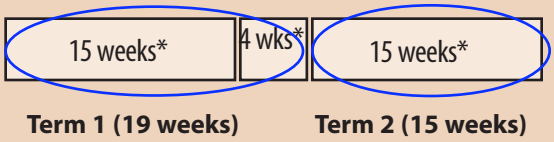
Combining concurrent terms

Clark University offers a program in both 15-week terms and 8-week terms. Clark University combined two 8-week terms with a 15-week term to make each semester; each semester provides 16 weeks of instructional time*.



Combining consecutive terms

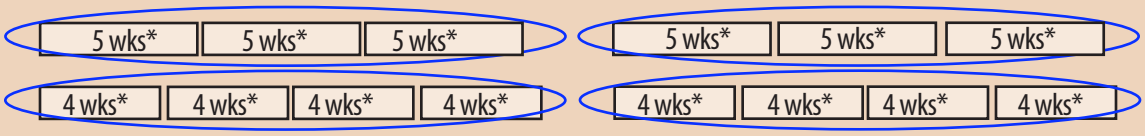
Sanders College offers a separate degree program in education with a short 4-week* term between two 15-week* semesters. The terms don't overlap. Sanders College has defined the academic year for this program as 24 semester hours and 34 weeks of instructional time. Sanders College could combine the short term with one of the standard terms and for purposes of FSA programs treat the program as being offered in two semesters:



Sanders College can also choose not to combine the terms. In this case, the program would have a 4-week term and two semesters. For certain FSA program requirements, this may mean you will treat all terms in a nonstandard term manner, or as part of a nonterm program. For more details, see discussion on previous pages.

Treatment of modules

A school may choose to group modules together and treat the entire period as a term. (For example, grouping three five-week* modules together may create a 15-week* semester; or grouping four one-month modules into a 16-week semester would be acceptable.)



On the other hand, programs that are offered in modules may sometimes be counted as programs measured in nonstandard terms. For example, in a program that offers six 5-week modules, each module could be treated as a nonstandard term. In addition, a school may choose to consider a program that consists of consecutive modules as a nonterm program. Whatever academic calendar your school adopts for a program, you must apply it to all students enrolled in that program and document the program's treatment in your policies and procedures manual.

*Weeks in these examples are weeks of instructional time, as defined earlier in this chapter.

PAYMENT PERIODS

The definition of a payment period is applicable to all FSA programs except FWS. The common definition is integral to requirements for the administration of FSA funds. For example, FSA program disbursements (except FWS payments) must be made on a payment period basis (as discussed later in this chapter).

For clock-hour programs, the payment period is defined not only in clock hours but also in weeks of instructional time. A student must successfully complete the clock hours and weeks of instructional time in a payment period to progress to the next payment period.

For FFEL and Direct Loans, the payment period for clock-hour programs, nonterm credit-hour programs and nonstandard term programs with terms not substantially equal in length are defined in clock or credit hours and weeks of instructional time (as has been the case for the other FSA programs). Previously for such programs, second disbursements in loan periods were based on the calendar midpoint of the academic year. A student must successfully complete the clock hours and weeks of instructional time in a payment period to progress to the next payment period (as has been the case for annual loan limit progression and for grant and Perkins loan payment period progression in clock-hour and nonterm credit-hour programs).

For FSA purposes, you will use either "term-based" payment periods (the payment period is the term), or payment periods based on the completion of credit or clock hours and weeks of instructional time. The payment period you use depends on the kind of academic calendar your school uses, as described below, and the FSA program for which you are disbursing funds.

Programs using standard terms or substantially equal nonstandard terms (term-based)

For credit-hour programs that use standard terms, or that use nonstandard terms that are substantially equal in length (see sidebar), the payment period is the term itself.

Programs with nonstandard terms not substantially equal in length

For purposes of Pell Grants, ACG/SMART, FSEOG Grants and Perkins Loans, if the program uses nonstandard terms, the payment period is the term.

For FFEL and Direct Loans, if a credit-hour program has nonstandard terms that are not substantially equal in length, use the nonterm payment periods described below (under "Clock-hour programs and nonterm programs").

Payment periods

Beginning in the 2008-2009 award year, there were significant changes to the payment period rules:

➔ Definition of payment periods
34 CFR 668.4

Two payment period limit in an academic year or program

Unless you are using terms as payment periods under FSA rules, there are no more than 2 payment periods in the lesser of the program, the academic year, or the remainder of the program.

You may make multiple disbursements within a single payment period, however, schools should note that making multiple disbursements within a payment period does not create a new or additional payment period.

"Successfully Completes"

34 CFR 668.4(h)(1),(2)
A student "successfully completes" credit or clock-hours if your school considers the student to have passed the coursework associated with those hours.

"Substantially Equal"

34 CFR 668.4(h)(1),(2)
For purposes of measuring payment periods in programs offered in nonstandard terms, "substantially equal" means that no term in the program is more than 2 weeks of instructional time longer than any other term in that program. "Not substantially equal in length" means nonstandard terms that have at least 1 term more than 2 weeks of instructional time longer than another in the same program

FFEL/DL payment periods for graduate/professional students (clock-hour, nonterm, etc.)

For a graduate or professional student in a clock-hour or nonterm program, or a program with terms not substantially equal in length, the FFEL/DL payment period is 1/2 of what a full-time student would be expected to complete, in both weeks of instructional time and credit or clock-hours. This policy also relates to annual loan limit progression for graduate or professional students (for more on loan limits, see Chapter 6 of this Volume).

Unable to determine completion of hours in payment period

34 CFR 668.4(c)(3)

If your school is tracking progress by clock or nonterm credit hours, and is unable to determine when a student has successfully completed half of the credit or clock hours in a program, academic year, or remainder of a program, the student is considered to have begun the second payment period of the program, academic year, or remainder of a program at the later of the date (identified by the school) that the student has successfully completed:

1. half of the academic coursework in the program, academic year, or the remainder of the program; or
2. half of the number of weeks of instructional time in the program, academic year, or the remainder of the program.

Clock-hour programs with terms

The payment periods for clock-hour programs that use terms are determined in the same way as for nonterm clock-hour programs. The student must successfully complete all the clock hours in the payment period before receiving any more FSA funds. If a student doesn't complete all the hours scheduled for a term, each payment period still contains the number of clock hours originally scheduled, even if this means that none of the student's succeeding payment periods coincide with the terms.

Clock-hour and nonterm programs

The following types of programs must use payment periods that are based on the time it takes for the student to successfully complete the credit or clock hours and weeks of instructional time in the payment period:

- Nonterm credit-hour programs
- Clock-hour programs
- For FFEL or DL purposes, nonstandard term credit-hour programs with terms not substantially equal in length.

If you are determining the payment periods for a program for which one of the measures (either clock or credit hours or length of instructional time) is less than an academic year and the other measurement is not, the program is considered less than an academic year in length, and you follow the payment period rules for a program that is less than an academic year.

If the program is one academic year or less, the academic year or program is divided into two payment periods. The first payment period is the period in which the student successfully completes ½ the credit or clock hours AND ½ the weeks of instructional time in the program. The second payment period is the period in which the student completes the remainder of the program.

If the program is more than one academic year in length:

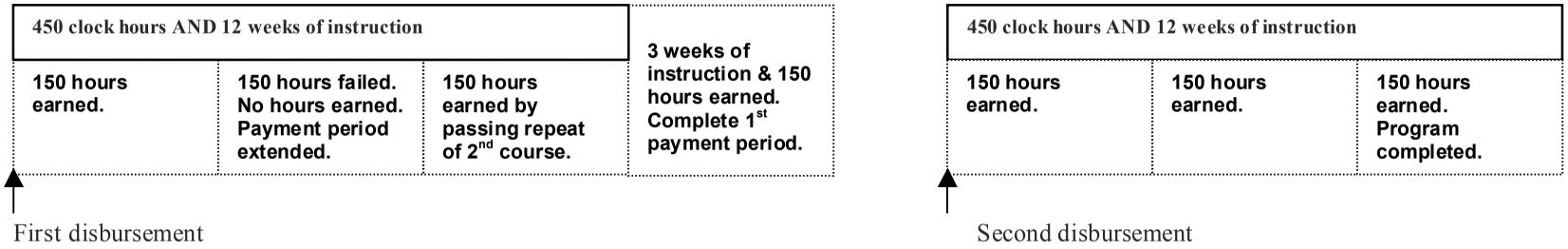
- Use the rule for one academic year (above) for each full academic year in the program.
- For any remaining portion of a program that is ½ an academic year or less, the remaining portion is treated as a single payment period.
- For any remaining portion of a program that is more than ½ an academic year but less than a full academic year, the remaining portion is divided into 2 payment periods and the first payment period is the period in which the student successfully completes ½ of the credit or clock hours AND ½ of the weeks of instructional time in the remaining portion.

Nonterm Example 1: Clock-hour program

A student enrolls in a clock-hour program with an academic year **(AY)** of 900 clock hours and 26 weeks of instructional time. The program is 900 clock hours and 24 weeks of instructional time in length and consists of 6 successive graded courses. Each course has 150 clock hours and is completed over 4 weeks of instructional time. Our student successfully completes all 6 courses except the second course that the student immediately repeats and passes.

In this case the scheduled payment periods are identical for the student's Pell Grant and Stafford loan and are ½ of the length of the program in clock hours and weeks of instructional time: 450 clock hours and 12 weeks of instructional time. However, the first payment period is extended since the first 450 clock hours attended were not successfully completed. The student does not complete the first payment period until after attending for 600 clock hours and 15 weeks of instructional time due to the need to successfully complete the 450 clock hours in the payment period. As a result, the second disbursement date must be rescheduled, and the school will need to report the rescheduled disbursement date for the second disbursement to COD for Pell and Direct Loans or, if appropriate, the FFEL lender.

Payment periods

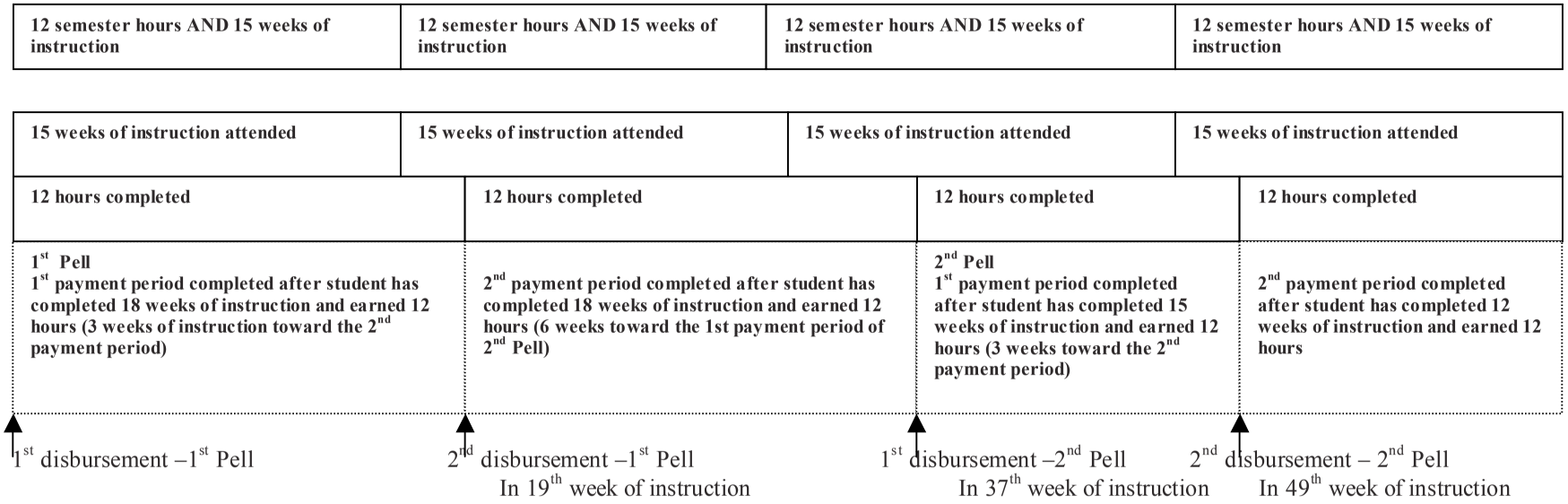


Nonterm Example 2: Work completed fast in 2nd year

Another program with an academic year of 24 semester hours and 30 weeks of instructional time has 48 semester hours and 60 weeks of instructional time. Students in the program are expected to complete the first 24 hours over 36 weeks of instructional time, and the final 24 semester hours in 24 weeks of instructional time. The student completes each of hours 1-12 and 13-24 in 18 weeks of instructional time and each of hours of 25-36 and 37-48 in 12 weeks of instructional time.

For the grant and Perkins Loan programs, by definition, all four payment periods are 1/2 of the defined academic year: 12 hours and 15 weeks of instructional time.

Pell Grant: Payment periods



For Stafford/PLUS, the first loan must be certified for 36 weeks of instructional time to ensure the loan period covers both measures of the FSA academic year. The first loan period will have two payment periods of 12 hours and 18 weeks.

The second loan period, for the balance of the program, will have the same number of semester hours (24), but will be certified for fewer weeks of instructional time (24). Thus, the second loan period is divided into two payment periods of 12 hours and 12 weeks of instructional time. There is no proration of the annual loan limits since the remaining balance of the semester hours equals the semester hours of the academic year.

Nonterm Example 2, continued

Stafford: Payment periods

12 semester hours AND 18 weeks of instruction	**12 semester hours AND 18 weeks of instruction**	**12 semester hours AND 12 weeks of instruction**	**12 semester hours AND 12 weeks of instruction**
18 weeks of instruction attended	**18 weeks of instruction attended**	**12 weeks of instruction attended**	**12 weeks of instruction attended**
12 hours completed	**12 hours completed**	**12 hours completed**	**12 hours completed**
1st loan **1st payment period completed after student has completed 18 weeks of instruction and earned 12 hours**	**2nd payment period completed after student has completed 18 weeks of instruction and earned 12 hours**	**2nd loan** **1st payment period completed after student has completed 12 weeks of instruction and earned 12 hours**	**2nd payment period completed after student has completed 12 weeks of instruction and earned 12 hours**

1st disbursement –1st loan

2nd disbursement –1st loan
In 19th week of instruction

1st disbursement –2nd loan
In 37th week of instruction

2nd disbursement –2nd loan
In 49th week of instruction

Nonterm Example 3: More hours earned in the first academic year

A nonterm, two-year program of 48 semester hours and 60 weeks of instructional time has an academic year of 24 semester hours and 30 weeks of instructional time. Students are expected to complete the first 30 semester hours over 30 weeks of instructional time in the first period of enrollment. They are then expected to complete 18 semester hours in the last 30 weeks instructional, 9 hours in each half of 15 weeks of instructional time.

For the grant and Perkins Loan programs, the payment periods are half of the weeks and half the hours of the FSA academic year: 12 hours and 15 weeks each.

Pell Grant: Payment periods

12 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 15 hours (12 hours for first payment period and 3 toward completing the second payment period)

First disbursement

12 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 15 hours (9 hours for second payment period and 6 toward completing the third payment period)

Second disbursement

12 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 9 hours (6 hours for third payment period and 3 toward completing the fourth payment period)

First disbursement

12 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 9 hours toward completing the fourth payment period and the program

Second disbursement

For Stafford/PLUS, you will certify a loan for the first academic year using start and end dates reflecting the first 30 weeks of instructional time since a student would complete the hours of an academic year within that time. Note that where 6 semester hours in the first period of enrollment would be considered part of the third payment period for grants/Perkins, for Stafford/PLUS, they would be considered as part of the initial BBAY loan period. Thus, for Stafford/PLUS, the second loan period is the remaining balance of the program: 18 hours and 30 weeks of instructional time.

Nonterm Example 3, continued

For the first loan period, the payment periods are 15 hours and 15 weeks of instructional time, i.e., half of the weeks of instructional time and half of the hours the student is expected to complete in the loan period. For the second loan period, the remaining balance of the program is less than an academic year in length based on the hours; however, both hours and weeks of instructional time are greater than ½ of the academic year. Therefore, there are two equal payment periods of 9 hours and 15 weeks of instructional time. Note that the annual loan limits must be prorated for this second period of enrollment by 18/24 based on the semester hours in the loan period and the hours in the defined academic year.

Stafford: Payment periods

15 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 15 hours

First disbursement

15 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 15 hours

Second disbursement

9 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 9 hours

First disbursement

9 semester hours AND 15 weeks of instruction

Completed after student has completed 15 weeks of instruction and earned 9 hours

Second disbursement

Nonstandard Term Example: Terms not substantially equal

For a nonstandard term program, you may have to use different payment periods for Stafford/PLUS loans than the ones you use for FSA grants and Perkins loans. In this example, we show how the payment periods for a Pell Grant and a Stafford Loan can differ in a program that has nonstandard terms that are not substantially equal in length. In this program, the payment periods for Pell Grants are the terms, while the payment periods for the Stafford loan are the nonterm payment periods. A student earns at least 23 semester hours at the end of the 6-week term.

Academic Year =
24 semester hours, 30 weeks of instructional time

Pell Grant: Payment periods are the nonstandard terms (3 disbursements)

12 weeks of instruction	6 weeks of instruction	12 weeks of instruction
▲ 1st Disbursement	▲ 2nd Disbursement	▲ 3rd Disbursement

Stafford: Payment periods are determined by credit hours and weeks (2 disbursements)

12 semester hours AND 15 weeks of instruction	12 semester hours AND 15 weeks of instruction
▲ 1st Disbursement	▲ 2nd Disbursement

Example: Disbursement for part-time student in a nonterm program

The illustration shows the disbursements for a half-time student enrolled in a program of 48 semester credits that a full-time student completes in 60 weeks of instructional time. For this program, the school has defined the academic year as 24 semester credits and 30 weeks of instructional time.

Under the amended regulations, this half-time student would receive second disbursements after completing half of the credit hours AND half of the weeks of instructional time in the academic year. Because the student in the example is a half-time student, it takes the student 30 weeks of instructional time to successfully complete 12 credit hours. The student is eligible for a new loan and a new Pell Grant once the student has successfully completed 24 credit hours and 60 weeks.

First academic year (24 semester hours)

1st Pell disbursement
1st loan disbursement

30 weeks elapsed
Student has completed 12 credits
2nd Pell disbursement
2nd loan disbursement

60 weeks elapsed
24 credits completed
End of first academic year

Second academic year (24 semester hours)

New Pell Grant and loan award begin after student completes 24 semester hours and weeks in first academic year
1st Pell disbursement for 2nd year
1st loan disbursement for 2nd year

30 weeks elapsed in 2nd academic year
Student has completed 36 credits
2nd Pell disbursement for 2nd year
2nd loan disbursement for 2nd year

60 weeks elapsed in 2nd year
48 credits completed
End of program

Nonterm Programs—One Academic Year or Less

In both of these examples, the school defines the academic year for the program as 24 semester hours and 30 weeks of instructional time. The first program is less than an academic year; the second program is a full academic year.

Academic Year = 24 semester hrs & 30 wks of instructional time

Program 1 = 16 semester hours & 20 weeks of instructional time

- 1st payment period - 8 semester hours AND 10 weeks*
- 2nd payment period - 8 semester hours AND 10 weeks*

Program 2 = 24 semester hours & 30 weeks of instructional time

- 1st payment period 12 semester hours AND 15 weeks*
- 2nd payment period - 12 semester hours AND 15 weeks*

Academic Year

Nonterm Programs—More than an Academic Year

In both of these examples, the school defines the academic year for the program as 24 semester hours and 30 weeks of instructional time. The first program is an academic year with a remaining portion less than ½ an academic year; the second program is an academic year with a remaining portion greater than ½ an academic year.

Academic Year = 24 semester hrs 30 wks of instructional time

Program 1 = 30 semester hours and 36 weeks of instructional time

- 1st payment period - 12 semester hours AND 15 weeks*
- 2nd payment period - 12 semester hours AND 15 weeks*
- 3rd payment period - 6 semester hours AND 6 weeks* Since at least one measure is 1/2 or less of the academic year, a single payment period

Program 2 = 40 semester hours and 50 weeks of instructional time

- 1st payment period 12 semester hours AND 15 weeks*
- 2nd payment period 12 semester hours AND 15 weeks*
- 3rd payment period 8 semester hours AND 10 weeks*
- 4th payment period 8 semester hours AND 10 weeks*

Academic Year

*Weeks of instructional time.

PROGRESSION BASED ON COMPLETION OF HOURS AND WEEKS (RATHER THAN TERM-BASED PROGRESSION)

As described in the previous section, there are two cases where you must use credit or clock hours and weeks of instructional time to determine the length of the payment period:

- clock-hour and nonterm credit-hour programs; and,
- for FFEL/DL, programs with terms not substantially equal in length.

For these programs, each subsequent payment period cannot begin until the student successfully completes the credit or clock-hours and weeks of instruction in the previous payment period.

Except for a second or subsequent loan period in FFEL/DL, if a student completes additional weeks of instructional time or hours while completing the other measure of a payment period, these additional weeks or hours count towards completing the next payment period. For FFEL/DL, the first payment period of a second or subsequent loan period includes only the weeks of instructional time and hours that begin on the first calendar day of the new loan period.

Clock-hour payment period progression and weeks of instructional time

Beginning in the 2008-2009 award year, payment period progression in clock-hour programs requires that the student complete both the clock-hours and weeks of instructional time.

Completion requirements

Payment periods: 34 CFR 668.4
Pell Grants: 34 CFR 690.75(a)(3)
FFEL: 34 CFR 682.604(c)(8) and (c)(9)
Direct Loans: 34 CFR 685.301(b) and(b)(6)
TEACH: 34 CFR 686.11
Excused absences: 34 CFR 668.164(b)(3)

Excused absences in clock-hour programs

In a clock-hour program, you are allowed to count a limited number of excused absences when deciding whether the student has completed the hours in a payment period. An excused absence may only be counted if the student is excused from hours that were actually scheduled, were missed and do not have to be made up for the student to receive the degree or certificate for the program.

For instance, a student in a program that has 450-clock-hour payment periods might miss 20 clock hours and only have attended 430 clock hours at the point where 450 clock hours of instruction had been given. If your school has an excused absences policy, and the hours missed are considered excused, this student could be paid the next disbursement.

To be counted for FSA purposes, excused absences must be permitted in your school's written policies. Under FSA regulations, no more than 10% of the clock hours in a payment period may be considered excused absences. If your school's ***accrediting agency*** or the ***state agency that legally authorizes your school to operate*** allows fewer hours to be counted as excused absences, you must follow the stricter standard rather than the FSA standard.

Direct Assessment program payment periods

Because Direct Assessment programs don't use credit or clock hours as measures of learning, you must establish a method to reasonably equate the Direct Assessment program (or Direct Assessment portion of any program) to credit or clock hours for the purpose of determining the payment periods in the program. You must provide a reasonable written description that supports your claim that the program or portion of a program is equivalent to a specific number of credit or clock hours (note that any credits awarded for "life experience" are not counted for FSA purposes).

Once you have established credit or clock-hour equivalencies, Direct Assessment program payment periods are measured in the same manner as other programs, according to the payment period rules described earlier in this chapter.

34 CFR 668.10

Disbursement by Payment Period Required
(except as provided in the discussion following this chart)

Program Type	FFEL and Direct Loan	Pell, ACG/SMART, TEACH, FSEOG, & Perkins Loan
Credit-hour programs offered in standard terms & nonstandard term programs offered in terms that are substantially equal in length.	Term	Term
Credit-hour programs offered in nonstandard-terms that are not substantially equal in length. [2]	The payment period is the **successful completion**[1] of: • half of the weeks of instructional time in the academic year/program less than an academic year; **and** • half of the credit hours in the academic year/program less than an academic year. For the remainder of a program equal to or less than ½ an academic year, the payment period is the remainder of the program.	Term
Clock-hour programs and nonterm credit-hour programs.	The payment period is the **successful completion**[1] of: • half of the weeks of instructional time in the academic year/program less than an academic year; **and** • half of the clock/credit hours in the academic year/program less than an academic year. For the remainder of a program equal to or less than ½ an academic year, the payment period is the remainder of the program.	The payment period is the **successful completion**[1] of: • half of the weeks of instructional time in the academic year/program less than an academic year; **and** • half of the clock/credit hours in the academic year/program less than an academic year. For the remainder of a program equal to or less than ½ an academic year, the payment period is the remainder of the program.

[1] ***Successful completion*** means that the student has earned a passing grade or otherwise received credit for the credits or clock hours in the payment period.
[2] If a program is offered in a combination of standard and nonstandard terms and the program does not qualify to use a "SAY," then for FFEL and Direct Loan purposes, the program is subject to the disbursement requirements that apply to nonstandard programs that are not substantially equal in length.

FFEL/DL Disbursements within a single term/payment period

Unless it qualifies for the special rule based on low cohort default rates (see below), a school must generally make two disbursements of an FFEL or Direct Loan that is certified or originated for a single term or a single payment period:

- For **credit-hour programs offered in standard terms or nonstandard terms that are substantially equal in length with no term less than 9 weeks of instructional time in length**, the second disbursement may not be paid until the calendar midpoint between the first and last scheduled days of class in the loan period.

- For all other programs, including clock-hour and nonterm credit-hour programs, and nonstandard term programs with terms that are not substantially equal or with terms that are substantially equal and less than 9 weeks of instructional time in length, for a remainder of a program equal to or less than ½ an academic year (*or the term if the terms are substantially equal)* the second disbursement may not be paid until the student successfully completes ½ of the weeks of instructional time in the payment period; and ½ of the clock or credit hours in the payment period.

Special rule: Schools with cohort default rates of less than 10% for each of the 3 most recent fiscal years for which data are available, may disburse, in a single installment, loans that are made for: 1 semester, 1 trimester, 1 quarter or loans made for a 4-month period or less for one nonstandard or nonterm loan period. Note that a program offered in substantially equal terms at least nine weeks in length may not disburse in a single installment for a term if the term is longer than four months. (In the case of loans made to students in study abroad programs, the home school's default rate must be less than 5% for the most recent fiscal year for which data are available to qualify for this special rule.)

Pell, ACG /SMART, or TEACH disbursements within a single term

If a school uses Formula 3 to calculate a Pell Grant, ACG, SMART, or TEACH Grant, the student's total payment for a payment period may exceed 50% of the student's annual award. However, the disbursements of the student's Pell, ACG/SMART, or TEACH Grant in the payment period cannot exceed 50% of the student's annual award until the student completes in the payment period at least ½ the weeks of instructional time in the academic year.

Review of completion

Term-based programs using credit hours

For a credit-hour term program, there is no requirement that a student successfully complete all of the coursework to receive payment in the next term. For instance, a student could receive a Stafford disbursement in the Spring term after failing several courses in the Fall term, provided that the student was still making satisfactory progress under the school's policy. (However, if the program uses nonstandard terms that are not substantially equal in length, you must use the nonterm-based rules for Stafford/PLUS disbursements, below.)

Pell, ACG/SMART Grant, Perkins Loans, FSEOG and TEACH Grants in clock-hour or nonterm programs

For a credit-hour program without terms or a clock-hour program, a school may disburse a Pell, ACG/SMART Grant, Perkins Loans, FSEOG or TEACH grant only after it determines that the student has successfully completed the credits or clock hours and weeks of instructional time in the prior payment period.

Stafford/PLUS loans in clock-hour, nonterm, and certain nonstandard term programs

If an educational program does not use terms to measure academic progress for FSA purposes, the school may not make the second loan disbursement until the student successfully completes the weeks of instructional time ***and*** the credit or clock hours in the payment period. These coursework completion requirements apply to clock hour and nonterm programs, and programs with nonstandard terms that are not substantially equal in length.

Disbursement timing citations

Disbursement by payment period:
34 CFR 668.164(b)
Section 428G(a) of the HEA
Disbursement by calendar midpoint:
34 CFR 682.604(c)
Early disbursements: 34 CFR 668.164(f)
30-day delay for 1st-time Stafford borrowers
FFEL: 34 CFR 682.604(c)(5)
DL: 34 CFR 685.303(b)(4)

Regulatory change

The Cash Management Regulations now specify that a school must disburse all FSA grant and loan funds on a payment period basis. For all types of programs, FSA funds are now disbursed using the payment period definitions in 34 CFR 668.4.

In the new regulations, the calendar midpoint is no longer used as a threshold that students need to reach in order to receive second disbursements of FSA funds.

TIMING OF DISBURSEMENTS—GENERAL RULES

Except for FWS wages, FSA disbursements are made on a payment period basis. The timing of disbursements is especially important for Pell, ACG/SMART, and TEACH Grants and Stafford/PLUS loan funds, because you must report disbursement dates with the Department (through COD) and/or private lenders.

Basic rules for early and delayed disbursements

In general, the earliest that a school may disburse FSA funds by crediting the student's account or by paying directly to the student or parent is 10 days before the first day of classes for that payment period. For credit-hour nonterm and clock-hour programs, the earliest a school may disburse FSA funds (other than FWS wages) is the later of 10 days before the first day of classes for that payment period or the date the student completed the previous payment period for which he or she received FSA funds. This limitation is also applicable to Stafford and PLUS disbursements in credit-hour programs with non-standard terms that are not substantially equal in length. In some cases, as we'll discuss, other restrictions apply.

If a student is in the first year of undergraduate study and is a first-time Stafford borrower, your school may not disburse the first installment of the Stafford loan until 30 calendar days after the student's program of study begins. You are not required to delay disbursement for such students if you have a cohort default rate of less than 10% for each of the three most recent years for which data is available, or if you are a home institution certifying a loan to cover the cost of attendance in a study abroad program and have a cohort default rate of less than 5% for the single most recent year for which data is available.

Note that if a student is scheduled to begin class in a module of a term-based program that starts after the first day of classes for the semester, a school may not make the initial disbursement until 10 days before the start of the first module in which the student is scheduled to begin attendance. Also, if you post a credit to a student's account before the earliest date permitted by regulation, the date the FSA funds are considered to be disbursed is the earliest date permitted by regulation.

Early disbursement & advance credit to account

Aug 2: School posts credit marked as Pell Grant funds to student's account.

Aug 15: School disburses Pell funds 10 days before 1st day of classes.

The earliest a school may disburse Pell funds is 10 calendar days before the first day of class in the semester (August 15 is the example).

If you post a credit to a student's account before the earliest date permitted by regulation (August 2nd vs. August 15 in the example), for FSA purposes, the date the Pell is considered to be disbursed is the earliest date permitted by regulation — August 15.

Disbursement rules for terms made up of modules

When a student is attending a modular program, but won't attend the first module, the date when classes begin for making disbursements is the starting date of the first module that the student will actually attend.

The earliest the school can pay a student who is scheduled to begin attendance in the second of three 5-week modules that make up the payment period is 10 days before the first day of the second module. (Or 30 days after the second module begins, if the student is a first-time, first-year borrower and the school does not meet the requirements for a waiver in 34 CFR 682.604(c)(5) and 34 CFR 685.303(b)(4).)

Module Example: A 1-year program with no terms awards 24 credit hours, which are taught in a series of six 4-hour modules. The school groups the modules into two 12-hour payment periods. The first payment period takes 15 weeks to complete. The student cannot progress to the second payment period until the student successfully completes 12 credit hours and the 15 weeks of instruction have elapsed. If the student fails the first 4-hour module, he or she will still need to successfully complete three modules (for a total of 12 credits) to progress to the next payment period.

Retroactive disbursements for completed periods

Your school must pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, in the case of a Pell Grant, if you don't receive a valid SAR/ISIR for a student until the spring term, but the student was also enrolled and eligible for a disbursement in the previous fall term, that student must be paid retroactively for the fall term.

If you are paying a Pell, TEACH, or ACG/SMART grant for a completed term in which no disbursement has been made, the *Pell grant must be based on the hours completed by the student for that term.* If the student had enrolled full time at the beginning of the fall term but dropped to half-time status by the end of the term, the retroactive disbursement must be based on half time status. At a term school, all completed coursework counts towards enrollment status, including earned F's and incompletes that have not converted to "F" grades because the student failed to complete the course work. (This requirement does not apply to any other FSA program.)

To include an earlier period of eligibility when certifying a Stafford Loan, the student would have had to complete at least a half-time courseload in that period. For instance, you could include the Fall term and its costs when certifying a loan for the student in the Spring, if your school's half-time standard is 6 credit hours and the student received a "B" and an incomplete in two 3-hour courses taken that Fall.

In the case of loans disbursed on a payment period basis, if a student attended the previous payment period but did not maintain eligibility for a Stafford loan, you may not include the previous payment period or its costs in the loan period.

A school can make any retroactive disbursements in one lump sum.

Multiple disbursements within a payment period

FSA regulations generally permit schools to pay FSA funds at such times and in such installments *within* each payment period as will best meets students' needs. This gives schools the ability to apportion the payment if doing so will be in the best interest of the student. For example, if a payment period is particularly long, a school might choose to pay in multiple installments to the extent program requirements permit to ensure that a student will have funds to pay rent later in the payment period.

Also bear in mind that FSA funds must be provided to students in a timely manner to best assist them in paying their educational expenses. Consequently, a school may not delay the disbursement of funds until after the 60% point, for example, to avoid the administrative burden of performing a Return of Title IV Funds calculation and the requirements that go along with it, or to prevent the student from having to return funds upon withdrawal.

Multiple loan disbursements within a payment period

A school may schedule multiple disbursements *within* a payment period, as long as the disbursements in a loan period are substantially equal.

However, for nonterm and clock-hour programs, a school may not elect to have more than two payment periods per loan

Schools that use payment periods as the basis for their Return of funds calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period. See *Volume 5* to see how withdrawal calculations handle multiple disbursements.

Perkins & FSEOG disbursements

Payment by payment period:
34 CFR 674.16(b) and 676.16(a)
Uneven costs/uneven payments:
34 CFR 674.16(c) and 676.16(b)
Paying prior to student beginning attendance: 34 CFR 674.16(f) and 674.16(d)
Reporting Perkins Loans to credit bureau: 34 CFR 674.16(i)

Submitting Disbursement Records

A school must submit disbursement records to the COD system no later than 30 days after making a Pell, ACG/SMART Grant, or Direct Loan disbursement.

Change to FSEOG single disbursement exception

On November 1, 2007, the Department published regulations that eliminated the option disbursing an FSEOG award of less than $501 in one payment.
FR Vol. 72, No. 211, Part III

Timing of Correspondence Disbursements for Pell, ACG/SMART, and TEACH Grants

ACG/SMART: 34 CFR 691.66
Pell: 34 CFR 690.66
TEACH: 34 CFR 686.25

For nonterm correspondence programs, you make the first disbursement to a student after the student completes 25% of the lessons or otherwise completes 25% of the work scheduled for the program or academic year, whichever occurs last. You make the second disbursement to a student after the student completes 75% of the lessons or otherwise completes 75% of the work scheduled for the program or academic year.

For term-based correspondence programs, you make the first disbursement to a student for each payment period after the student completes 50% of the lessons or otherwise completes 50% of the work scheduled for the term, whichever occurs last.

TIMING OF FSA GRANT & PERKINS LOAN DISBURSEMENTS

Disbursements in credit-hour term-based programs

As noted earlier, for a student enrolled in a credit-hour program that uses any type of academic term, for Pell, ACG/SMART, FSEOG, and Perkins Loan program funds, the payment period is the academic term.

Disbursements in clock-hour and credit-hour nonterm programs

For clock-hour programs and nonterm credit-hour programs, a student can receive the first disbursement of FSA grant or Perkins loan funds when the student begins the program or academic year. The student becomes eligible to receive a disbursement of FSA grant funds for the second payment period when the student successfully completes half the weeks of instructional time AND half the credit hours/clock hours in the academic year or program or the remaining portion of a program that is more than one-half of an academic year but less than a full academic year.

Timing of grant disbursements **within** *a payment period*

You may time the disbursement of Pell, ACG/SMART, and TEACH Grant funds for a payment period to best meet the needs of students at your school. For instance, some schools credit the student accounts for school charges as soon as is permissible, and then pay the credit balance to students when they begin classes. Other schools wait until the end of the add/drop period to disburse funds, or pay students in monthly installments to help meet living expenses throughout the payment period. (If as opposed to making multiple disbursements within the payment period, your school rations disbursements to students by crediting the entire disbursement for the payment period to the student's account and making periodic disbursements to the student from these funds, it must have the student's voluntary written authorization.)

Uneven disbursements of FSEOG & Perkins

A school that is awarding an FSEOG or a Perkins Loan for a full academic year must disburse a portion of the grant or loan during each payment period. In general, to determine the amount of each disbursement, a school will divide this award amount by the number of payment periods the student will attend.

However, if the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, your school may disburse the additional FSEOG or Perkins amounts to the student in whatever manner best meets the student's needs.

Additional grant disbursement notes

Disbursements exceeding 50% of award

If a school uses Formula 3 to calculate a Pell, ACG/SMART or TEACH Grant, the student's total payment for a payment period may exceed 50% of the student's annual award. However, the disbursements of the student's Pell, ACG/SMART Grants or TEACH Grant in the payment period cannot exceed 50% of the student's annual award until the student completes in the payment period at least ½ the weeks of instructional time in the academic year. Therefore, a school generally must make at least two disbursements to the student in the payment period. A school may not withold funds as an administrative convenience if it wishes to make a single disbursement.

ACG/SMART Grant disbursements in self-paced programs

A self-paced program is an educational program without terms that allows a student: (1) to complete courses without a defined schedule for completing the courses; or (2) at the student's discretion, to begin courses within a program either at any time or on specific dates set by the school for the beginning of courses without a defined schedule for completing the program.

A school may not make disbursement of ACG or SMART Grant funds to a student enrolled in a self-paced credit-hour program until the school has determined that the student is **progressing as *at least a half time student***. That is, a school may not make a disbursement to a student enrolled in a self-paced program until after the student has completed at least 50% of the credit hours or clock hours in the payment period for which the student is being paid at the rate of a half-time student. If a school is unable to determine when a student in a self-paced credit-hour program without terms has completed 50% of the credit hours in the payment period, the school may make the payment when the student has completed **at least 50%** of the **academic coursework** in the payment period.

Stafford/PLUS disbursements
Standard terms and terms that are substantially equal in length
34 CFR 668.4(a) and (c)

Programs without terms, clock-hour programs & terms not substantially equal
34 CFR 668.4(b), (c), and (h)(1)

STAFFORD/PLUS DISBURSEMENTS

Standard terms and substantially equal nonstandard terms at least nine weeks in length

If the program uses *standard academic terms* (semesters, trimesters, or quarters) or it has *nonstandard terms of substantially equal length,* at least one disbursement must be made in each term in the loan period. A program is considered to have substantially equal terms if no term in the program is more than two weeks of instructional time longer than any other term in the program.

FFEL & Direct Loans for one payment period
34 CFR 682.604(c)(6)

If there is more than one term in the loan period, the loan must be disbursed over all terms of the loan period. For example, if a loan period is for an academic year that includes three quarters, the loan must be disbursed in three substantially equal disbursements.

If there is only one term in the loan period, the loan generally must be disbursed in two payments. In a credit-hour program that uses a semester, trimester, or quarter system, or is SE9W, the second disbursement may not be made until the student reaches the calendar midpoint between the first and last scheduled days of class of the loan period. For clock-hour and nonterm programs, and nonstandard term programs that are non-SE9W, the school may not make the second disbursement until the student successfully completes 1/2 of the credit or clock hours AND 1/2 the weeks of instructional time in the payment period.

Clock-hour programs, nonterm credit-hour programs, and programs with non-standard terms that are not substantially equal

If the program is one academic year or shorter, the loan period is usually the length of the program. (For more information on nonterm loan periods, see Chapter 6.) If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year.

Single disbursements for study-abroad students
If a borrower is enrolled in a study-abroad program approved for credit by the home school and the home school had a Stafford loan default rate less than 5% in the single most recent fiscal year for which data is available, AND the loan is for one semester, one trimester, one quarter or a four-month period, the school may make a single disbursement of the loan proceeds.

34 CFR 682.604(c)(5)(ii) and 34 CFR 685.303(b)(4)(i)(B)
34 CFR 682.604(c)(10)(ii) and 34 CFR 685.301(b)(8)(i)(B)
Also see Cohort Default Rate Guide

For each loan period in these programs:

- The loan must be disbursed in at least two substantially equal amounts, with the first disbursement generally disbursed at or near the beginning of the loan period; and
- The second half of the loan proceeds may not be disbursed until the student has successfully completed half of the coursework and half of the weeks of instructional time in the loan period.

The payment period for the remainder of a program less than or equal to one-half of an academic year is the remainder of the program.

When an FFEL or DL is made for one payment period, the loan must be disbursed in two installments, and the second installment may not be disbursed until the student has successfully completed half the number of credit or clock hours and half the weeks of instructional time in the payment period.

Exceptions to disbursement rules for schools with low default rates

Schools with cohort default rates of less than 10% for each of the three most recent fiscal years for which data are available, including eligible foreign schools, may disburse, in a single installment, loans that are made for one semester, one trimester, one quarter or a four-month period. Such schools also are not required to delay the delivery or disbursement of a first disbursement of a loan for 30 days for first-time, first-year undergraduate borrowers.

Low cohort default rate exemptions

Section 428G(a)(3) and (b)(1) of the HEA,
FFEL 34 CFR 682.604(c)(10),
DL 34 CFR685.301(b)(8)

You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period if your school's most recently calculated Stafford loan default rate is less than 5% for the single most recent fiscal year for which data is available.

When a school that qualifies for the cohort default rate exemption is offering nonstandard term credit-hour programs with terms not substantially equal in length, nonterm credit hour programs, or clock-hour programs, the payment period, for purposes of FFEL or Direct Loan funds is the loan period for those portions of the program to which the cohort default rate exemption applies. For example, if the loan period for a nonterm credit hour program is three months in length and the institution meets the cohort default rate exemption, that three-month loan period is the payment period and only one disbursement of the loan is required for that period.

SCHEDULING STAFFORD AND PLUS DISBURSEMENTS VIA EFT OR MASTER CHECK

Once you have established the anticipated dates of the disbursement to the borrower, based on the payment periods in the student's program, you can specify to the lender the dates on which you need to receive the loan funds.

When a school receives Direct Loan cash from the Department or FFEL cash through electronic funds transfer (EFT), it must disburse the funds within 3 days or return the funds to the Department or the lender as appropriate.

In keeping with the standard 3-day turnaround time for payment of FSA funds to students, the Cash Management regulations stipulate that a school cannot ask the lender to provide the Stafford or PLUS loan funds via EFT or master check any sooner than 3 days before the earliest date that it is allowed to pay the funds to borrowers.

Therefore, a school may not request that a lender provide it with Stafford loan funds earlier than:

- 27 days after the first day of classes of the first payment period for a 1st-year, 1st-time Stafford borrower, or
- 13 days before the 1st day of classes for any subsequent payment period for a 1st-year, 1st-time Stafford borrower or for any payment period for all other Stafford borrowers.

Similarly, a school may not request a lender to provide it with PLUS loan funds earlier than 13 days before the first day of classes for any payment period.

If you are requesting a check that requires the endorsement of a borrower, you may not ask the lender to provide the check any sooner than 30 days before it could be disbursed. (See sidebar.)

Scheduling Direct Loan disbursements

If your school participates in the Direct Loan Program, please consult the Direct Loan School Guide for further discussion of DL disbursement issues.

Requesting a Stafford check that requires endorsement
34 CFR 668.167

You may not request a lender to provide it with a Stafford check that requires the endorsement of a borrower earlier than:

- The first day of classes of the first payment period for a 1st-year, 1st-time Stafford borrower, or
- 30 days before the first day of classes

- for any subsequent payment period for a 1st-year, 1st-time Stafford borrower or for any payment period for all other Stafford borrowers.

You may not request a lender to provide a PLUS check that requires the endorsement of a borrower earlier than 30 days before the first day of classes for any payment period.

RETAKING COURSEWORK IN TERM PROGRAMS

In general, students at term-based credit-hour schools may receive FSA funds for retaking coursework. The credits *must be in addition to, not as a replacement for any credits earned previously for the course. In addition, the credits must* be included in the total number of credits that the student is taking when determining enrollment status *and* satisfactory academic progress, as long as you allow the student to receive credit for the repeated course. You will generally not give a student credit for repeating a course to earn a better grade unless the student failed the course the first time and received no credit.

If a student who received an incomplete in a course in the prior term is completing the coursework in the subsequent term to erase the incomplete in the prior term, the student is not considered to be enrolled in the course for the subsequent term. Therefore, the hours in the course do not count toward the student's enrollment status for the subsequent term, and the student may not receive FSA funds for retaking the course.

However, if a student who received an incomplete in a course in the prior term is retaking the entire course for credit in the subsequent term, the hours in the course count toward the student's enrollment status and the student may receive FSA funds for retaking the course.

Reentry/transfer cites

Rentry or transfer within 180 days cite
34 CFR 668.4(f)

Rentry or transfer after 180 days cite
34 CFR 668.4(g)

When you must do credit-hour to clock-hour conversion
34 CFR 668.8(k),(l)

Pell Grant Disbursements for Reentering Students

For Pell and ACG/SMART Grant disbursements in the award year, if a student enrolled in a clock-hour or nonterm credit-hour educational program reenters the program within 180 days after initially withdrawing and before the deadline for the award year published, a school may request administrative relief to disburse the student's grant by the earlier of 30 days after the student reenrolls or the deadline for the award year published in the Federal Register.

Transfer students
34 CFR 682.603(f)(1)(ii) and 685.301(a)(9)(ii)

Repeating after program completion
Any student who completes an entire nonterm credit-hour or clock-hour program, and later reenrolls to take that same program again or to take another program may be paid for repeating coursework regardless of the amount of time between completion of the first program and beginning the program or another program again.

Satisfactory progress & repeated coursework
For satisfactory academic progress purposes, each time a course is taken counts as an attempt, only the first time a passing grade is received is counted as a completion.

TRANSFER, REENTRY, & REPEATING COURSEWORK WHEN PROGRESS IS NOT TRACKED BY TERMS

Reentry within 180 days

A student who withdraws from a clock-hour or credit-hour nonterm program and then re-enters within 180 days is considered to remain in the same payment period when he/she returns and, subject to conditions imposed by ED or the FFEL lender or guarantor, is eligible to receive FSA funds for which he/she was eligible prior to withdrawal, including funds that were returned under the R2T4 rules in *Volume 5, Chapter 2*.

Reentry after 180 days and transfer students

Generally, you must calculate new payment periods for a clock-hour or credit-hour nonterm program for:

- a student who withdraws and then reenters the same program at the same school *after 180 days*, or
- a student who withdraws from a program and enrolls in a new program at your school, or at another school within *any time period*.

For purposes of calculating payment periods ONLY, the length of the program is the number of credit or clock hours and weeks of instructional time the student has remaining in the program he/she reenters or transfers into. If the remaining hours and weeks constitute half of an academic year or less, the remaining hours constitute one payment period. In this circumstance, the student may be paid for repeating coursework if the student is receiving credit for repeating the course.

However, you may consider a student who transfers from one program to another at your school to remain in the same payment period if all of the following conditions apply:

- the student is continuously enrolled at your school;
- the coursework in the payment period the student is transferring out of is substantially similar to the coursework the student will be taking in the program into which he/she is transferring;
- the payment periods are substantially equal in length in weeks of instruction and credit or clock hours;
- there are little or no changes in school charges associated with the payment period; and
- the credits from the payment period the student is transferring out of are accepted for credit in the new program.

Stafford/PLUS payment periods when student transfers to a new school

If a student transfers into a program at a new school, and the program is not offered in standard terms (or terms that are not substantially equal and at least 9 weeks in length), the new school may certify or originate a loan for the remaining portion of the program or academic year if:

- the new school accepts a student's credit or clock hours earned at a prior school, and
- the period of enrollment for the loan at the first school overlaps the period of enrollment at the new school.

The loan at the new school may not exceed the remaining balance of the student's loan limit at the new school, after the disbursements at the first school are taken into account. In addition, the loan period at the new school must cover the remaining hours and time-frame of the overlapping prior loan period. (See example on next page.)

If the new school *has not accepted any credits on transfer*, the new school must certify or originate a loan for an academic year, or the remaining balance of a program if less than an academic year. The applicable annual loan limit difference between the amount disbursed at the prior institution and the student's new applicable annual loan limit.

Stafford/PLUS payment periods for a student starting a new program at same school in same academic year

For a student who completes a program at a school, where the student's last loan to complete that program had been for less than an academic year, and the student then begins a new program at the same school, the school may certify a loan for the remainder of the academic year. In this case the school may certify a loan for an amount that does not exceed the remaining balance of the student's annual loan limit at the loan level associated with the new program. You must determine the new payment periods for that reduced loan period. The payment periods may not coincide with the payment periods for grants and Perkins loans.

Example: Reentry after 180 days

A student withdraws after completing 302 clock hours of a 900-clock-hour program, so there are 148 hours in the payment period that the student did not complete. The student reenrolls after 180 days in the same program and receives credit for 100 hours. The program length for purposes of determining the new payment periods and period of enrollment is 800 clock hours (the remainder of the student's program), so the new payment periods are 400 hours and 400 hours. The FSA payments would be for 400 hours for both payment periods, not limited to 148 hours for a payment period. If the student in this example received no credit for previously completed hours, the student's program length for purposes of determining the payment periods would be 900 clock hours.

Transfer student with overlapping loan periods

James transfers on September 15 into Hammett Technical College, which accepts 200 hours from James's prior school towards a 3-year program that has an academic year of 26 weeks and 900 clock hours.

James says that she received a Stafford Loan at the prior school, but she doesn't remember the exact dates. The financial aid administrator at Hammett checks NSLDS and finds that the loan period began July 15 and was to end January 15. James earned the 200 clock hours at the beginning of this loan period, between July 15th and August 30, and Hammett accepted these hours on transfer.

The aid administrator at Hammett may certify a loan for the period during which James is expected to complete at least the remaining 700 hours of Hammett's academic year, September 15 through January 15. During this period, which comprises 20 weeks of instructional time, James will be eligible for her remaining annual loan limit (after deducting the amount received at the prior school).

The 20-week loan period is divided into two payment periods, each comprised of 350 clock-hours and 10 weeks of instructional time. On February 1, James will be able to start a new BBAY and loan period at Hammett with a new annual loan limit. Note that the payment periods for the new BBAY will be 450 clock hours and 13 weeks of instructional time, and this will continue through the end of the program.

In the case of grants and Perkins Loans, James's initial payment periods will be half of the program's academic year: 450 clock-hours and 13 weeks of instructional time. Note that the second payment period for the Pell Grant begins three weeks later (in weeks of instructional time) than the second payment period for the Stafford Loan. The difference between the start dates of the Pell and the Stafford payment periods will vary throughout the rest of the program at Hammett. Also note that the last academic year, for purposes of grants and Perkins Loans, will only be 700 clock hours and 20 weeks of instructional time. Thus, her last two Pell Grant disbursements will be reduced on the basis of payment periods of 350 hours and 10 weeks of instructional time.

CREDIT OR CLOCK-HOUR CONVERSION FORMULA

Exemption for programs counted for full credit to degree program at school

34 CFR 668.8(k)(l)

The program is exempt from use of the conversion formula if each course within the program is acceptable for full credit toward that school's associate degree, bachelor's degree, professional degree, and the degree offered by the school requires at least two academic years of study.

A school must use a conversion formula to evaluate the enrollment status in a credit-hour undergraduate program, if it is less than 2 academic years in length or it does not lead to an associate, bachelor's, or professional degree. You must continue to offer the program with the clock hours that make up converted credit hours. You must also provide that upon completing the program's credit hours, the student has also completed all academic requirements including any required seat time and received the certificate for completing the program. (A program is exempted from use of the formula if all the coursework is acceptable towards a qualifying degree at the school—see sidebar.)

To determine the number of credit hours needed for full-time, ¾–time, and ½–time enrollment, the school must use one of the following formulas.

For a semester or trimester hour program:

$$\frac{\textbf{Clock hours in the payment period}}{30}$$

For a quarter hour program:

$$\frac{\textbf{Clock hours in the payment period}}{20}$$

The product of either calculation must be at least 12 to qualify for full-time enrollment, 9 for ¾–time enrollment, and 6 for ½–time enrollment. (A student must be enrolled at least ½–time for Stafford/PLUS loans, and the amount of the Pell Grant is determined by enrollment status.)

For an example of how the clock-hour/credit-hour formula is used to determine enrollment status, see the following page. For a discussion of how the credit-hour/clock-hour conversion is used to determine if a program is eligible, see *Volume 2, Chapter 4*.

Clock-Hour/Credit-Hour Conversion Example

Sternberg University (SU) offers a two-year nondegree program measured in semester credit hours. Courses within the program are not creditable toward a degree at SU. Students in the program earn 16 credit hours per semester.

SU determines that there are 1,440 clock hours of instruction in the program. There are 330 clock hours of instruction in the first and second semesters (660 first-year total), and 390 clock hours of instruction in the third and fourth semesters (780 second-year total).

By applying the conversion formula, Sternberg determines that the number of credit hours for Federal Student Aid purposes is 11 for the first two semesters, and 13 for the last two semesters.

$$\frac{\textbf{330 clock hours}}{\textbf{30}} = \textbf{11 credit hours in semesters one and two}$$

$$\frac{\textbf{390 clock hours}}{\textbf{30}} = \textbf{13 credit hours in semesters three and four}$$

For the first two semesters of the program, students are eligible for payment for only 11 credit hours of instruction. Because this is less than the full-time student minimum of 12 credit hours, students who attend the first two semesters are eligible to be paid for only ¾-time attendance.

In the third and fourth semesters of the program, students are eligible to be paid for 13 credit hours of instruction. Students attending the third and fourth semesters can be paid as full-time students.

To see how this school determines the eligibility of the program, see Volume 2, Chapter 4.

CHAPTER 2

Cost of Attendance (Budget)

Awards for each of the Federal Student Aid (FSA) programs are based on some form of financial need, beginning with cost of attendance. This chapter picks up at the point where you have established the student's EFC (see the Application and Verification Guide) and the student's basic eligibility (see Volume 1). Most schools establish average costs for different categories of students and set these cost categories in EDExpress or other software that they use to determine awards and package aid. The typical costs that you establish for your students will be used to calculate their Title IV award amounts and package their aid.

Unlike scholarship programs that may award funds based on academic merit or the student's field of study, "need-based" grants, loans, and work-study are based on the family's demonstrated financial need for assistance.

The cost of attendance is the cornerstone of establishing a student's financial need, as it sets a limit on the total aid that a student may receive for purposes of the ACG/SMART Grant programs, TEACH Grant, Campus-Based Programs and Stafford/PLUS loans, and is one of the basic components of the Pell Grant calculation.

ALLOWABLE COSTS

The cost of attendance for a student is an estimate of that student's educational expenses for the period of enrollment. As we'll see, you can use average expenses for students at your school, rather than actual expenses. For example, for the tuition and fees component, you can use the same average amount for all full-time students, instead of figuring the actual tuition and fees for each individual student. You can have different standard costs for different categories of students, such as a cost of attendance for out of state students (who have higher tuition) and a lower cost of attendance for in state students. However, you cannot combine the COA figures for each separate enrollment status and award aid to a student on the basis of the average COA. Students must be awarded on the bases of a COA comprised of allowable costs assessed all students carrying the same academic workload.

If a student is enrolled in a program that has extra fees or costs, such as lab fees, you can add those fees to the student's cost or use a standard cost that you've established for all students in that program. If you establish standard cost categories, you must apply the cost allowances uniformly to all students in those categories.

There are different ways to arrive at average costs for your students, such as periodic surveys of your student population and local housing costs.

CHAPTER 2 HIGHLIGHTS

Allowable Costs

Determined by school, taking into account:

- Tuition and fees
- Books, supplies, transportation, personal, misc.
- Room and board
- Dependent care
- Study abroad expenses
- Disability expenses
- Employment expenses for co-op study
- Loan fees

Exceptions

- Less than half-time enrollment
- Correspondence study
- Incarcerated students
- Professional judgment

Costs met from other sources

- Tuition and fees not paid by student
- Free room and board
- Other cost specified by source

Costs for period of enrollment

- Campus-Based, TEACH Grants, and Stafford/PLUS are based on costs for the period of enrollment; for instance, costs for a student attending a single semester in the school year would be limited to the costs for that time period.
- Pell and ACG/SMART are always based on the cost of full-time attendance for a full academic year.

Cost of attendance components
The cost of attendance is determined by law (Higher Education Act, Sec. 472) and is not subject to regulation by the Department.

The law specifies the types of costs that are included in the cost of attendance, but you must determine the appropriate amount to include for each category for students at your school.

Less than Half-Time COA Components
For students who are less than half-time, COA can include only:

- tuition and fees
- an allowance for books and supplies
- transportation (but not miscellaneous & personal expenses) and
- an allowance for dependent-care expenses.
- a limited allowance for room and board, see "Less than half-time room and board" sidebar

Documentation of exceptional expenses
The law doesn't specify what documentation you must collect for expenses such as dependent care or disability-related expenses. You can document these expenses in any reasonable way, such as documenting an interview with the student or obtaining a written statement from the student or other appropriate sources.

HERA and reduced origination fees
HERA reduced the origination fees for FFEL and Direct loans. Make sure the COA allowance in your packaging software reflects the lower percentages. For details, see DCL GEN-06-02.

Disabled student
A student is considered disabled if he or she has a physical or mental impairment that substantially limits a major life activity, such as if the student is deaf, mentally disabled, hard of hearing, has a speech or language impairment, is visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, has a traumatic brain injury, is otherwise health-impaired, or has specific learning disabilities that require special education and related services.

Allowable costs in general

The types of costs that may be included are the same for all FSA programs. The cost of attendance for the ACG, National SMART Grant, Campus-Based, TEACH Grant, and Stafford/PLUS programs is a student's cost for the period in which the aid is intended. The cost of attendance used for Pell Grants is always the full-year costs for a full-time student, so you may have to prorate actual or average costs up for students who are attending less than an academic year (or who are part-time in a term program) or prorate down for students who are attending for periods longer than an academic year. We'll discuss this at the end of this chapter.

A student's cost of attendance generally is the sum of the following:

- **The tuition and fees normally assessed for a student carrying the same academic workload**. This includes costs of rental or purchase of equipment (including equipment for instruction by telecommunications), materials, or supplies required of all students in the same course of study. If you charge tuition for the entire program at the start of the first period of enrollment, for Stafford/PLUS and Campus-Based aid, the tuition costs apply only to the first period of enrollment. For Pell, you must prorate these charges reflect the academic year in accordance with the procedures outlined in Chapter 3 of this Volume.

- **An allowance for books, supplies, transportation, and miscellaneous personal expenses.** This can include a reasonable amount, as determined by your school, for the documented rental or purchase of a personal computer that the student will use for study for the enrollment period. For example, a computer purchased in the summer for use in the fall term may be included.

- **An allowance for room and board.** For students without dependents living at home with their parents, this will be an allowance that you determine. For students living on campus, the allowance is the standard amount normally assessed most residents. For those living off-campus but not with their parents, the allowance must be based on reasonable expenses for the student's room and board.

- **For a student with dependents, an allowance for costs expected to be incurred for dependent care**. This covers care during periods that include, but that are not limited to, class time, study time, field work, internships, and commuting time for the student. The amount of the allowance should be based on the number and age of such dependents and should not exceed reasonable cost in the community for the kind of care provided.

- **An allowance for the one time direct costs of obtaining a first professional license or certificate for students who are enrolled in a program that requires such professional licensure or certification.** This allowance may only be provided one time per student per eligible academic program. Examples of allowable costs are fees charged to take a licensing exam and costs of applying for and obtaining the license or certification. The cost must be incurred during (not after) a period of enrollment, even if the exam is after the end of the period.

- **For study-abroad programs approved for credit by the student's home institution, reasonable costs associated with such study.**

- **For a disabled student, an allowance for expenses related to the student's disability**. These expenses include special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided by other agencies.

- **For students engaged in a work experience through a cooperative education program, an allowance for reasonable costs associated with such employment.**

- **For students receiving loans, the fees required to receive them (for example, the loan fee for a Direct Loan or the origination fee and insurance premium for a FFEL).** You may also include the fees required for nonfederal student loans (that is, nonfederal loans that must be considered EFA for the student when packaging aid). In all cases, you can either use the exact loan fees charged to the student or an average of fees charged to borrowers of the same type of loan at your school. To be included in the COA, any loan fees for private loans must be charged to the borrower during the period of enrollment for which the loan is intended.

- **For less than half-time students, a limited allowance for room and board**. Schools may include in the COA for a less-than-half-time student an allowance for room and board for up to three semesters (or equivalent), with no more than two of the semesters being consecutive at any one school. You are not required to monitor COA components from other schools attended by the student.

Free room and board/tuition waivers

Guerrero University saves some of its Resident Assistant jobs for students with exceptional financial need. All Resident Assistants receive a waiver of room and board charges. If the student quits the job, the waiver is removed and the student has to pay the room and board charges. All the students have the room and board charges in their cost of attendance. For students who are Resident Assistants because of their financial need, Guerrero must count the room and board waiver as estimated financial assistance. The waiver would not be counted as untaxed income, but if included in the AGI, such a waiver would be reported as "grant and scholarship aid reported to the IRS" and would be excluded from total income in the EFC formula.

HERA Change to Estimated Financial Assistance Component of COA

HEA Sec. 480(j)

DCL GEN 06-05

If the source of assistance is a State and is designated by the State to offset a specific component of the student's COA, the amount of that assistance may be excluded from both COA and EFA. You may exclude such assistance on a student-by-student basis, but if it is excluded, it must be excluded for both COA and EFA. If the amount excluded is less than the allowance provided in the student's COA, you must exclude the lesser amount.

Alternate example of waived or paid COA component

The state in which Guerrero University was founded charges all full-time students the same tuition charge. However, in-state students receive a voucher to cover the difference between what most states consider in-state versus out-of-state tuition. Guerrero has two options. The first option would allow Guerrero to include the same tuition charge in the full-time COA for all students and include the amount of the voucher as estimated financial assistance (EFA) in the respective students' financial aid packages. Alternatively, Guerrero could exclude the amount of the voucher from both COA and EFA because the voucher must be used to explicitly pay a specific component of the COA. Regardless of the option Guerrero chooses, it must apply the option consistently.

WIA reimbursement contracts

Some WIA contracts operate on a reimbursement basis; that is, the student must fulfill the terms of the contract before WIA will reimburse the school for tuition and fee costs. If the student doesn't fulfill the terms of the contract, the school is left with an unpaid tuition and fees charge. The school isn't permitted to hold the student liable for the unpaid tuition and fees. Contracts are established this way to offer schools an incentive to properly train and place students enrolled in the training programs. However, if a tuition and fees charge is included in a Title IV recipient's budget, the student would be liable for any outstanding charges that are not reimbursed by WIA. Therefore, schools that enter into reimbursement contracts must remove the tuition and fees component from the Title IV budget because, under these contracts, schools are prohibited from holding the student liable for outstanding charges.

Exceptions to the normal cost allowances

The following are the exceptions to the normal cost of attendance allowances discussed above:

- For students who are enrolled **less than half-time,** only the costs for tuition and fees and allowances for books and supplies, transportation, a limited amount of room and board, and dependent care expenses may be included as part of the cost of attendance (miscellaneous expenses, and personal expenses may not be included).

- Generally, the cost of attendance for **correspondence study** is restricted to tuition and fees, which often include books and supplies. If the costs of books and supplies are separate, then they may also be counted in the cost of attendance. If the student is fulfilling a required period of residential training, the cost of attendance can also include required books and supplies, an allowance for travel, and room-and-board costs specifically incurred for the period of residential training (as mentioned in Chapter 1 of *Volume 1,* a student isn't eligible to receive FSA aid for correspondence courses unless the student is enrolled in an associate-, bachelor's-, or graduate-degree program).

- The cost of attendance for **incarcerated students** is limited to tuition and fees and required books and supplies. Remember that an incarcerated student is ineligible for FSA loans, and if the student is in a federal or state penal institution, he is ineligible for Pell grants as well.

- You have the authority to use **professional judgment** to adjust the cost of attendance on a case-by-case basis to allow for special circumstances. Such adjustments must be documented in the student's file. (See "Professional Judgment" in the *Application and Verification Guide.*)

Costs waived or paid by other sources

When a specific component of a student's cost of attendance is waived or explicitly paid by another source, special treatment may be necessary. In some situations, the student is charged the normal tuition and fees charge with an offsetting credit issued. In other situations, the student is never charged tuition and fees at all. Although this section discusses this concept in terms of tuition and fee charges, it applies to any of the components of a student's cost of attendance.

In some cases, such as under Workforce Investment Act (WIA) programs, a student's tuition and fees are paid by another organization or are waived. The student's costs are based on what the school is actually charging the student, based on the agreement between the school and the student.

If the student is charged for the tuition and fees, even if the charge is eventually paid by someone besides the student (e.g., a scholarship agency or other source of aid), then that tuition and fee amount is included in the cost of attendance in most circumstances (see sidebar on "Alternate example of waived or paid COA component"). The tuition and fees payment would then be counted as estimated financial assistance. The charge is documented in the same way as for any non-WIA student—for instance, in your school's contract with the student or in the agreement with the WIA agency. (If your school charges the student for tuition and fees, your school would have to expect the student to pay the charge if the WIA agency or other source of assistance doesn't pay on the student's behalf.)

If the student is never charged for tuition and fees, then the cost of attendance wouldn't include the tuition and fees component. Some WIA agreements with schools provide that the school can't charge the tuition and fees to the student, even if WIA doesn't cover the costs. If your school is prohibited under such an agreement from charging tuition and fees to the student, then the tuition and fees aren't included in the student's cost of attendance, and, therefore, that amount would not be included as estimated financial assistance.

Even if there's no tuition and fees component, the student's budget still includes the other costs listed previously, such as an allowance for living expenses. The option to either include the cost and aid in both COA & EFA versus excluding both from COA & EFA only applies to non Federal sources of assistance, and only when that assistance is designated to offset specific components of COA (i.e, tuition, room and board).

Costs for full program charged at start

A school may charge the total tuition cost for a program at the beginning of the first period of enrollment. If the program is longer than an academic year, for Stafford/PLUS loans and Campus-Based aid, the tuition costs apply only to the first period of enrollment. For Pell, you must prorate these charges to reflect the academic year in accordance with the procedures outlined in Chapter 3.

Pell Grant Cost Example #1: prorating total costs by lesser of two fractions

You may take the student's entire cost of attendance (tuition and fees, room and board, etc.) and multiply it by the lesser of the two fractions that represent the length of the academic year. If the lesser fraction is one, then you don't prorate the cost of attendance. One fraction is based on credit or clock hours and the other is based on weeks of instructional time, as shown in this example.

Let's use the example of a program that charges $10,500, awards 18 semester credits, and is completed by most full-time students within 20 weeks of instructional time.

$$\frac{\text{Credit/clock hours in academic year definition} = 24}{\text{Credit/clock hours awarded} = 18} \qquad \frac{\text{Weeks in academic year definition} = 30}{\text{Weeks provided} = 20}$$

Since the fraction using credit hours is the lesser fraction, the program cost of $10,500 is multiplied by 24/18 to find the full-year Pell cost.

$$\$10{,}500 \times 24/18 = \$14{,}000$$

In this case, the full-time cost is $14,000. (Note: If one of the fractions is equal to one, for instance, if the program awards 24 credit hours, then the prorated cost is the same as the original cost of attendance.)

Pell Grant Cost Example #2: prorating academic costs & living expenses separately

As an alternative, you can separately prorate the costs associated with credit or clock hours (tuition and fees, books and supplies, loan fees) and the costs associated with weeks of instructional time (room and board, miscellaneous expenses, disability expenses, transportation, dependent care, study abroad, reasonable costs associated with employment as part of a cooperative education program).
Using our earlier example of a program lasting 20 weeks and awarding 18 credit hours, and specifying that the student's tuition, books, supplies, etc. come to $4,500 and living expenses amount to $6,000, the calculation would look like this:

$$\frac{\textbf{24 credit hours}}{\text{18 credit hours}} \times \$4{,}500 = \$6{,}000$$

$$\frac{\textbf{30 weeks}}{\text{20 weeks}} \times \$6{,}000 = \$9{,}000$$

In this example, the student's Pell budget is the sum of the two prorated costs, or $15,000.

Pell Grant Cost Example #3: prorating costs for a nonterm program longer than an academic year

Costs must also be prorated if they are charged for a period longer than an academic year. You may use either of the proration methods shown in Examples 1 and 2. We'll use the example of a program awarding 1,000 clock hours and providing 40 weeks of instructional time. Let's assume that the school uses the regulatory minimums in defining the academic year as 900 clock hours and 26 weeks. The total costs over the 40 weeks, including tuition and living expenses, is $5,900. If we use the method in Example 1, this amount must be prorated by the lesser of the following two fractions:

$$\frac{\text{Credit/clock hours in academic year definition} = 900}{\text{Credit/clock hours awarded} = 1000} \quad \text{OR} \quad \frac{\text{Weeks in acad. year definition} = 26}{\text{Weeks provided} = 40}$$

The lesser of the two fractions is the one based on weeks (26/40). Multiply the total program cost by this fraction to determine the Pell costs for a full academic year: $5,900 x 26/40 = $3,835.

Pell Grant cost of attendance for a consortium program

A student receiving a Pell Grant for attendance at two schools through a consortium agreement may have costs from both schools at the same time. The student's cost of attendance is calculated in the same way as for a student taking classes at only one school. The student's charges for tuition and fees and books and supplies at the consortium schools have to be combined into a single charge for a full academic year for purposes of the Pell calculation. The school paying the student can choose to use actual charges for the student, which would simply be the sum of the actual charges at both schools. Of course, if the student isn't attending full-time, your school will have to prorate these tuition and fees and books and supplies charges so that they are the correct amounts for a full-time, full-year student.

If the disbursing school is using average charges, then the average full-time charges at each of the schools must be prorated and combined. If the student is taking a full-time load at each school, the full-time tuition and fees charges for an academic year at each school can be averaged to determine the tuition and fee cost. However, if the student is taking an unequal course load, the disbursing school must prorate the charges based on the number of hours the student is taking at each school.

Pell Grant cost of attendance for a co-op program

If a student has a co-op job for the first term, the tuition and fees for that period can be prorated over the full academic year for the program (which must include at least 24 semester/trimester hours, 36 quarter credit-hours, or 900 clock-hours, as well as 30 weeks of instructional time, or, for clock-hour programs, 26 weeks). This prorated amount is then added to the other cost of attendance components to arrive at the total cost for a full-time student for a full academic year.

For the rest of the year, your school can either use the cost of attendance with the projected amount or can recalculate the student's tuition and fees at the end of the first term to determine a new cost of attendance for the remaining payment periods. This decision must be consistent with your school's overall policy on recalculating for changes in a student's costs. (See the discussion of Pell Grant recalculations in Chapter 3 of this volume for more information.) Note that the cost of attendance can also include employment-related expenses.

Costs for a period other than 9 months
For Stafford, PLUS, ACG/SMART and Campus-Based aid and TEACH, the cost of attendance used for packaging must reflect the student's cost for that period that he or she is actually enrolled.

For instance, if a student is completing her program of study by taking a 1/2-time course load for the fall semester at your school, and that's the only term that she'll be attending in the award year, you could use the actual tuition and fee charges for the student's costs. If you use average costs for living expenses for a 9-month academic year for students in that program, you may divide your average costs by the number of terms in the academic year to find the cost for this enrollment period (assuming the terms are substantial in length).

For Pell Grants, you could either use an average tuition cost for a full-time, full-year student in the program or prorate the student's actual tuition for the fall term to arrive at a full-year, full-time cost. Costs for living expenses may also be average costs for a full academic year—if a full-year average cost is used, it doesn't have to be prorated for Pell Grant awards.

Changes in Pell COA
For more on when changes in Pell COA necessitate a recalculation of a Pell award, see Volume 3, Chapter 3.

COSTS FOR PERIODS OTHER THAN NINE MONTHS

The cost of attendance used to package ACG/SMART, as well as Campus-Based aid and Stafford/PLUS loans and TEACH covers the student's actual period of enrollment. Therefore, if the student will be attending for more than 9 months, you must use a higher cost of attendance that includes living expenses, such as room and board, for the longer period of time. If the student will be attending for less than 9 months, you must use a lower cost of attendance. You can choose to prorate the allowances you use for 9 months, or can calculate the cost in any other **reasonable** way.

Adjusting Costs for Pell

The types of costs included in the Pell budget are the same as those for the other FSA programs; however, Pell costs are always based on the costs for a *full-time student for a full academic year*, even when awarding a 2nd Scheduled Award in an award year.

For Pell, costs for programs or enrollment periods longer or shorter than an academic year must be prorated so that they are the costs for one full academic year. This is true for both parts of the academic year definition: if either the number of weeks or the number of clock/credit hours differs from the academic year standard, the costs must be prorated to determine the full-time, full-year Pell budget. The need to prorate Pell costs is most likely to occur in these situations:

- a term-based program that provides less than the weeks of instructional time in an academic year.
- a nonterm program that provides less than 24 semester hours, 36 quarter hours, or 900 clock hours and/or provides less than the weeks of instructional time in an academic year; or
- a program that is longer than an academic year, where the costs for the entire program are charged at the beginning of the program.

There are two ways to prorate Pell costs, as shown in the first two examples at the end of this section. Both of these examples are based on a program that is shorter than an academic year. The third example shows how costs are prorated when they are charged for a program that is longer than an academic year. Note that prorating the cost of attendance usually does not affect the amount of Pell Grant the student receives. However, you're required to report the full-time, full-year Pell budget when reporting disbursements to COD.*

*If the student is in a category where costs are limited, such as less-than-half-time enrollment, those costs that are allowable must be based on costs for a full-time student for a full academic year. For instance, the tuition component of the Pell cost of attendance for a less-than-half-time student must be based on the tuition costs that would be incurred by a full-time student attending a full academic year. Note that prorating the cost of attendance usually does not affect the amount of Pell Grant the student receives. However, you're required to report the full-time, full-year Pell budget when reporting disbursements to COD.

Calculating Pell Grant Awards

CHAPTER 3

Pell Grant awards are based on the Expected Family Contribution (EFC) on the student's SAR or ISIR, the academic year structure (see Chapter 1), and the student's cost of attendance (see Chapter 2). The Scheduled Award amounts are specified on the Pell Payment Schedules released by the Department. For term-based programs, awards for part-time students are also based on enrollment status, using the part-time charts in the Pell Grant Disbursement Schedules.

In this chapter, we'll show you how to take the award amount for the year and calculate Pell Grant payments for your students, using the appropriate formula for the term or nonterm calendar in the academic program.

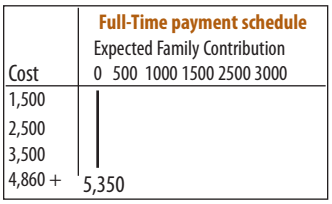
SCHEDULED AWARD, AWARD YEAR, & ANNUAL AWARD

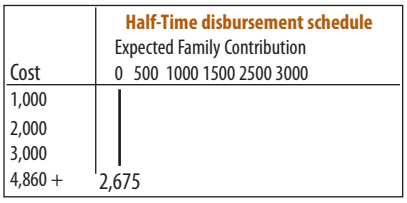
The Scheduled Award is the maximum amount the student can receive during the award year, if he or she attends *full-time* for a *full* academic year. The award year begins on July 1 of one year and ends on June 30 of the next year. For example, the 2009-2010 award year begins July 1, 2009, and ends June 30, 2010.

The student's *Scheduled Award* is established by the Pell Grant payment schedule that the Department issues prior to the start of each award year. The amount of the Scheduled Award is always taken from the Full-Time payment schedule, and is based on the student's EFC and Cost of Attendance. The *annual award* is the maximum amount a student would receive during a full academic year for a given enrollment status, EFC, and COA. Note that for a full-time student, the annual award will be the same as the Scheduled Award.

At a term school, a part-time student will have an *annual award* that is less than the Scheduled Award. If the student attends part-time, the student's annual award is taken from the 3/4-time, 1/2-time, or less-than-1/2-time disbursement schedules.

For instance, if a student's Scheduled Award is $5,350, but the student is enrolled as a 1/2-time student in a term program, the student's annual award would only be $2,675.





CHAPTER 3 HIGHLIGHTS

Pell Grant calculations for:

- Two Pells in an award year *NEW*
- Credit-hour term programs with fall through spring standard terms that provide 30+ weeks of instructional time and certain other standard term programs (Formula 1 or Formula 3)
- Credit-hour term programs with fall through spring standard terms that provide less than 30 weeks of instructional time (Formula 2 or Formula 3)
- Any credit-hour term programs including nonstandard term programs (Formula 3)
- Clock-hour programs and nonterm credit-hour programs (Formula 4)
- Summer terms, crossover payment periods, and mini-sessions
- Transfer students
- Recalculations (required and optional) when EFC, cost, or enrollment status changes

Scheduled Award limit

34 CFR 690.63(g)

Appendices to Chapter 3

Appendix A - Formula 2: Calculations for standard-term programs with less than 30 weeks in fall through spring
Appendix B - Formula 5: Calculations for correspondence study programs
Appendix C - Formula summaries for all five Pell formulas

2009-2010 Pell payment schedules

The 2009-2010 Pell payment schedules can be found in Dear Colleague Letter P-09-01, on the IFAP website.

Maximum duration of Pell eligibility *NEW*

The HEOA limits the period of time that a student may receive a Pell Grant to 18 semesters or the equivalent. This provision only applies to students who receive a Pell Grant for the first time on or after July 1, 2008.

HEOA Section 401

Pell for children of soldiers *NEW*

A student who is Pell eligible will be eligible to receive the maximum Pell Grant award for an award year if the student's parent or guardian was a member of the U.S. Armed Forces and died as a result of performing military service in Iraq or Afghanistan after 9/11/2001, provided that the student was under 24 years old or was enrolled in college at the time of the parent or guardian's death.

HEOA (Section 401)

Two Pell Grants during award year *NEW*

Higher Education Opportunity Act (HEOA) Section 401

There will not be any regulations for this provision for 2009-2010. For 2009-2010, schools should strive to be flexible in adapting their methods to award Pell in the case of two Pells in an award year to best meet the needs of students.

The annual award is for a full academic year, and must be divided into payments for the payment period using the formulas described in this chapter. If a student only attended half of an academic year, the student could receive no more than one-half of the annual award.

Two Pell Grant Scheduled Awards in an Award Year *NEW*

Students may now potentially receive up to two consecutive Pell Grant Scheduled Awards during a single award year. You must pay eligible students; the second Pell Grant Scheduled Award is not an optional provision.

A student becomes potentially eligible to receive the second Scheduled Award after receiving his or her first Scheduled Award during a single award year in a certificate, associate degree, or baccalaureate degree program. During the student's first Scheduled Award, the student may be in any enrollment status; however, a student must be enrolled at least 1/2-time to receive a payment from the second Scheduled Award for an award year.

Each Scheduled Award will be the same maximum amount, for example, for the 2009-2010 award year, under this provision a student may receive two Scheduled Awards of up to $5,350 each. Payments for a payment period are calculated in the same way as you have done for awards in the past for both awards with an eligible student receiving payments that include his or her second Scheduled Award when the first award is exhausted. For more detail on crossover and summer payment scenarios, see discussions later in this chapter.

If the student is enrolled at least 1/2-time for further coursework in the same award year after receiving his or her first Scheduled Award, you begin paying out of the second Scheduled Award. You may begin paying from a second Scheduled Award in a payment period in which the student is also receiving the balance of the first Scheduled Award, however, you must track the remaining percentage of each Scheduled Award separately.

A new field in the COD common record has been added for the 2nd Pell Scheduled Award. You must set this "Additional Eligibility Indicator" or AEI to "true" when awarding any part of a second Scheduled Award. You are not required to attribute disbursements to the 1st or 2nd awards in the information you report in the common record.

TERMS AND PAYMENT METHODS

Generally, if all the coursework is scheduled to be completed within a specific time frame, the program can be considered term-based. Term-based programs can have either standard terms or nonstandard terms. Generally, Pell Grants are calculated differently for the two types of terms. Standard term programs may be treated similarly to nonstandard term programs if the program does not conform to a traditional academic calendar or meet certain other conditions.

Standard terms

Standard terms are semesters, trimesters, or quarters, as these words are traditionally used. In traditional usage, an individual semester or trimester provides about 14 to 17 weeks of instructional time and full-time is defined as at least 12 semester or trimester hours. The program's academic calendar generally consists of three terms, one each in fall, spring, and summer. In traditional usage of the term "quarter," an individual quarter provides about 10 to 12 weeks of instructional time, and full-time is defined as at least 12 quarter hours. The program's academic calendar generally includes three quarters in the fall, winter, and spring and often a summer quarter as well.

Nonstandard terms

Any term that isn't one of the standard terms described above is a nonstandard term. Sometimes schools refer to terms by standard names when they are, in fact, nonstandard terms. For example, a program may be made up of terms called quarters but progress is measured in semester hours.

Nonterm programs

Nonterm programs may be measured in either clock hours or credit hours. If the courses of a program are not offered in an academic calendar requiring the completion within the beginning and end dates of the terms, it is likely a nonterm program.

Ground rules for Pell

Pell Grant Administrative Cost Allowance

34 CFR 690.10

HEA Sec. 489(a)

For each student that receives a Pell Grant at your school each award year, your school is paid $5 to help pay the associated administrative costs. This money must be used solely to pay for the costs of administering the Federal Pell Grant, Federal Perkins Loan, Federal Work-Study, and FSEOG programs.

Minimum Pell Grant *NEW*

HEOA Section 401

The HEOA eliminated the $400 minimum award and instead set a new minimum award at 10% of the maximum award appropriated each year. Students who are eliminated for between 5 and 10% of the maximum award will receive 10% of the maximum award appropriated each year.

Fractions

When using fractions, be careful to multiply first, and then divide to avoid an incorrect result. For example, here's the correct way to prorate a $2,130 Scheduled Award for a payment period that is a nonstandard term of 10 weeks of instructional time.

$$\$2{,}150 \times \frac{10}{30} \text{ is multiplied as } \frac{2{,}150 \times 10}{30} = 716.67$$

In this case, if you divide the fraction to get a decimal (.333333...) and then round the decimal either down (.33) or up (.34), your calculation will result in a number that's too low (709.50) or too high (731).

Rounding

Previously, schools were required to round to the nearest dollar when making disbursements. However, the Common Origination and Disbursement System (COD) accepts cents in payment amounts. Schools are not required to round disbursements to the nearest dollar, but can if they choose. Your school's policy of rounding, whether to the nearest dollar or cent, must be applied consistently to all students. Note that COD has very specific format requirements for payment amounts.

When rounding disbursements, round up if the decimal is .50 or higher; round down if it's less than .50. For instance, if a calculation results in a payment of $516.50, round up to $517. If the calculation result is $516.49, round down to $516.

If you're rounding disbursements for a student who is expected to be enrolled for more than one payment period in the award year, you have to alternate rounding up and rounding down to ensure that the student receives the correct amount for the year. For example, if a student had a Scheduled Award of $1,025 to be paid in two payment periods, the first payment would be $513 (rounded up from $512.50), and the second payment would be $512 (rounded down to ensure that the student isn't overpaid for the year).

The same principle applies when there are three or more payment periods in the award year. For instance, if the student has a Scheduled Award of $1,100 and enrolls as a full-time student at a school using quarter terms, the payment for each term would come to $366.66. If the school is rounding disbursements, the first two payments would be rounded up to $367, and the last payment would be rounded down to $366 to reach the total of $1,100.

CREDIT-HOUR TERM-BASED PROGRAMS

Annual award based on enrollment status

In a term-based program, academic progress is always measured in credit hours, and the student's annual award depends on his or her enrollment status. Your school's standards for enrollment status must meet the minimum regulatory requirements, which are discussed in further detail in *Volume I: Student Eligibility (Chapter 1)*.

For standard terms, the minimum enrollment standards are:

Full-time:	12 semester hours per semester/trimester 12 quarter hours per quarter
3/4-time:	9 semester hours per semester/trimester 9 quarter hours per quarter
1/2-time:	6 semester hours per semester/trimester 6 quarter hours per quarter

Less than 1/2-time: less than half of the workload of the minimum full-time requirement.

If the student is enrolled full-time, then the annual award is the Scheduled Award, which is based on the full-time payment schedule.

If the student is attending part-time, you must use the 3/4- time, 1/2-time, or less than 1/2-time disbursement schedules, depending on the number of credit hours in which the student enrolls. If the student is enrolled less-than-half-time, it will also affect the cost components that are used in the student's Budget (see Chapter 2). *Schools do not have the discretion to refuse to pay an eligible part-time student, including during a summer term or intersession.*

On the appropriate full-time or part-time Payment or Disbursement schedules, use the student's Cost of Attendance and EFC to look up the Pell annual award for the year at that enrollment status. Most student aid software programs, such as EDExpress, will do this for you automatically, but you can also refer to the Pell schedules online at the IFAP website in Dear Colleague Letter P-08-01.

Pell Grant payments by term

Pell Grants must be paid in installments over the course of a program of study to help meet the student's cost in each payment period. The payment period affects when Pell funds are disbursed and the exact amount to be disbursed. For credit-hour term programs, the payment period is the term. If the student doesn't enroll in one of the terms, he or she won't receive a portion of the award for that payment period. If the student's enrollment status changes in the next term, his or her annual award will be different for that term. (See discussion of terms and payment methods.)

Academic calendar & enrollment status changes

Because the academic calendar for a program determines which Pell formula you use, you need to review the conditions for the use of each formula if the calendar for the program changes. This is particularly true if you are using Formulas 1 and 2, since they have the most restrictive conditions.

If a student's enrollment status changes during the year, your school may have to recalculate the student's Pell Grant payment based on the new enrollment status. At the end of this chapter we'll discuss when a school is required to recalculate due to a change in enrollment status.

34 CFR 690.63

34 CFR 690.80(b)

Enrollment status under consortium agreement

The enrollment status of a student attending more than one school under a consortium agreement is based on all the courses taken that apply to the degree or certificate at the home institution. The disbursing school may have to make some adjustments if the coursework at the other school is measured in different units.

Enrollment status for cooperative education

In a cooperative education program, your school assesses the work to be performed by the student and determines the equivalent academic course load. The student's enrollment status is based on the equivalent academic course load.

Including remedial coursework in enrollment status

When determining enrollment status, your school must include any reduced-credit or noncredit remedial coursework designed to increase the student's ability to pursue his or her program of study. See the discussion of "Enrollment Status" in *Volume I: Student Eligibility (Chapter 1)*.

Consortium Different Units Example

Chris is taking 6 semester hours at Dalaran University, the home institution, and 9 quarter hours at Sarven Technical Institute. To determine his enrollment status, Dalaran needs to convert the hours at Sarven into semester hours. Because a quarter hour is about two-thirds of a semester hour, Dalaran multiplies the number of quarter hours by two-thirds:

9 quarter hours X 2/3 = 6 semester hours

Then the hours taken at both schools can be added together:

6 semester hrs. at Dalaran
+ 6 semester hrs. at Sarven
12 semester hours

Linda is also taking 6 semester hours at Dalaran University and 9 quarter hours at Sarven Technical Institute, but her home institution is Sarven Technical Institute. Because Sarven is paying her, it needs to convert the semester hours taken at Dalaran into quarter hours:

6 semester hours X 3/2 = 9 quarter hours

Then, the hours taken at both schools can be added together:

9 quarter hrs. at Sarven
+9 quarter hrs. at Dalaran
18 quarter hours

Variations in enrollment status standards

If any program uses standard terms, the enrollment status standards in the program don't have to be proportional—for instance, a program could have a 15-hour standard for full-time enrollment, but set a 9-hour minimum for 3/4-time status and a 6-hour minimum for 1/2-time status.

In addition, your school's academic standard may differ from the enrollment standard used by the financial aid office for FSA purposes. For example, your school may define full-time as six hours during the summer; however, the financial aid office uses 12 hours as full-time for all terms including the summer term. Your school must apply its FSA full-time enrollment standards consistently to all students enrolled in the same program of study for all FSA purposes. For more on enrollment status, see Volume 1, Chapter 1.

Enrollment status for students taking regular and correspondence courses

If a student is enrolled in a non-correspondence study program, but correspondence coursework is combined with regular coursework, the correspondence courses must meet the following criteria to be included in the student's enrollment status:

- The courses must apply toward the student's degree or certificate or must be remedial work to help the student in his or her course of study.
- The courses must be completed during the period required for the student's regular coursework, e.g., a term.
- The amount of correspondence work counted can't be more than the number of credit hours of regular coursework in which the student is enrolled.

If the student is taking at least a half-time load of correspondence courses, the student would be paid as at least a half-time student, regardless of the credit hours of regular coursework. A student will be paid as a less-than-half-time student for any combination of regular and correspondence work that is less than 6 credit hours or the appropriate equivalent of half-time.

Enrollment Status for Enrollment in Correspondence and Regular Coursework

Regular Work	*Correspondence Work*	*Adjusted Total Coursework*	*Enrollment Status*
3	3	6	Half-time
3	6	6	Half-time
3	9	6	Half-time
6	3	9	Three-quarter time
6	6	12	Full-time
2	6	6	Half-time

This chart assumes that the school defines full-time enrollment as 12 credit hours per term, and half-time enrollment as 6 credit hours per term. As you can see in the second and third examples, the number of correspondence hours counted in the total course load was adjusted so that the correspondence hours never exceeded the regular hours taken. Note that in the last example, the student is eligible for payment based on half-time enrollment in correspondence courses, despite the fact that the student only took 2 credit hours of regular coursework.

FORMULA 1 : STANDARD TERM PROGRAMS WITH ACADEMIC CALENDARS OF 30+ WEEKS

For you to be able to use Formula 1, the program must meet one of two sets of requirements.

For a program with a traditional academic calendar, the program:

- must have an academic calendar that consists, in the fall through spring, of two semesters or trimesters, or three quarters (note that summer may not be a standard term);
- must have at least 30 weeks of instructional time in fall through spring terms;
- must not have overlapping terms; and
- must define full-time enrollment for each term in the award year as at least 12 credit hours and must measure progress in credit hours.

Other programs offered in standard terms may use Formula 1 if they start the terms for different cohorts of students on a periodic basis (for example, monthly). These programs:

- must have an academic calendar that consists exclusively of semesters, trimesters, or quarters;
- must have at least 30 weeks of instructional time in any two semesters or trimesters or any three quarters;
- must start the terms for different cohorts of students on a periodic basis (for example, monthly);
- must not allow students to be enrolled in overlapping terms and must stay with the cohort in which they start unless they withdraw from a term (or skip a term) and re enroll in a subsequent term.
- must define full-time enrollment for each term in the award year as at least 12 credit hours and must measure progress in credit hours.

For formula 1, the term is the payment period, and you divide the student's award by the number of terms in the program's Title IV academic year.

Requirements to be able to use Formula 1

34 CFR 690.63(a)(1)

Basic Pell calculations

Pell payment schedules: 34 CFR 690.62

Pell formulas: 34 CFR 690.63

"Crossover" payment periods (e.g., summer sessions): 34 CFR 690.64

Consistent use of formula

You must use the same formula for a program for all payment periods in an award year.

Standard term composed of shorter terms or modules

Remember that you can combine shorter terms or modules into a standard term that meets the requirements for Formula 1. See the discussion of academic calendars in Chapter 1 for examples.

Formula 1: Basic Calculation

In Formula 1, the annual award is simply divided by the number of terms in the fall through spring at a school with a traditional academic calendar.

Take the case of Jeff, who is enrolled full-time in a program that has an academic year of 30 weeks of instructional time and 24 semester hours. The program has fall and spring semesters that provide a total of 30 weeks of instruction and a 12 week summer nonstandard term with 12 semester hours as full-time. Jeff has a Scheduled Award of $3,040, and since he is enrolled full-time, that is also his annual award. Since the fall through spring has standard terms, it doesn't matter that the summer term is nonstandard; you still calculate summer payment based on Formula 1.

$$\frac{\$3{,}040}{2} = \$1{,}520 \text{ disbursement for a quarter}$$

The same formula would be used if Jeff enrolled in a program that has fall, winter, and spring quarters that provide at least 30 weeks of instruction and has a summer term with 12 quarter hours as full-time. The only difference is that Jeff's annual award of $3,040 is divided by 3.

$$\frac{\$3{,}040}{3} = \$1{,}013.33 \text{ disbursement for each payment period}$$

Note that Jeff is receiving a full Scheduled Award because he is attending for two semesters or three quarters as a full-time student and has no remaining eligibility for the summer payment period included in the award year (unless he enrolls as an at least half-time student and may receive a disbursement from his 2nd Scheduled Award. If Jeff enrolled full-time for summer he would receive another payment of $1,520 in the semester-based program, or $1,013.33 in the quarter-based program, from his second Scheduled Award).

Next, we'll show other situations where a student might have remaining eligibility for summer, or can be paid for summer out of the next award year.

Formula 1: Basic Calculation Nontraditional Academic Calendar

Majel is enrolled full-time at Roddenberry University in a program that has an academic year of 36 weeks of instructional time and 36 quarter hours and is offered exclusively in quarters. A new cohort of students starts a quarter on the first workday of each month, and a student is not allowed to take courses in overlapping terms outside that student's cohort.

Any three quarters of the program provide at least 36 weeks of instructional time since each quarter is 12 weeks of instructional time in length. To be full-time a student must be enrolled in at least 12 quarter hours for a quarter. Majel has a Scheduled Award of $5,350, and since she is enrolled full-time, that is also her annual award.

Because any three quarters is at least 30 weeks of instructional time and the academic year encompasses three quarters, Majel's payment for each payment period is calculated by dividing the annual award by 3:

$$\frac{\$5{,}350}{3} = \$1{,}783.33$$

Note that Majel is receiving a full Scheduled Award because she is attending for three terms as a full-time student and has no remaining eligibility for the next payment period if it is included in the same award year, unless she attends at least half-time and is eligible for a payment from her 2nd Scheduled Award.

Formula 1: Enrollment status change

Let's say that one of your students, Micki, enrolls full-time in the fall semester. She has a cost of $10,000 and EFC of 100, so her Scheduled Award, taken from the full-time payment schedule, is $5,300. Since she's attending full-time, this is also her annual award. If your school defines its academic year as 30 weeks of instructional time and 24 semester hours, Micki's annual award is divided by 2 to arrive at the disbursement for the fall semester.

$$\frac{\$5{,}300}{2} = \$2{,}650 \text{ for Fall}$$

Micki decides that a full-time schedule is too ambitious, so she enrolls in the spring term as a 3/4-time student. Her EFC is the same, and even though her tuition is slightly less, the Pell award is still based on full-time costs. However, her annual award is now based on the 3/4-time disbursement schedule, so her spring payment will be less than her fall payment.

$$\frac{\$3{,}975}{2} = \$1{,}988 \text{ for Spring}$$

Note that Micki's Scheduled Award is still $5,300, and she has only received $4,638. This means that she is still eligible for up to $662 in Pell funds from this award year's first Scheduled Award if she attends a summer term that is part of the same award year. If the summer payment is greater than $662 and she is enrolled at least half-time, the balance of her payment would be from her second Scheduled Award (we'll discuss other summer term payment options later in this chapter).

FORMULA 2: STANDARD-TERM PROGRAMS WITH LESS THAN 30 WEEKS IN THE FALL THROUGH SPRING

Formula 2 may be used for programs that would qualify for Formula 1 except that the program's academic calendar provides less than 30 weeks of instructional time in the fall through spring terms. Like Formula 1, it simplifies the calculation payments by providing for the same calculation for all payment periods in the award year. Only a small number of schools use Formula 2; therefore, it is covered in Appendix A of this chapter.

FORMULA 3: GENERAL FORMULA FOR ANY TERM-BASED PROGRAM

Any term-based program may use this formula for Pell calculations, but you *must* use this formula for a term-based program that does not qualify for Formulas 1 or 2, for instance, a program that uses only nonstandard terms.

To calculate the payment for the term, you must prorate the annual award that you looked up on the appropriate Pell Grant payment or disbursement schedule. Unlike the term calculation in Formula 1, the annual award can't simply be divided evenly among the terms. Instead, you must multiply the annual award by a fraction that represents the weeks of instructional time in the term divided by the weeks of instructional time in the program's academic year.

$$\frac{\text{weeks* in term}}{\text{weeks* in academic year (at least 30)}}$$

If the resulting amount is more than 50% of the annual award, your school generally (see exception in sidebar) must make the payment in at least two disbursements in that payment period regardless of whether the term is a standard term or a nonstandard term. A single disbursement for a payment period can generally not be for more than 50% of the annual award. You may disburse more than 50% of the annual award once the student has completed half of the weeks of instructional time in the program's academic year definition.

Enrollment status standards for nonstandard terms

If you are using Formula 3 for a program that has standard terms, the minimum enrollment standards previously discussed would still apply for the standard terms. However, if a program has nonstandard terms, the enrollment standard must be calculated for the nonstandard terms. The full-time enrollment status is determined for a nonstandard term based on the length of the term in relation to the academic year**

$$\text{Credit hours in academic year} \times \frac{\text{weeks* in nonstandard term}}{\text{weeks* in academic year (at least 30)}}$$

** If the resulting number isn't a whole number, it is rounded up to the next whole number. For example, 3.3 is rounded up to 4, if the program's coursework is offered in whole credits. If the program's coursework is offered in fractions, the full-time enrollment status need not be rounded. For example, 3.3 would remain 3.3 as full-time and a student taking 3.4 credits in the term would be full-time.

Disbursing more than 1/2 the annual award and the 50% Requirement

34 CFR 690.63(f)

If the disbursement for the payment period results in more than 1/2 of the annual award and occurs after half of the weeks of instructional time of the academic year have passed during the payment period, you can make a disbursement of the full payment for the payment period.

For example, your school has a program that must use Formula 3. The program has 3 terms with 17, 14, and 6 weeks of instructional time and defines its academic year as 30 weeks of instructional time and 24 semester hours. Debbie is attending half-time for all three terms. Her payments for each payment period are 17/30, 14/30, and 6/30 of her half-time annual award. For the first term, you may disburse 15/30 of her award at the beginning of the term and the final 2/30 only after the 15th week of instructional time in the term. However, if Debbie establishes eligibility in the 16th week of the term, you can make a disbursement of 17/30 of the annual award at that time. Her award for the 2nd and 3rd terms may be disbursed in a single disbursement.

When to use Formula 3

➔ If a term program uses only nonstandard terms, or if a term program has standard terms, but does not qualify for formulas 1 or 2, you must use Formula 3 for Pell calculations.

➔ Any term program can opt to use Formula 3. However, standard term programs that qualify for Formula 1 or 2 generally prefer to use that formula because it is simpler.

Regulatory citations

Formula 3 described: 34 CFR 690.63(a)(3)

Enrollment status for nonstandard terms:
34 CFR 690.63(d)(1)(ii)

Disbursement cannot exceed 50% of the annual award:
34 CFR 690.63(f)

Fractions

Remember when using fractions, multiply first, and then divide. Dividing the fraction first to produce a decimal can cause an error if you need to round the decimal up or down.

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

After your school has determined the number of credit hours required for full-time enrollment, your school can then determine the less-than-full-time status for the nonstandard term using the following formula:

$$\frac{\text{Credit hours student takes in the nonstandard term}}{\text{Credit hours required for full-time enrollment in the nonstandard term}}$$

Formula 3: Payments for standard terms

Hodge College has a semester-based program with a 2-semester academic calendar that comprises 28 weeks of instructional time. The program's academic year is defined as 24 semester hours and 30 weeks of instructional time. If both semesters are 14 weeks in length, the Pell payment for a full-time student with a Scheduled Award of $4,090 would be calculated as follows:

$$\frac{\text{14 weeks* in term}}{\text{30 weeks* in academic year}} \quad \text{X} \quad \$4{,}540 = \$2{,}118.66$$

Formula 3: Payments for nonstandard terms of equal length

Just a few miles down the road from Hodge, Greenway University has a program that consists of four 8-week terms. Greenway University defines the academic year as 40 quarter hours and 32 weeks of instructional time. Because this program does not use standard terms (semesters, trimesters, or quarters), Greenway University must use Formula 3 to calculate Pell disbursements for students in the program. Let's use the example of a student who attends all four terms for 10 quarter hours each term in the 2009-10 award year, and has a Scheduled Award of $3,740.

Because the program has nonstandard terms, Greenway University must determine the number of credit hours required for full-time enrollment in each term, as follows:

$$\frac{\text{8 weeks* in term}}{\text{32 weeks* in academic year}} \quad \text{X} \quad \text{40 quarter hours} = \text{10 quarter hours}$$

A student enrolled for 7 hours could be paid as a half-time student (7/10 = .7, which is less than 3/4 [.75] but greater than 1/2 [.5]) Since the student in our example will be enrolled for 10 hours each term, she is a full-time student and her annual award is the same as her Scheduled Award. This is a term-based, credit-hour program, so the payment period is the term.

To determine the student's payment for each payment period, multiply her annual award by the length of the nonstandard term compared to the length of the academic year:

$$\frac{\text{8 weeks* in term}}{\text{32 weeks* in academic year}} \quad \text{X} \quad \$3{,}740 = \$935$$

*These fractions use weeks of instructional time as defined in Chapter 1, which will not necessarily be the same number as the calendar weeks in an academic year.

Formula 3: Payments for nonstandard terms of unequal length

Bob is enrolled in a semester-hour program at Dalaran University that has a 10-week nonstandard term between two 12-week nonstandard terms. The terms do not overlap. The academic year for the program is defined as 34 weeks of instructional time and 24 semester hours. Courses are offered in whole credits. Dalaran must use Formula 3 to calculate Pell Grant payments for students in this program. He enrolls for 6 semester hours in each of the three terms. Because the program has nonstandard terms, Dalaran must determine the number of credit hours required for full-time enrollment in each term, as follows.

For the first and third term:

$$\frac{\text{12 weeks* in term}}{\text{34 weeks* in academic year}} \times \text{24 semester hours} = \text{8.47 (round up to 9)}$$

For the second term:

$$\frac{\text{10 weeks* in term}}{\text{34 weeks* in academic year}} \times \text{24 semester hours} = \text{7.06 (round up to 8)}$$

A student must enroll in 9 semester hours (rounded up from 8.47) in the first and third terms, and 8 semester hours (rounded up from 7.06) in the second term, to be full-time. Bob is enrolled half-time in the first and third terms (6 semester hours/9 semester hours = .67). He is enrolled three-quarter time in the second term (6 semester hours/8 semester hours =.75). The cost of attendance does not need to be prorated because the fall through spring terms provide the same number of weeks of instructional time as in the academic year definition. Further, the school has determined the costs for a full-time student for a full academic year.

Based on a cost of attendance of $8,745 and an EFC of 1214, the half-time disbursement schedule shows that Bob is eligible for an annual award of $2,050. Because this is a term-based credit-hour program, the payment period is the term. To calculate Bob's payment for the first and third terms, the school uses the fraction 12/34:

$$\frac{\text{12 weeks* in term}}{\text{34 weeks* in academic year}} \times \$2{,}050 = \$723.53$$

Bob's payment for each of the first and third terms will be $723.53.

Since Bob's enrollment status for the middle term is three-quarter time, the payment for that term is based on a three-quarter-time annual award of $3,075. To calculate the payment for the middle term, the school uses the fraction 10/34:

$$\frac{\text{10 weeks* in term}}{\text{34 weeks* in academic year}} \times \$3{,}075 = \$904.41$$

Bob's payment for the middle term (the second payment period) is $904.41.

*These fractions use weeks of instructional time as defined in Chapter 1, which will not necessarily be the same number as the calendar weeks in an academic year.

Formula 4 requirements

34 CFR 690.63(a) and (e). All clock-hour and nonterm credit-hour programs must use Formula 4.

Enrollment status standards for clock-hour and other nonterm programs

For nonterm programs, the enrollment minimums are:

Full-time in credit hours: 24 semester hours, 24 trimester hours, or 36 quarter hours per academic year.
Less than 1/2-time status is defined as less than half of the workload of the minimum full-time requirement.

Full-time in clock hours: at least 24 clock hours per calendar week.

Coursework completion requirement & withdrawal/re-entry

Students in nonterm programs must successfully complete a payment period to receive subsequent payments. We'll discuss the effect of withdrawal and re-entry into a program in Volume 5.

Receiving less than the Scheduled Award due to crossover

A student may also receive less than a Scheduled Award in an award year, if the program crosses award years and the student's Pell Grant award in one of the award years is for a portion of the program that is less than a full academic year

FORMULA 4: CLOCK-HOUR AND NONTERM CREDIT-HOUR PROGRAMS

Checking 1/2-time enrollment status

For clock-hour programs and for nonterm credit-hour programs, enrollment status only makes a difference if the student is attending less-than-half-time. If that's the case, only certain components of the cost of attendance are used. (See discussion in Chapter 2.)

The annual award for a student in a clock-hour or nonterm credit-hour program is taken from the full-time payment schedule, even if the student is attending less than full-time.

Calculating payment amounts

Pell Grants must be paid in installments over the course of the academic year or program of study to help meet the student's cost in each payment period. The payment period determines when Pell funds are disbursed and the exact amount to be disbursed. You must use the rules discussed in Chapter 1 to determine the payment periods for clock-hour and nonterm credit-hour programs.

In nonterm programs, the student's Pell award is not reduced for part-time enrollment unless the student is enrolled less than half-time in which case the student's cost of attendance must be adjusted. However, if the program is less than an academic year (in either clock/credit hours or weeks of instructional time), students enrolled in that program won't receive a full Scheduled Award.

As in the case of the other formulas, you must perform comparable prorations of the award for each payment period in the student's program. The calculation for the payment period prorates a student's Scheduled Award based on the number of credit or clock hours in the payment period as they compare to the credit or clock hours in the defined academic year or the number of weeks of instructional time in the payment period as they compare to the weeks of instructional time in the academic year. To determine the payment for a payment period, multiply the student's Scheduled Award by the lesser of:

$$\frac{\text{Number of credit/clock hours in program's academic year}}{\text{Number of credit/clock hours in the payment period}}$$

or

$$\frac{\text{Weeks* in the payment period}}{\text{Weeks* in the program's academic year (at least 30 for credit-hour, at least 26 for clock-hour}}$$

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

Payments for credit-hour nonterm program (Formula 4)

Chance is enrolled at Tinkers Technical Institute (TTI) and has a Scheduled Award of $3,900. His program is 24 quarter hours and 20 weeks of instructional time in length. The academic year for the program is defined as 36 quarter hours and 30 weeks of instructional time. TTI has established two payment periods of 12 quarter hours and 10 weeks* each for Evers' program. To determine the disbursement for the payment period, TTI must multiply the Scheduled Award by the lesser of the fraction comparing the hours in the payment period to the hours in the academic year, or the fraction comparing the weeks in the payment period to the weeks in the academic year. The two possible calculations would be as follows:

1) $\frac{\text{12 quarter hours in payment period}}{\text{36 quarter hours in academic year}}$ X $4,190 = $1,396.67; or

2) $\frac{\text{10 weeks* in payment period}}{\text{30 weeks* in program's academic year}}$ X $4,190 = $1,396.67

Since the two resulting fractions (12/36 and 10/30) are the same, there technically is no "lesser" fraction and you use either to get $1,396.67. Thus, Evers' payment for the first payment period will be $1,396.67. Chance can receive this payment when he begins the program. Because students don't earn any of the 24 quarter hours until they complete the entire program, TTI can make the payments of $1,396.67 for the second payment period after TTI has determined that Allen has successfully completed 12 quarters hours and 10 weeks of instructional time of the program.

Payments for clock-hour program (Formula 4)

Chance is enrolled in a program 900 clock-hours and 22 weeks of instructional time in length at Evers Technical Institute (ETI) and is eligible for a Scheduled Award of $2,190. ETI defines the academic year for the program based on the regulatory minimums: 900 clock hours and 26 weeks of instructional time. To calculate Chance's payment, ETI calculates the payment for each payment period as follows: It multiplies the Scheduled Award ($2,640) by the lesser of the fraction comparing the hours in the payment period to the hours in the academic year, or the fraction comparing the weeks in the payment period to the weeks in the academic year. The two possible calculations would be as follows:

1) $\frac{\text{450 clock hours in the payment period}}{\text{900 clock hours in the academic year}}$ X $2,640 = $ 1,320; or

2) $\frac{\text{11 weeks* in the payment period}}{\text{26 weeks* in the program's academic year}}$ X $2,640 = $ 1118.23

Chance's payment for the first payment period will be $1,118.23. He can get this payment when she begins the program. He can receive his second payment of $1,118.23 after he successfully completes the 450 clock hours in the first payment period.

*The fractions in these examples use weeks of instructional time as defined in Chapter 1, which will not necessarily be same number as the calendar weeks in an academic year.

FORMULA 5: CORRESPONDENCE STUDY

Formulas 5A & 5B are formulas that must be used for correspondence students. Because there are only a small number of Pell Grants made to correspondence students, the formula for correspondence study programs is covered in Appendix B of this chapter.

Alternate calculation that includes summer term

If you're working with a standard-term program that meets the rules for Formula 1 or Formula 2, you may divide the annual award by the number of all the terms (including the summer term) in the award year. The advantages and disadvantages of this approach were discussed in the examples accompanying Formula 1.

SUMMER TERMS & OTHER "CROSSOVER PAYMENT PERIODS" *NEW*

Payment periods don't always fall neatly into one award year or another. A new award year starts every July 1. When a payment period falls into two award years—that is, it begins before July 1 and ends on July 1 or later—it's called a "crossover payment period." The formula for calculating the payment for a crossover payment period is the same as that for any other payment period in the award year. However, you must check the student's remaining eligibility if a student has already received payments for previous payment periods in the award year and the crossover period is assigned to the earlier award year.

Crossover and Multiple Scheduled Awards for 2009-10 *NEW

HEOA Section 401

For the 2009-2010 award year, there is be an option to award students 2 Pell Grant Scheduled Awards during a single award year if the student is enrolled at least half-time for more than one academic year (as defined for their program of study), more than 2 semesters, or the equivalent time during a single award year. There will not be any regulations for this provision for 2009-2010. For 2009-2010, schools should strive to be flexible in adapting their methods to award Pell in the case of two Pells in an award year to best meet the needs of students. For more detail on two Pells in an award year, see discussion earlier in this chapter.

*Payment from either award year **

You can make a payment for a crossover payment period out of either award year, if the student has a valid output document for the award year selected. However, if more than six months of the payment period is in a given award year, the Pell payment must be made from that award year. You may assign two consecutive payment periods to the same award year. For example, you could treat summer 2009 and summer 2010 as both being in the 2009-2010 award year.

The decision about which award year to use is usually based on the student's remaining eligibility in the earlier award year. You can assign the crossover payment period to either award year, on a student-by-student basis—you do not have to attribute the crossover period to a particular award year for all students. For instance, if a student had already been paid for two semesters as a full-time student for a full 30-week academic year in the 2009-2010 award year, the student would have been paid a full Scheduled Award for that year. In this case, for further enrollment in 09-10, if the student was enrolled at least 1/2-time, you could then pay the student for the crossover payment period out of the second Scheduled Award 2009-10 for the award year, provided the student is eligible for the second Pell Scheduled Award.

In some cases, you may attribute the crossover payment period to a particular award year for all students enrolled in that period. For instance, you could attribute your summer session in 2010 to the 2009-10 award year for the purposes of all Pell payments for that period. However, if you attribute the crossover period to the 2009-10 award year for all students, you must pay Pell awards to all students enrolled in that payment period who have remaining Pell eligibility (including any 2nd Pell Scheduled Award eligibility) in the 2009-10 award year. If only some of the students will be eligible for a second Scheduled Award, you should not assign crossover payment periods to one award year or another for all students, as the second Pell award may cause the assigned year to vary from student to student.

Term schools: using the right formula for summer session

If your school offers a summer term in addition to Fall through Spring terms that qualify for Formula 1 or 2, you will calculate the student's payment for the summer term using the same Formula that you used to calculate payments for the other terms in the award year to which the summer term is assigned. If you use Formula 3 for Pell Grant calculations in any of the terms in an award year, then you must use Formula 3 for *all* terms in that program that occur in that award year, including the fall through spring terms. (Note that if your program is a standard-term program in the fall through spring and does not define full-time enrollment in the summer as at least 12 credit hours, you must use Formula 3 for Pell calculations for all terms in the award year.) With regard to enrollment status, your school must apply its definition of full-time status for the summer term consistently for *all* FSA program purposes.

The cost of attendance for summer terms

Costs for summer terms are figured in the same way as for any other payment period; that is, the costs are based on a full academic year. If your school has fall and spring semesters that comprise an academic year, you can't add the costs for the summer term to the costs for the fall and spring semesters. The award for the summer term is still based on the costs for one academic year. However, if the academic year definition includes the summer term, then the costs for the summer term *must* be included in the cost for a full academic year.

Scheduled Award(s) for summer term* *NEW*

Dave enrolls three-quarter time in the fall, spring, and summer terms at Arneson University. His Scheduled Award is $3,000 and his three-quarter time annual award is $2,250. Using Formula 1, Arneson determines that Dave can receive $1,125 for each term. For the fall and spring semesters, he'll receive a total of $2,250. To pay him for summer from the 2009-10 award year as well, Arneson can pay Dave the full $1,125, if Dave meets the eligibility requirements for a 2nd Pell Grant Scheduled Award (there would be only $750 remaining on his first Scheduled Award). This will mean that Arneson has paid the remaining $750 of the first Scheduled Award ($3,000 minus $1,125 x 2), plus $375 from the second Scheduled Award.

As an alternative, or if Dave did not qualify for a second Pell Scheduled Award (for example, being enrolled less than half-time), Arneson could also pay Dave a Pell disbursement for the summer term as a header from the 2010-2011 award year. This may reduce the amount of Pell that Dave can receive for subsequent 2010-11 terms if he is not eligible for a 2nd Scheduled Award. Dave's Scheduled Awards for both 2009-2010 and 2010-11 are $3000, and his eligibility (from his 1st Scheduled Award) would be truncated in the Spring term (i.e, reduced below the level normally calculated for the term), since he has already used some eligibility up in the Summer header term. Arneson could then pay the remaining amount that Dave was calculated to be eligible for out of a second Pell Scheduled Award for 2010-2011, if Dave is eligible for a 2nd Pell Scheduled Award (this is not shown in this example).

Option 1: Pay Summer from 2nd 2009-10 Scheduled Award

Fall 09 = $1,125 (3/4-time)	Spring 10 = $1,125 (3/4-time)	Summer 10 = $1,125 (3/4-time) remaining 1st Scheduled Award + funds from 2nd Scheduled Award)

Option 2: Pay Summer from 2010-11 Scheduled Award

Summer 10 = $750 (Less than 1/2-time)	Fall 10 = $1,500 (full-time)	Spring 11 = $750** (full-time, remaining eligibility of 2010-2011 1st Scheduled Award)

**Truncated in this example; Dave could also potentially be paid remaining eligibility for spring out of a 2nd Pell Scheduled Award for 2010-2011.

If the student was previously enrolled in the award year, you may be able to use the same cost of attendance for the summer term that it used for the immediately preceding term that the student attended. However, this isn't possible if the costs are different from the fall through spring such as a different tuition charge per credit hour or you are required to recalculate the cost of attendance. (See the end of this chapter for information on when recalculations are required.) If it's necessary to base the student's cost of attendance on the summer term, you must prorate the summer costs to establish the cost for an academic year. (See Chapter 2 on prorating costs in the Pell Grant program.)

If the summer session is the first term in the award year for that student (for example, your school is paying a student for the summer 2009 term from the 2009-2010 award year), you must establish the student's full-year cost based on the costs for the *summer* term. If the student enrolls in another term in that award year, you may have to recalculate the student's costs for the later term.

Summer minisessions

If a term-based school offers a series of minisessions that overlap two award years (by "crossing over" the June 30 end date for one award year), these minisessions may be combined and treated as one term. However, schools are not required to combine these minisessions.

Minisession Enrollment Status Example

Bob is enrolled in a summer session with three-week minisessions that his school, Falcon University, has combined into 1 term. Falcon U. is using Formula 1 to calculate Bob's combined term, and knows as such they must define full-time enrollment as at least 12 credit hours, even though the individual component minisessions may have originally considered full-time to be something less than 12 credit hours. Bob is enrolled for 6 credits during the combined summer minisession term. Bob's enrollment status is equal to the proportion of his credits to the school's definition of full-time for the combined term. Therefore, Bob should be credited with half- time enrollment status for the combined summer term.

When you combine minisessions into a single term (i.e., payment period), the weeks of instructional time in the combined term are the weeks of instructional time from the beginning of the first minisession to the date the last minisession ends. The student's enrollment status for the entire payment period must be calculated based on the total number of credits the student is projected to take for all sessions. You must project the enrollment status for a student on the basis of the credits the student has:

- pre-registered or registered to take for all sessions;
- committed to take for all sessions in an academic plan or enrollment contract; or
- committed to take for all sessions in some other document.

When you combine the minisessions into a single term, a student cannot be paid more than the amount for one payment period for completing any combination of the minisessions. If the minisessions are not combined into a single payment period, you must treat each minisession as a separate nonstandard term and generally must use Formula 3 to calculate Pell Grant payments. If for each minisession you define full-time as at least 12 credit hours, you may be able to use Formula 1 or 2 if the program otherwise qualifies for one of these formulas.

Formula 3 minisessions and other nonstandard terms

If you use Formula 3 for any of the summer minisessions, or any other nonstandard term, e.g., a winter intersession, remember that you must also use it for all other terms in the award year, including Fall through Spring.

If the minisessions are combined in a single term and a student does not begin attendance in all of the minisessions, recalculation of prior disbursements is required based on the resulting changed enrollment status as discussed later in this chapter.

Combined minisessions into standard term

Gary enrolls part time at Jackson University which defines its academic year as 24 semester hours and 30 weeks of instructional time. In addition to fall and spring semesters, Jackson offers three summer minisessions. Each minisession provides 4 weeks of instructional time. Jackson can either combine the minisessions into a single nonstandard term, or treat each session as a separate nonstandard term. The school chooses to combine the sessions into a single payment period providing 12 weeks of instructional time with full-time enrollment in this period defined as 12 semester hours. If Jackson meets the conditions for use of Formula 1 in its fall and spring semesters, it can use Formula 1 to calculate Pell payments for this summer session.

Summer Term
(12 weeks, 12 hours full/time)

Gary enrolls for 3 semester hours in each of the minisessions, so he's enrolled three-quarter time (9 hours total in the combined term). His Scheduled Award is $3,540 and his annual award (from the 3/4-time disbursement schedule) is $2,655. To calculate Gary's payment, Jackson simply divides the annual award by 2, the number of terms in the fall through spring: $2,655 /2 = $1,327.50.

Minisessions treated as nonstandard terms

Suppose Jackson didn't combine these minisessions. If it defined full-time enrollment for each 4-week minisession as less than 12 semester hours, it would have to calculate all Pell payments for the program using Formula 3. Because these are nonstandard terms, Jackson would have to determine Gary's enrollment status for each mini-session by prorating the standard for full-time enrollment in a full academic year (24 semester hours):

$$24 \text{ semester hours } X \frac{\text{4 weeks* in term}}{\text{30 weeks* in academic year}} = \text{3.2 semester hours (round up to 4**)}$$

For each of the 4-week terms, a full-time student must enroll in 4 semester hours, and based on that standard, the 3 semester hours that Gary is attending in each minisession counts as 3/4 time enrollment status. Note that Jackson would use the Pell cost of attendance for a full-time student attending a full academic year. Jackson would determine his payment for each minisession (assuming his Scheduled Award remains unchanged across both award years and that he is not receiving a 2nd Scheduled Award within 1 award year) using the following calculation:

$$\frac{\text{4 weeks* in term}}{\text{30 weeks* in academic year}} \; X \; \$2{,}655 = \$345.15.$$

Gary would receive $345.15 for each of the minisessions, for a total of $1,035.45 for the summer. Again, these payments for one or more minisessions that are in the prior award year may need to be reduced if Gary had previously received payments for the fall and spring semesters in the same award year.

** since Jackson only offers courses in whole credits

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

Transfer student

34 CFR 690.65

Mid-year transfer: "Dear Colleague" Letter GEN-00-12

Percent of remaining eligibility: 34 CFR 690.65(d)

NSLDS Financial Aid History and Transfer Monitoring

Before disbursing FSA funds to a transfer student, you must obtain a financial aid history for the student and you must inform NSLDS about the transfer student so that you can receive updates through the Transfer Student Monitoring Process.

The financial aid history will not only identify Pell Grant disbursements that the student received at other schools, but tell you if the student is ineligible for any FSA aid due to default or overpayment, or if the student has reached annual or aggregate limits for Stafford loans.

Why percentages are used

The reason for using percentages is that a transfer student may have different Scheduled Awards, for example, the costs of attendance at the two schools may be different. The percentages are also used to compare the portions of a student's total eligibility that have been used at both schools. (If the student's Scheduled Award is the same at both schools, the financial aid administrator can find the amount of the student's remaining eligibility simply by subtracting the amount received at the first school from the Scheduled Award.)

TRANSFER STUDENTS *NEW*

The Pell payment for a transfer student is calculated in the same way as for any new student. That is, you must calculate payments for each payment period following the rules given in this chapter. However, a transfer student's remaining Pell eligibility at your school is reduced if the student received Pell funds for the same award year at any prior schools. You can identify the student's prior Pell disbursements when you review his or her Financial Aid History in NSLDS (see sidebar).

Calculating remaining eligibility

Once you've identified the Pell amounts that a transfer student has already received for the ongoing award year, you must calculate the percentage of the Scheduled Award (remember there may now be more than 1 Scheduled Award in an award year) that has been used. This percentage is calculated by dividing the amount disbursed at the previous school by the student's Scheduled Award at that school.

$$\frac{\text{Pell disbursed at prior school}}{\text{Scheduled Award at prior school}} = \text{\% of Scheduled Award used}$$

Then subtract this percentage from 100%. The result is the maximum percentage of the Scheduled Award that the student may receive at your school. Note that a transfer student receives the same payments as any other student until the limit (100% of a Scheduled Award) is reached. You give the student the full amount for each payment period, rather than trying to ration the remaining amount by splitting it evenly across the remaining terms.

A transfer student may be eligible for a second Pell Grant Scheduled Award after he or she has received all of his or her first Scheduled Award.

Payment period for a transfer student at a nonterm school

When a student transfers into a nonterm credit-hour or clock-hour program at a new school, that student is starting a new payment period. For nonterm programs, you must use the payment period rules described in Chapter 1 to determine the payment periods for the remainder of the student's program.

However, for a transfer student, the length of the program is the number of clock or credit hours and the number of weeks of instructional time that the student will be required to complete in the new program. If the remaining clock or credit-hours *or weeks of instructional time* are half an academic year or less, then the remaining hours and weeks of instructional time constitute one payment period.

RETAKING COURSEWORK

For term-based credit-hour programs, students may generally receive FSA funds for retaking coursework and the credits may be included in the total number of credits that the student is taking when determining enrollment status as long as your school gives the student additional credit for the repeated course and the student is making satisfactory academic progress. Generally, schools do not give a student credit for repeating a course to earn a better grade, unless the student fails a course the first time and receives no credit for the failure. The treatment of repeated coursework is different for students in nonterm credit-hour and clock-hour programs. For more details and examples on retaking coursework, see the full discussion in Chapter 1 of this volume.

Transfer student example (calculating remaining eligibility) (one remaining term at new school)

Jill attends fall and winter terms at Podolak College using nonstandard terms. She then transfers to Clark University for the spring semester. The aid administrator at Clark University checks NSLDS, which shows that Jill received $1,003 in Pell payments and had a $1,700 Scheduled Award. Jill is eligible for a $2,140 Scheduled Award at Clark. To determine how much Jill can be paid, the aid administrator at Clark first figures out what percentage of the Scheduled Award she received at her first school:

$$\frac{\$1{,}003 \text{ disbursed at Podolak}}{\$1{,}700 \text{ Scheduled Award at Podolak}} = 59\%$$

Subtracting this percentage from 100%, the aid administrator finds that Jill is eligible for 41% of her 1st Scheduled Award at Clark. The Scheduled Award is multiplied by this percentage to find the dollar amount of Jill's remaining eligibility.

41% x $2,140 Scheduled Award = $877.40 remaining Pell eligibility

A student with a $2,140 Scheduled Award would ordinarily receive a $1,070 payment for one semester (if enrolled full-time). However, for her 1st Scheduled Award, Jill can't be paid more than $877.40, because she has received 59% of the Scheduled Award at Podolak College. Jill may be eligible for a second Pell Scheduled Award if she continues in the award year enrolled at least half-time.

Transfer student example (two remaining terms at new school)

Shonn transfers to Evashevski Conservatory during the award year and enrolls for two terms. He would ordinarily receive a $500 payment for each term. However, his remaining eligibility for his 1st Scheduled Award, based on payments at the previous school, is only $600. Rather than "rationing" this amount by splitting it into two $300 payments for the two terms, Evashevski must pay Shonn $500 for the first term and the remainder ($100) for the second term in accordance with the requirements for calculating the payment for the payment period. This way, Shonn will receive the full payment he's entitled to for the first term, even if he doesn't return for the second term (assuming he will only receive one Pell Scheduled Award for the award year).

Scheduled Award limit and Two Pells in an award year *NEW

When tracking remaining Pell eligibility for 2009-2010, you must remember that for the 2009-2010 award year, there is a provision to award students 2 Pell Grant Scheduled Awards during a single award year if the student is enrolled at least half-time. See earlier discussions of 2 Pells in this chapter for more detail.

AWARDING REMAINING PELL ELIGIBILITY* *NEW*

Consider a student who is eligible for Federal Pell Grant funds and who transfers from one school (school A) to another school (school B) within the same award year. Before paying any Pell funds to the student, school B must determine the percentage of eligibility remaining to the student. After transferring, a student's remaining Pell Grant eligibility for a Pell Scheduled Award (they may be eligible for a second Scheduled Award for 2009-2010) during an award year is equal to the percentage of the student's *Scheduled Award* that remains unused, multiplied by the student's Scheduled Award at the new school.

School B may pay the student a Pell Grant only for that portion of an academic year in which the student is enrolled and in attendance at school B. The grant must be adjusted, as necessary, to ensure that the funds received by the student for the award year do not exceed the student's Scheduled Award for that award year unless the student is eligible for a second Scheduled Award.

The award for each payment period is calculated using the (full) Scheduled Award. The student receives a full award until the student has received 100% of the student's remaining eligibility for a Scheduled Award (again, for 2009-2010 they may be eligible for a second Pell Scheduled Award within an award year). This avoids a school having to ration the remaining amount by splitting it evenly across the remaining terms.

To calculate a transfer student's remaining eligibility for a Scheduled Award, school B must first determine what percentage of the Scheduled Award the student used at school A. On the student's current ISIR, on the Financial Aid History Page, in a section headed ***Pell Payment Data***, school B will find an entry for ***% Sch. Used***. School B subtracts the percentage listed under ***% Sch. Used*** from 100%. The remainder is the unused percentage of the student's Scheduled Award— the percentage the student may receive at school B. (Use percentages rather than dollars because a transfer student may have different Scheduled Awards at the two schools; using percentages rather than dollars adjusts for this possible difference.) School B then multiplies the percent of eligibility remaining times the Scheduled Award at the new school. The result is the maximum amount of Federal Pell Grant funds the student may receive for their first Scheduled Award (see sidebar) at school B during the balance of the award year.

When assessing eligibility for a second Pell Scheduled Award, one measures whether the student has received 100 percent of the first Scheduled Award.

Note: Following the appropriate procedures relative to the figure reported in ***% Sch. Used*** will ensure that a transfer student does not receive more than 100% of the student's Scheduled Award. Therefore, school B may ignore the actual grant and overpayment amounts from school A in school B's calculations.

RECALCULATIONS

In certain cases, you may have to recalculate the student's Pell Grant after the initial calculation or disbursement, to account for changes to the student's costs, EFC, or enrollment status.

Change in the EFC (recalculation required)

If the student's EFC changes due to corrections, updating, or an adjustment, and the EFC change would change the amount of the Pell award, you must recalculate the Pell award for the entire award year. If, as a result of the recalculation, the student has received more than his or her award amount, then the student has received an overpayment. In some cases, you may be able to adjust an award by reducing or canceling later payments to the student in the same award year. However, if the overpayment can't be eliminated, you must follow the procedures in Volume 5 of the *FSA Handbook*.

A student selected for verification can't *increase* his or her eligibility based on a corrected output document that you receive during the "verification extension" (120 days after the student's last day of enrollment, not to extend beyond the deadline date established by a Federal Register notice). For example, if the student submits a reprocessed SAR during the extension period and the SAR has a lower EFC than the previous SAR (increasing the student's eligibility), you may not recalculate the student's Pell Grant based on the later SAR. The student would be paid based on the *higher* EFC on the SAR that was submitted earlier. However, if the corrections *reduce* the student's eligibility (that is, if the reprocessed SAR had a higher EFC), then the award must be calculated based on the reprocessed SAR.

Change in enrollment status between terms (recalculation required)

In a term program that uses credit hours, you must calculate a student's payment for each term based on the enrollment status for that term. If a student attended full-time for the first term and then enrolled half-time in the second term, you must use the half-time enrollment status to calculate the student's payment for the second term.

Student doesn't begin attendance in all classes within a term (recalculation required)

If the student doesn't begin attendance in *all* of his or her classes, resulting in a change in the student's enrollment status, you must recalculate the student's award based on the lower enrollment status. A student is considered to have begun attendance in all of his or her classes if the student attends at least one day of class for each course in which that student's enrollment status was determined for Federal Pell Grant eligibility. Your school must have a procedure in place to know whether a student has begun attendance in all classes for purposes of the Federal Pell Grant Program. The Department does not dictate the method a school uses to document that a student has begun attendance. However, a student is considered not to have begun attendance in any class in which the school is unable to document that attendance.

Initial Calculation

An initial calculation is the first calculation that is made on or after the date the school has received an ED-product EFC* such as the student's initial SAR or ISIR with an official EFC and uses the enrollment status at the time of the initial calculation. If you've estimated the student's eligibility prior to receiving a SAR or ISIR for the student, you must confirm that prior estimated eligibility or determine the student's eligibility at the time the SAR or ISIR is received.

You should document the date that you initially calculate a student's Pell Grant. The earliest date is the date of receipt of an ED-product EFC*, such as on a SAR or ISIR (assuming the school has a documented or projected enrollment status for the student). If you fail to document the date of the initial calculation, you must use the later of (a) the date that the SAR or ISIR is first received and the student's enrollment status as of that date or (b) the date the student enrolls.

Your school is considered to have received the ISIR on the date it was processed. This date is labeled "Processed Date" on the ISIR. In the case of a SAR, your school is considered to have received it on the date processed unless you document a later date. The processing date on a SAR is the date above the EFC and, on a SAR Acknowledgment, the "Transaction Processed Date."

*Note: An ED-product EFC may be an EFC from a SAR/ISIR, FAA Access, or FAFSA on the Web.

Changes to the EFC

There are three ways that a student's EFC can change:

1. Corrections. The student may have to correct a mistake that was reported on the original FAFSA or SAR/ISIR. This frequently occurs as a result of verification, but it may also be a result of the student's own review of the SAR/ISIR.
2. Updating. In some cases, a student is required to update changes to dependency status, household size, and the number in college (see *Volume I: Student Eligibility* for details).
3. Professional judgment. You may, on a case-by-case basis, adjust one or more of the data elements used to calculate the EFC. In some cases, you might make an adjustment during the award year to reflect a student's changed circumstances. For example, if a wage-earning parent dies after the student's first semester, you could adjust the adjusted gross income in the EFC formula to reflect the loss of income. You may also determine that a dependent student should be considered independent.

If the student has already been paid based on the original EFC, the award will have to be recalculated.

Change in enrollment status within a term (optional recalculations)

The regulations don't require any recalculation for changes in enrollment status after the student has begun attendance in all of his or her classes. However, your school can have a policy of recalculating an award if a student's enrollment status changes within a term. If such a policy is established, it must be applied consistently to all students in a program. For example, if the school chooses to recalculate for a student whose enrollment status increases from half-time to full-time, it must also recalculate for a student whose enrollment status decreases. If the school establishes a policy allowing optional recalculations for an educational program, this policy must be in writing.

Your school's policy may set a date after which Pell Grants will not be recalculated for enrollment status changes. For example, a school can establish a policy that it will recalculate Pell awards only for enrollment changes that occur up to the "add/drop" date of a term. This policy is true regardless of whether there is compressed coursework. The initial calculation of a student's Pell Grant may occur subsequent to the "add/drop" date of the term, including terms with compressed coursework. If that is the case, you must use the student's effective enrollment status on the date of the initial calculation, and there would be no recalculations of the student's Pell Grant for the term due to a subsequent change in enrollment status, assuming the student began attendance in each class. If the student's payment for the term is being disbursed in a subsequent payment period, you may pay the student only for the coursework completed in the term.

In the case of programs offered with compressed coursework or modules within the terms, the school may adopt a policy of setting the date based on the add/drop date of the last class in which the student enrolls, or is expected to enroll, for the term. In this circumstance, the school must take into account all adjustments to the enrollment status, both increases and decreases, up to the add/drop date of the student's last class.

If a school doesn't establish a policy for recalculation within a term, a student who begins attendance in all classes would be paid based on the initial calculation, even if his or her enrollment status changes before the disbursement is made.

If the student withdraws from all of his or her classes (or doesn't begin attending any classes), you must follow the procedures discussed in Volume 5.

Change in cost of attendance (recalculation required if you are recalculating for an enrollment status change; otherwise optional)

You're not required to recalculate Pell awards for cost changes during the award year. For instance, if the student gets accepted into on-campus housing after the fall term and your student budget for on-campus housing is lower, you're not required to recalculate the student's Pell award. If you choose to recalculate for changes in costs, you have to consistently apply that recalculation policy.

If you recalculate a Pell award because the student's enrollment status has changed, you must also take into account any changes in the student's costs at that time. For example, if a student enrolls full-time for the first semester and then drops to less than 1/2-time during that semester, the student's costs will change, because only certain cost components are allowed for less than 1/2-time students. If your school's policy is to recalculate for the enrollment change, you must use the cost for a less-than-half-time student *for a full year* to calculate the student's less-than-half-time award. You must not combine the two costs or average them.

COA changes between payment periods

A school may have a policy of recalculating awards when the cost of attendance changes from one payment period to the next—for example, because of changes to the student's tuition and fee costs, or because a student's living situation changes (such as when a student moves off campus). Schools also have the option to establish a policy to recalculate financial aid awards when a student's costs change *within* an award year, as long as the recalculation policy is carried out for all students whose costs change.

COA changes within a payment period

You may establish a policy of recalculating for cost changes from one payment period to the next, and at the same time, have a policy not to recalculate for cost changes *within* a payment period. You also have the option to establish a policy to recalculate financial aid awards when a student's costs change within a payment period. For instance, if a student with no dependents moves from a dormitory to off-campus housing at midterm, the school may wish to recalculate the student's award for that payment period.

For Pell purposes, such a policy is acceptable if its carried out for all students whose costs change within the payment period.

You may not recalculate the payment for a payment period that took place *before* the cost change. For instance, in the example above, if the student lives in the dormitory during the first quarter and then moves off campus for the second and third quarters, the recalculation would only affect the payments for the second and third quarters.

SAR/ISIR with different EFC

If you receive a SAR or ISIR with an EFC different from the one you used for the payment calculation, you must first decide which document is valid. If the new information is the correct information, and the new SAR or ISIR is the valid record. In most cases you must recalculate the student's Pell award for the entire award year based on the new EFC. For more information on SARs, ISIRs, and EFC, see the *Application and Verification Guide*.

Enrollment change: required recalculation example

Ryne registers for a full-time course load (15 credit hours), and Auberdine College makes a first-term disbursement on that basis 10 days before the term starts. When the term starts, Ryne only begins attendance in three classes (9 credit hours). Auberdine must recalculate Ryne's Pell award based on the lower enrollment status. Any difference between the amount Ryne received and his new recalculated award is an overpayment.

See Volume 5 for a discussion of overpayments.

Enrollment change within payment period

Juan registers for a full-time course load at Coulton College, and Coulton initially calculates a full-time award for her. He begins attending all of his classes but subsequently drops to half-time. Depending on Coulton's recalculation policy, Juan may still be paid based on full-time enrollment as long as he's otherwise eligible for payment. On the other hand, if Coulton did not receive Juan's first processed SAR or ISIR with an official EFC until after he dropped to half-time enrollment, the Pell initial calculation would be based on his enrollment status at the time the output document was received (half-time).

Tuition and fee charges and recalculation

If the school recalculates a student's Pell Grant due to a change in enrollment status, continuing to charge tuition and fees for credit hours no longer included in the student's enrollment status for Pell Grant purposes does not affect the requirement to recalculate the student's Pell Grant.

For example, Jackie enrolls as a full-time student with 12 credits but never starts attendance in a 3-credit class that starts after the college's "add/drop" date. Jackie's award must be recalculated as three-quarter time even though the college charges tuition for any classes dropped after the "add/drop" date and continues to charge Jackie for 12 credits.

Chapter 3 Appendices:

APPENDIX A: FORMULA 2: CALCULATIONS FOR STANDARD TERM PROGRAMS WITH LESS THAN 30 WEEKS IN FALL THROUGH SPRING

APPENDIX B: FORMULA 5: CALCULATIONS FOR CORRESPONDENCE STUDY PROGRAMS

APPENDIX C: PELL FORMULA SUMMARIES

APPENDIX A

FORMULA 2: CALCULATIONS FOR STANDARD TERM PROGRAMS WITH LESS THAN 30 WEEKS IN FALL THROUGH SPRING

The regulations provide an option for standard-term programs whose fall through spring terms provide less than 30 weeks of instructional time. Formula 2 may be advantageous for your summer term calculations. You may use Formula 2 if the program:

- has an academic calendar that consists of two semesters or trimesters (in the fall through the following spring) or three quarters (in the fall, winter, and spring);
- does not have overlapping terms; and
- measures progress in credit hours and defines full-time enrollment for each term in the award year as at least 12 credit hours.

Using Formula 2

34 CFR 690.63(a)(2), 690.63(c)

Formula 2 Alternative Calculation

Under Formula 2, you can perform the same alternate calculation as performed under Formula 1 if the weeks of instructional time in the defined academic year are the same as the total number of weeks of instructional time in all the terms in the award year. See the example for alternate calculation under the discussion of Formula 1 earlier in this chapter.

Formula 2: calculation for standard terms with Fall through Spring terms less than 30 weeks

The regulations offer an alternative formula for standard term programs with fall through spring standard terms that provide less than 30 weeks of instructional time. The significant effect of this formula is to allow you to pay the same Pell amount for the summer term as you would for one of your traditional fall through spring terms. To use this formula, the program must have two semesters or trimesters (in the fall through the following spring) or three quarters (in the fall, winter, and spring), with no overlapping terms, and define full-time enrollment for each term in the award year as at least 12 credit hours.

Let's take the example of Juan, who is attending Coulton College (Coulton), which has fall and spring semesters of 14 and 15 weeks, and a summer term of 10 weeks. Coulton defines the academic year of Juan's program as 24 semester hours and 30 weeks.* His Scheduled Award is $3,390, and he is attending as a full-time student. Because the fall and spring terms provide less than the minimum 30 weeks of instructional time for an academic year, Juan's full-time award is prorated as follows:

$$\frac{\text{29 weeks* in term**}}{\text{30 weeks* in academic year}} \times \$3{,}390 = \$3{,}277$$

This prorated amount is then divided by the number of terms: $\frac{\$3{,}277}{2} = \$1{,}638.50$

Juan will receive $3,277 for his attendance in both semesters. Note that this is less than his Scheduled Award; he may be able to receive the remaining $113 if he enrolls in a summer term.

The difference between Formula 2 and Formula 3 lies in whether you must make a separate calculation for each term. Under Formula 2, you do not have to perform a separate calculation based on the length of each term. Juan's Pell eligibility as a full-time student would be $1,638.50 under Formula 2. If Coulton used Formula 3, the annual award would be prorated based on the length of each term: 14 weeks (14/30), 15 weeks (15/30), and 10 weeks (10/30), and Juan's payments for the payment periods would be $1,582, $1,695, and $1,130 respectively.

Juan only has $113 in remaining Pell eligibility for the summer term under both formulas. His summer payment would only be different for each formula if Coulton chose to pay the summer term out of the subsequent award year. (Note that Juan's Scheduled Award and his summer payment would then be based on the EFC for the following award year.)

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

**Fall through spring.

APPENDIX B

FORMULA 5: CALCULATIONS FOR CORRESPONDENCE STUDY PROGRAMS

Correspondence program highlights

- Pell cost of attendance limited to tuition and fees (and in some cases, books and supplies)
- The enrollment status for correspondence students can never be more than 1/2-time
- The enrollment status for a student who is taking both correspondence and regular coursework may be greater than 1/2-time
- Timing of payments within payment periods is different for correspondence students
- Formula 5A or 5B used to calculate awards for correspondence students

Students enrolled in correspondence courses are eligible for aid under FSA programs only if the courses are part of a program leading to an associate, a bachelor's, or a graduate degree. Also, to be eligible, a correspondence program must meet the criteria for an eligible program (see the Volume 2 of the *FSA Handbook: Institutional Eligibility and Participation*).

PELL COST OF ATTENDANCE

The cost of attendance for correspondence programs is limited to tuition and fees, and in certain cases, books and supplies. Traditionally, books and supplies have been included as part of the correspondence program's tuition. If books and supplies are not included in the program's tuition, they may be counted as costs, for either a residential or nonresidential period of enrollment. As always, the cost of attendance must be based on the costs for a full-time student for a full academic year for the relevant component (for correspondence COA, there would be no room and board, etc.). If the student's program or period of enrollment, as measured in credit hours, is longer or shorter than an academic year as measured in credit hours, the tuition and fees for the program or enrollment period must be prorated. Because the correspondence study cost of attendance for the nonresidential component only includes costs associated with credit hours, your school always uses the credit hour-related fraction to prorate the cost of attendance as follows (because there are no costs associated with weeks of instructional time in the correspondence cost of attendance, your school has to prorate the cost only if the number of hours in the program is shorter or longer than in an academic year):

$$\frac{\text{Credit hours in program's definition of an academic year}}{\text{Credit hours to which the costs apply}}$$

The resulting amount is the full-time, full-academic-year cost used for calculating Pell Grant eligibility. When there is a residential portion in a correspondence student's program, Formula 3 or 4 (whichever applies) is used to calculate the student's payment for a payment period for a residential portion. Refer to Formula 3 or 4 guidelines, including cost of attendance determinations, for this circumstance.

Enrollment status cites for correspondence

Term classes — 34 CFR 690.66(c)(2)
Combined with regular study — 34 CFR 690.8

Academic coursework

The term academic coursework does not necessarily refer to credits. If a student does not earn any credits until the end of the program, it may refer to the lessons or other measures of learning within a course or a program. For instance, if a course or program is made up of 40 equal lessons, the student reaches the halfway point as follows:

- If the student successfully completes the first 20 lessons before the calendar midpoint of the academic year, the second payment period does not begin until the calendar midpoint.
- If the student completes the first half of the academic year before successfully completing the first 20 lessons, the second payment period does not begin until the student successfully completes the first 20 lessons.

Annual award

The annual award for a student in a nonterm correspondence program is always taken from the half-time Disbursement Schedule because a correspondence student can't receive more than half a Scheduled Award. For a student in a term correspondence program, the annual award is determined from the half-time Disbursement Schedule or the less-than-half-time Disbursement Schedule, as appropriate.
34 CFR 690.66(a)(1) and (2)

PELL ENROLLMENT STATUS

Students enrolled in programs of correspondence study are considered to be no more than half-time students, even if they're enrolled in enough coursework to be full-time. However, if the correspondence study is combined with regular coursework, the student's enrollment status might be more than half-time.

A student enrolled only in a nonterm correspondence program always has his or her award calculated based on the half-time Disbursement Schedule. For a student enrolled in a term-based correspondence program, your school must determine whether the student is enrolled half-time (6 or more credit hours in a term) or less than half-time (less than 6 credit hours in a term). Special rules are used to determine the student's enrollment status when the student is enrolled in a combination of regular and correspondence coursework.

PAYMENT PERIODS & TIMING OF PAYMENTS

For a *nonterm* correspondence program, there must be two equal payment periods in each academic year. Each payment period is the lesser of half the academic year or half the program (measured in credit hours). In addition, you can't disburse a Pell payment for the first payment period until the student has completed 25% of the work in the academic year or the program, whichever is shorter. It can't make the second payment until the student has completed 75% of the work in the academic year or program.

Correspondence Payment Periods Cites

Nonterm — 34 CFR 690.66(b)

Term — 34 CFR 690.66(c)(3),(c)(4)

For a *term*-based correspondence program, as for other term-based programs, the payment period is the term. However, you can't disburse the Pell for a payment period until the student has completed 50% of the lessons or completes 50% of the work for the term, whichever is later.

If the correspondence program has a required period of *residential training*, you must treat the residential training as an additional payment period and determine the payment for that payment period using either Formula 3 or Formula 4. Note that the correspondence portion of the program is still treated as a separate portion of the program that's divided into two equal payment periods.

PELL CALCULATIONS IN CORRESPONDENCE PROGRAMS

Formula 5 is used for students enrolled only in correspondence courses (not including residential components of correspondence programs). There are two versions of Formula 5: Formula 5A (which is similar to Formula 4) is used for nonterm programs, and Formula 5B (which is similar to Formula 3) is used for term-based programs. For a residential component of a correspondence program, your school must use either Formula 3 or Formula 4. If the residential component is a term, your school uses Formula 3; otherwise, it uses Formula 4.

For nonterm correspondence programs, this step of the calculation is similar to the step under Formula 4. For term correspondence programs, this step is the same as under Formula 3.

For the Pell calculation, you are required to determine the number of weeks of instructional time in the program by preparing a written schedule for the lessons that the student will submit. A nonterm correspondence program must require at least 12 hours of preparation per week. A term-based correspondence program must

require at least 30 hours of preparation per semester hour or at least 20 hours of preparation per quarter hour during the term.

Nonterm correspondence program—Formula 5A

You first multiply the annual award (taken from the half-time disbursement schedule) by the lesser of:

$$\frac{\text{Number of credit hours in the payment period}}{\text{Credit hours in program's academic year definition}}$$

or

$$\frac{\text{Weeks* in the payment period}}{\text{Weeks* in program's academic year definition}}$$

Term correspondence program—Formula 5B

You multiply the annual award (taken from the half-time or less-than-half-time Disbursement Schedule) by the weeks of instructional time in the term divided by the weeks in the academic year:

$$\frac{\text{Weeks* in term}}{\text{Weeks in program's academic year definition}}$$

Correspondence Multiple Formulas Exception

If a correspondence student has one or more payment periods in an award year that contain only correspondence study and one or more payment periods in the same award year that contain a residential portion, your school would use two different formulas for determining a student's payment for each payment period. This instance is the only one in which a school would use two different Pell formulas within the same award year for students in the same program.

A single disbursement for a payment period can never be more than 50% of the annual award. If the resulting amount is more than 50% of the annual award, your school must make the payment in at least two disbursements in that payment period. You may not disburse an amount that exceeds 50% of the annual award until the student has completed the period of time in the payment period that equals 50% of the weeks of instructional time in the program's academic year definition.

*Note: The fractions on this page use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

APPENDIX C FORMULA SUMMARIES

Formula 1 Summary

Standard-term, credit-hour programs, with 30 weeks of instructional time (or waiver applies) For a program with a traditional academic calendar, the program:

- must have an academic calendar that consists, in the fall through spring, of two semesters or trimesters, or three quarters (note that summer may not be a standard term);
- must have at least 30 weeks of instructional time in fall through spring terms;
- must not have overlapping terms; and
- must define full-time enrollment for each term in the award year as at least 12 credit hours and must measure progress in credit hours.

Other programs offered in standard terms may use Formula 1 if they start the terms for different cohorts of students on a periodic basis (for example, monthly). These programs:

- must have an academic calendar that consists exclusively of semesters, trimesters, or quarters;
- must have at least 30 weeks of instructional time in any two semesters or trimesters or any three quarters;
- must start the terms for different cohorts of students on a periodic basis (for example, monthly);
- must not allow students to be enrolled in overlapping terms and must stay with the cohort in which they start unless they withdraw from a term (or skip a term) and re enroll in a subsequent term.
- must define full-time enrollment for each term in the award year as at least 12 credit hours and must measure progress in credit hours.

Step 1: Determine Enrollment Status

Full-time, three-quarter time, half time, or less than half time

Step 2: Calculate Pell COA

Full-time, full academic year costs

Step 3: Determine Annual Award

If the student's enrollment status is full-time, the annual award is taken from the full-time payment schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less-than-1/2 time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Step 4: Determine Payment Periods

Payment period is the academic term

Step 5: Calculate Payment for a Payment Period

$$\frac{\text{Annual Award}}{\text{2 for programs with semesters or trimesters; 3 for programs with quarters}}$$

OR

For alternate calculation:

$$\frac{\text{Annual Award}}{\text{Number of terms in the award year}}$$

Formula 2 Summary

Standard-term, credit-hour programs, with fewer than 30 weeks of instructional time, and waiver does not apply

- Enrollment for at least 12 credit hours each term required for full-time status
- Program terms don't overlap
- Academic calendar includes 2 semesters/trimesters (fall and spring) or 3 quarters (fall, winter, and spring)
- Fall through spring terms are less than 30 weeks of instructional time

Step 1: Determine Enrollment Status

Full-time, three-quarter time, half-time, or less-than-half-time

Step 2: Calculate Pell COA

Full-time, full academic year costs

Cost for fall through spring terms prorated. If fall through spring terms provide the same number of credit hours as are in the academic year definition, prorated COA is the same as non prorated COA.

Step 3: Determine Annual Award

If the student's enrollment status is full time, the annual award is taken from the full-time payment schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less-than-1/2 time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Step 4: Determine Payment Periods

Payment period is the academic term

Step 5: Calculate Payment for a Payment Period

$$\text{Annual award} \times \frac{\text{Weeks of instructional time in fall through spring terms}}{\text{Weeks of instructional time in program's academic year definition}} \div \begin{array}{c}\text{2 (if semesters or trimesters)}\\ \textbf{OR}\\ \text{3 (if quarters)}\end{array}$$

OR

For alternate calculation:

$$\frac{\text{Annual Award}}{\text{Number of terms in the award year}}$$

Formula 3 Summary

Any term-based, credit-hour programs; may include those qualifying for Formulas 1 and 2

Step 1: Determine Enrollment Status

Full-time, three-quarter time, half-time, or less-than-half-time

Step 2: Calculate Pell COA

Full-time, full academic year costs

Cost for program or period not equal to academic year prorated. Two fractions are compared:

$$\frac{\text{Hours in program's definition of academic year}}{\text{Hours to which the costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

The entire cost is multiplied by the lesser of the two fractions to determine Pell COA.

Step 3: Determine Annual Award

If the student's enrollment status is full-time, the annual award is taken from the full-time payment schedule (Scheduled Award). If the student's enrollment status is 3/4-time, 1/2-time, or less-than-1/2-time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Step 4: Determine Payment Periods

Payment period is the academic term

Step 5: Calculate Payment for a Payment Period

$$\frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in the program's academic year definition}}$$

A single disbursement can't exceed 50% of the annual award

Formula 4 Summary

Clock-hour programs and credit-hour programs without terms, residential portion of nonterm correspondence programs.

Step 1: Determine Enrollment Status

At least half-time or less-than-half-time

Step 2: Calculate Pell COA

Full-time, full academic year costs

Cost for program or period not equal to academic year prorated. Two fractions compared:

$$\frac{\text{Hours in program's definition of academic year}}{\text{Hours to which the costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

The entire cost is multiplied by the lesser of the two fractions to determine Pell COA.

Step 3: Determine Annual Award

Always taken from full-time payment schedule (equal to Scheduled Award). Does not mean are always considered full-time

Step 4: Determine Payment Periods

Length of payment period measured in credit or clock hours. Minimum of 2 equal payment periods required for programs shorter than an academic year, or 2 equal payment periods in each full academic year (or final portion longer than half an academic year) for programs longer than or equal to an academic year.

Step 5: Calculate Payment for a Payment Period

Annual award multiplied by the lesser of:

$$\frac{\text{The number of credit or clock hours in the payment period}}{\text{The number of credit or clock hours in the program's academic year}}$$

OR

$$\frac{\text{The number of weeks of instructional time in the payment period}}{\text{The number of weeks of instructional time in the program's academic year}}$$

Note: A single disbursement can't exceed 50% of the annual award.

Formula 5A Summary

Correspondence programs nonterm correspondence component. For residential portion, use Formula 4 to calculate payment periods and amounts. The schedule for the submission of lessons must reflect a workload of at least 12 hours of preparation per week of instructional time.

Step 1: Determine Enrollment Status

Enrollment status is never more than half-time

Step 2: Calculate Pell COA

Full-time, full academic year costs (for applicable components)

Cost for program or enrollment period not equal to academic year prorated according to the following formula:

For tuition and fees:

$$\text{Costs} \times \frac{\text{Credit hours in program's definition of academic year}}{\text{Credit hours to which costs apply}}$$

Step 3: Determine Annual Award

Annual award taken from half-time Disbursement Schedule

Step 4: Determine Payment Periods

Length of payment period measured in credit hours.

The first payment period is the period of time in which the student completes the lesser of the first half of the academic year or the first half of the program. (First payment can be made only after the student has completed 25% of the lessons or otherwise completed 25% of the work scheduled, whichever comes last.)

The second payment period is the period of time in which the student completes the lesser of the second half of the academic year or the second half of the program. (Second payment may be made only after the student has submitted 75% of the lessons or otherwise completed 75% of the work scheduled, whichever comes last.)

Step 5: Calculate Payment for a Payment Period

Annual award is multiplied by the lesser of:

$$\frac{\text{Number of credit hours in the payment period}}{\text{Number of credit hours in the program's academic year}}$$

OR

$$\frac{\text{Weeks of instructional time in the payment period}}{\text{Weeks of instructional time in the program's academic year}}$$

Note: A single disbursement can't exceed 50% of the annual award.

Formula 5B Summary

Programs of study by correspondence, term correspondence component. During each term, the written schedule for the submission of lessons must reflect a workload of at least 30 hours of preparation per semester hour or at least 20 hours of preparation per quarter hour.

Step 1: Determine Enrollment Status

Enrollment status is never more than half-time.

Step 2: Calculate Pell COA

Full-time, full academic year costs (for applicable components).

Cost for program or enrollment period not equal to academic year prorated according to the following formula:

For tuition and fees:

$$\text{Costs} \times \frac{\text{Credit hours in program's definition of academic year}}{\text{Credit hours to which costs apply}}$$

Step 3: Determine Annual Award

Annual award taken from half-time or less-than-half-time Disbursement Schedule.

Step 4: Determine Payment Periods

Length of payment period is the academic term.

Step 5: Calculate Payment for a Payment Period

Annual award multiplied by:

$$\frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's academic year definition}}$$

When there is a residential portion in a term-based correspondence program, Formula 3 is used to calculate the student's payment for a payment period for the residential portion.

A single disbursement cannot exceed 50% of the annual award.

Calculating ACG and National SMART Grants

CHAPTER 4

In this Chapter we will illustrate the amounts a student may receive under the ACG and National SMART Grant programs and show how to determine the correct grant award for each payment period. While these programs share some requirements, they are two separate programs with a number of different requirements. For more detail on ACG/SMART Grant criteria and eligibility, see Volume 1, Student Eligibility. For more on payment periods, see Chapter 1 of this volume, and for cost of attendance, see Chapter 3 of this volume.

In general, a student who is enrolled **at least half-time** may be eligible for two ACG Scheduled Awards: one each for the first and second years of the student's enrollment at a school in any ACG-eligible program at that school. A student who is enrolled at least half time may be eligible for up to three National SMART Grant Scheduled Awards: one each for the third, fourth and fifth (if the program takes five years to complete) years of the student's enrollment at a school in any National SMART Grant-eligible program at that school. A student may not receive more than two ACG or three National SMART Grant Scheduled Awards (the latter for a five year program) throughout the student's undergraduate education.

For 2009-2010, a half-time student may be eligible to receive an ACG or National SMART Grant. Previously, students had to be enrolled full-time to be potentially eligible. Maximum ACG/SMART Grant awards for students enrolled less than full-time are prorated proportionally to the student's enrollment in the same way as in the Pell Grant Program. For more details on prorating for enrollment status for ACG/SMART (as well as Pell), see Chapter 3 of this Volume. You must calculate and award ACG and SMART Grants using the same basis as for Pell Grants.

The rules for calculating an ACG/SMART disbursement for a payment period are identical to the Pell calculations we described in the previous chapter. Like Pell, ACG/SMART Grants use a Scheduled Award. However, there are key differences between the Scheduled Award for ACG/SMART Grants and the Scheduled Award for Pell. A student's ACG/SMART Grant Scheduled Award is based only on completing the respective grade-level.

However, a Pell Scheduled Award is for completing an academic year within an award year. For instance, a student who enrolls in the spring of one year could receive the first half of an ACG Scheduled Award in that term and the second half of the ACG Scheduled Award in the following fall term, even though the terms take place in two different award years.

Chapter 4 Highlights

- Grade level *NEW*
- Calculating an ACG/SMART Grant for a payment period
- Summer/Crossover periods
- Transfer Students

Annual establishment of ACG/SMART Grant maximum Scheduled Awards
34 CFR 691.2(d)
34 CFR 691.62

ACG/SMART Grant Scheduled Awards will be established for each award year based on the available funding. The Department has determined for the 2009-2010 award year, that the Scheduled Awards will not need to be reduced from the authorized maximum awards.

Change from Academic Year to Grade Level
In the 2009-2010 award year, a student's progress and eligibility for ACG/SMART Grants is measured by the student's grade level. This is a change from 2008-2009 and previous years, when a student's progress/eligibility for ACG/SMART was measured by a student's progress through academic years in their program of study.

ACG/SMART changes for 2009-2010
May 1, 2009 Interim Final Regulations, FR Vol. 74, No. 83, pages 20210-20225.

The Ensuring Continued Access to Student Loan Act of 2008 (ECASLA) amends the HEA for the 2009-2010 award year, affecting the ACG/SMART Grant programs. These changes are described in this chapter.

ACG/SMART Eligible Programs

For ACGs, an eligible program must meet the FSA eligible program requirements and lead to an associate's degree or a bachelor's degree; a two-academic-year program acceptable for full credit toward a bachelor's degree; a one or two year certificate program for a 1st year ACG, or a 2 year certificate program for 2nd year ACG; or be a graduate degree program that includes at least 3 years of undergraduate education.

For National SMART Grants, an eligible program must meet the FSA eligible program requirements and lead to a bachelor's degree in an eligible major or be a graduate degree program in an eligible major that includes at least 3 years of undergraduate education.

Duration of ACG/SMART Student Eligibility

34 CFR 691.6

The maximum ACG/SMART Grant Scheduled Award for a particular student depends on the **grade level** in which the student is enrolled during the student's enrollment at a school in eligible programs of study and the availability of funds for all eligible students during the award year. For the ACG Program, the Scheduled Award may be up to the authorized maximum awards of:

- $750 during the first year of undergraduate education that an eligible student is enrolled in any ACG eligible program at any school; and
- $1,300 during the second year of undergraduate education that an eligible student is enrolled in any ACG eligible program at any school.

For the National SMART Grant Program, the Scheduled Award may be up to the authorized maximum awards of:

- $4,000 during the third year of undergraduate education that an eligible student is enrolled in any National SMART Grant eligible program at any school;
- $4,000 during the fourth year of undergraduate education that an eligible student is enrolled in any National SMART Grant eligible program at any school; and
- $4,000 during the fifth year of undergraduate education that an eligible student is enrolled in any National SMART Grant eligible program at any school that takes five years to complete.

GRADE LEVEL: GENERAL REQUIREMENTS *NEW*

For purposes of ACG/SMART Grants, a student's grade level is based on the student's enrollment in ACG/SMART Grant-eligible programs at the school the student is currently attending. Note that this is a change from prior years, when one was required to track a student's academic year progression in a student's course of study.

Grade Level for ACG/SMART
The student's grade level for ACG/SMART purposes must be the same grade level as you use for determining annual loan limits for the FFEL and Direct Loan programs.

Grade level

Your school must define the grade level for each eligible program for which you intend to award ACG/SMART Grants. The definition must meet the minimum FSA standards and be the same one used for all other FSA programs. See Chapter 6 of this volume for more on grade level.

To determine the ACG/SMART Grant Scheduled Award for which a student is eligible, you need to determine the student's grade level in their ACG/SMART Grant eligible program.

These credits would include credit or clock hours earned at the school as well as credit or clock hours accepted on transfer into that student's ACG/SMART Grant-eligible program. In addition, you must include any credit or clock hours credited towards the student's ACG/SMART Grant-eligible program from Advanced Placement (AP) programs, International Baccalaureate (IB) programs, testing out, life experience, or similar competency measures or hours earned while not enrolled as a regular student in an eligible program, to the extent that they are included in accordance with your school's policies concerning grade level classification for an eligible program.

Transfer credits

Transfer credit or clock hours are counted towards grade level in accordance with your school's policies concerning grade level classification for an eligible program.

National SMART Grant eligibility and prior ACG

A student's progression to National SMART Grant eligibility is not dependent on the prior receipt of an ACG award. For example, a student may progress through the first two grade levels of his undergraduate education without receiving an ACG award. In his third year in an eligible program he may then qualify for a National SMART Grant. However, the same student would not be eligible for ACG in his third year because he had not previously received it; a student may only receive the ACG or SMART Grant that corresponds to the student's current grade level.

Transition from using academic year

Awards for some continuing students may be affected as they progress to the comparable point in grade level that they were previously deemed to have reached in an academic year in the 2008-2009 award year. However, most of these students will still be eligible to receive the same amount of grant funds over their entire period of enrollment.

A student who received a third-academic-year SMART Grant Scheduled Award in the 2008-2009 award year, for example, may now be considered to be in the second year grade level of his or her SMART Grant-eligible program in the 2009-2010 award year. That student would no longer be eligible for a SMART Grant until the student advances to the fourth year of his or her SMART Grant-eligible program. However, in this example, although the student has already received a third-year SMART Grant Scheduled Award, the student may be paid for any remaining eligibility for a second-year ACG Scheduled award, if otherwise eligible, because only the student's grade level is the determining factor.

Some students will no longer be eligible to receive the same amount of grant funds over their entire period of enrollment. For example, a student initially enrolled in the fall of 2008 with 30 semester hours based on Advanced Placement courses and received a first-academic year ACG Scheduled Award in the 2008-2009 award year due to having no weeks of instructional time. In the student's first year the student earned an additional 30 semester hours, and would now be considered to be in the third-year grade level of his or her eligible program in the 2009-2010 award year. The student would not be eligible for a second-year ACG in 2009-2010. The student could receive a third-year SMART Grant, if he or she met the other SMART Grant eligibility criteria.

CALCULATING A PAYMENT FOR A PAYMENT PERIOD

As previously noted, the requirements for calculating an ACG/SMART Grant payment for a payment period are exactly the same as Federal Pell Grant program requirements and use the same formulas as the Pell Grant program. ACG/SMART Grant Formulas 1, 2, 3, 4 and 5 are identical to the corresponding Pell formulas. The school disburses an ACG/SMART Grant, like Pell, over the hours and weeks of instruction in an eligible program's academic year as defined by the school.

Calculating a payment for a payment period
34 CFR 691.63, 691.66 and 691.76(b)
You must use the same basis for awarding and making ACG/SMART Grants as you use for awarding and making Pell payments.

As with Pell Grants, ACG/SMART Grant Scheduled Awards are divided into at least two payments based on the payment periods in a year. The calculation formula you use depends on the academic calendar of a student's eligible program and would be the same formula used to calculate payments of Pell Grants for that academic program. Refer to Chapter 3 of this volume on Pell Grants for a more detailed explanation of these formulas.

Awards for one-half and three-quarter time
34 CFR 691.62
Students enrolled at least half-time may be ACG/SMART eligible beginning in the 2009-2010 award year. Scheduled Awards for such students are simply multiplied by .75 for three-quarter-time enrollment, and by .5 for half-time enrollment.

A student's payment for a payment period is calculated based on the coursework in the student's ACG/SMART-eligible program. For a National SMART Grant, the school must ensure that the student's courses are necessary for the student to complete the student's National SMART Grant eligible program, and in the case of a student with a double major, with only one major being a National SMART Grant eligible major, the student's eligible program includes the coursework for both majors as well as the other courses that make up the eligible program.

Lump sum payments
You may pay a student ACG/SMART Grant funds in one lump sum for all prior payment periods for which the student was eligible within the same award year. The payment is based on the number of credits the student completed.

Packaging

While a student's payment for a payment period is calculated exactly the same way as the student's Federal Pell Grant, unlike Pell, ACG/SMART Grants are reduced to eliminate an overaward. For more details on how to package ACG/SMART Grants along with other FSA, see Chapter 8 of this volume.

Remaining eligibility

A student may have remaining eligibility from a Scheduled Award upon completing the grade level for that award, either because the award amounts were reduced in the packaging process to prevent an overaward or because the student was not otherwise eligible to receive a payment in one or more terms (for instance, if the student was enrolled less than half-time or was temporarily ineligible for National SMART Grant due to a low GPA). In such cases, the student may not receive any of the remaining award amount in a subsequent payment period at any school.

Payment period with two years

A student may be completing one year in credit or clock hours while beginning the next grade level during the same payment period. In this circumstance, the Scheduled Award applicable to the payment period is the award for the grade level being completed. No adjustment is made to the payment period calculation; it is calculated as though all of the weeks and hours of the payment period were part of the applicable Scheduled Award's grade level. However, the student's payment may be reduced if there is not sufficient remaining eligibility in the applicable Scheduled Award.

Remaining eligibility in a different award year

The payment periods of a student's Scheduled Award for a particular year may fall in two different award years. If the amount of the Scheduled Award for a grade level changes between award years based on the funds available for awards, the school must determine the percentage of the Scheduled Award used in the prior award year to determine the percentage of the Scheduled Award that is available in the subsequent award year.

For example, a student receives $2,000 from a third-year National SMART Grant Scheduled Award of $4,000. The student thus has used 50 percent of the third-year Scheduled Award ($2,000/$4,000 = 50%). Due to a reduction of the Scheduled Award to $3,000 in the subsequent award year, the student may only receive 50 percent of the $3,000 third year Scheduled Award in the subsequent award year, or $1,500.

Transfer student attending more than one school in an academic year

A student may transfer from a school to a second school and be classified at the same level. The second school may pay a grant only for that portion of the grade level of the student's ACG/SMART Grant-eligible program in which the student enrolls at the second school. The payments must be adjusted to ensure that the grant does not exceed the student's Scheduled Award for that grade level. A school must take into account any change in the Scheduled Award for that grade level in determining that the student does not receive more than 100 percent of the Scheduled Award.

SUMMER TERMS & OTHER CROSSOVER PAYMENT PERIODS

Payment periods that span two award years

As with a student's Pell Grant, if a student is enrolled in a payment period that spans two award years, the entire payment period must be considered to occur in one award year. If more than six months of the payment period occurs within one award year, you must consider the payment period to occur in that award year. You pay the student with funds from the award year in which the student's payment period is considered to occur with the payment calculated based on the relevant academic year's Scheduled Award for that award year.

Payment periods that span two award years
34 CFR 691.64

You must assign the payment for an ACG/SMART Grant to the same award year as the student's Pell Grant. Make sure that the assignment does not result in paying a student more than their ACG/SMART Grant Scheduled Award for the grade level of their program of study.

Different Calculation Dates

It is possible for Pell and an ACG/SMART Grant to be calculated on different dates and have different applicable enrollment statuses for the same term. A school may not initially calculate an ACG/SMART Grant until after its census date while it calculated the student's Pell Grant prior to the census date (See Chapter 3 of this volume for a discussion of initial calculations).

For both Pell and an ACG/SMART Grant, the enrollment status is the status at the time the student's award is being initially calculated. For a student whose Pell award is calculated as full-time before the school's census date who then dropped to at least half-time when ACG/SMART eligibility is determined, the student could be eligible for an ACG/SMART Grant for the payment period as a 1/2 time student.

Enrollment status for summer terms

Students must always be enrolled at least half-time to receive ACG/SMART Grants, even during summer.

At a traditional calendar school with a nonstandard term for summer, you may define full-time summer enrollment as less than 12 credit hours for ACG/SMART purposes if the nonstandard term minimum enrollment status calculation would allow a lower full-time status than the minimum for a semester, trimester, or quarter. That definition would apply to all FSA programs. Defining full-time for summer as at least 12 credit hours, may allow a school to calculate payments for payment periods using Formula 1 or 2 even though the summer term is a nonstandard term.

RECALCULATIONS

When determining enrollment status for ACG/SMART Grants, you must use the same recalculation policy that you use for Pell for term-based programs. If you set a recalculation (census) date for enrollment status, it must be the same date as for Pell. For example, if your school sets a census date of 10 days into the term and a student drops below half-time on that date, then the student is not eligible for an ACG/SMART Grant for that term. For more detail on the requirements related to recalculations, see Chapter 3 of this volume.

Calculating TEACH Grants

CHAPTER 5

In this Chapter we will illustrate the amounts a student may receive under the TEACH Grant program and show how to determine the correct grant award for each payment period. For more detail on TEACH Grant criteria and eligibility, see Volume 1, Student Eligibility. For more on payment periods, see Chapter 1 of this volume, and for cost of attendance, see Chapter 2 of this volume.

TEACH GRANT BASICS

The TEACH Grant program is a non-need based grant program that provides up to $4,000 per year to students who are enrolled in an eligible program and who agree to teach in a high-need field, at a low-income elementary or secondary school as a highly qualified teacher, for at least four years within eight years of completing the program for which the TEACH Grant is awarded. The student must sign a service agreement to this effect, and complete all required counseling prior to receiving a TEACH Grant.

If the student subsequently fails to meet the requirements of the service agreement, the TEACH Grant will be treated as a Direct Unsubsidized loan, and the student must repay the TEACH funds, with interest accrued from the date of disbursement, through the Direct Loan Servicing Center. For more details on the TEACH Grant service agreement, eligibility, and conversion from a grant to a loan, see Volume 1.

With respect to enrollment status, the program must require an undergraduate student to enroll for at least 12 credit-hours in each term in the award year to qualify as full-time. For a graduate student, each term in the award year must meet the minimum full-time enrollment status established by your school for a semester, trimester, or quarter.

Chapter 5 Highlights

- Award amounts
- Calculating a TEACH Grant for a payment period
- Calculating TEACH for a payment period that occurs in two award years
- TEACH for transfer students
- Correspondence study and TEACH
- Frequency of payment
- Recalculation of TEACH Grants

TEACH Grant regulations

34 CFR 686
Scheduled, annual, and aggregate awards
34 CFR 686.21

Packaging TEACH Grants

The amount of a student's TEACH Grant, in combination with any Pell Grant or other estimated financial assistance, may not exceed the student's cost of attendance. However, TEACH Grants may replace the EFC for packaging purposes.
See Chapter 8 for packaging rules.

TEACH Grant Scheduled, Annual, and Aggregate Awards

The TEACH Grant award amounts are similar to Pell awards in that there is a Scheduled Award, which is the maximum that a full time student would earn for a year, and an Annual Award, which is the amount a student would receive by enrolling for a year in an enrollment status (e.g. full-time, three-quarter-time, half-time, or less-than-half-time). For the 2009-2010 award year, the Scheduled Award for TEACH is $4,000, and the annual awards are:

Full-time	$4,000
3/4-time	$3,000
1/2-time	$2,000
less-than-1/2-time	$1,000

A student may receive up to $16,000 in TEACH grants for undergraduate and post-baccalaureate study, and up to $8,000 for a TEACH-eligible master's degree program.

TEACH regulations

- Calculating TEACH for a payment period
  34 CFR 686.22
- Timing of payments
  & Lump sum payments
  34 CFR 686.33
- TEACH Grant Academic Year
  34 CFR 686.22(h)
- Crossover payment periods
  34 CFR 686.23
- Transfer students
  34 CFR 686.24

CALCULATING TEACH GRANT PAYMENTS FOR PAYMENT PERIODS

As for other Title IV programs, for purposes of calculating a TEACH Grant for a payment period, the definition of an academic year must include, for undergraduate programs of study (including those post-baccalaureate programs that are TEACH Grant eligible), both the required credit or clock hours and weeks of instructional time (see Chapter 1).

The formula you will use to calculate the amount of a student's TEACH Grant that will be awarded for a payment period depends on the academic calendar used by the student's program. These formulas are the same as for Pell and ACG/SMART Grants, with the exception of master's degree programs. For details on these payment formulas, see Chapter 3 of this volume. For master's degree programs, a TEACH Grant eligible program's academic year must be defined as at least the required number of weeks of instructional time and the minimum number of credit or clock hours that a full-time student would be expected to complete in the weeks of instructional time.

Note that no payment for a payment period may be less than $25.

Payment for a payment period from two Scheduled Awards

34 CFR 686.22(i)

When a student's payment period spans two different Scheduled Awards, the student's payment for the payment period is calculated based on the total credit or clock hours and weeks of instructional time in the payment period, and is the remaining amount of the Scheduled Award being completed plus an amount from the next Scheduled Award, (if available) up to the payment for the payment period.

Crossover payment periods

In the same way as for Pell, if a student enrolls in a payment period that is scheduled to occur in two award years, the entire payment period must be considered to occur within one of those award years, and the school must pay the student for that payment period with funds from that award year. There is no requirement for a TEACH Grant crossover payment period to be be placed in the same award year as Pell.

In most cases, it is up to the school to determine the award year in which the payment period will be placed. However, if more than six months of a payment period is scheduled to occur within one award year, you must place that payment period in that award year. There is no requirement for a TEACH Grant crossover payment period to be placed in the same award year as Pell.

Payment within payment period & retroactive payment

Within each payment period, you may pay the student at such times and in such installments as you determine will best meet the student's needs. You may pay a student TEACH Grant funds in one lump sum for all prior payment periods for which the student was eligible within the award year as long as the student has signed the agreement to serve prior to disbursement of the TEACH Grant (for more details on the agreement to serve and TEACH Grant eligibility, see Volume 1.)

Transfer students

A student who receives a TEACH Grant at one institution and subsequently enrolls at a second institution may receive a TEACH Grant at the second institution if the second institution obtains the student's SAR or ISIR with an official EFC.

The second institution may pay a TEACH Grant only for that period in which a student is enrolled in a TEACH Grant-eligible program at that institution. The second institution must calculate the student's award using the appropriate formula , unless the remaining balance of the Scheduled Award at the second institution is the balance of the student's last Scheduled Award and is less than the amount the student would normally receive for that payment period.

A transfer student must repay any amount received in an award year that exceeds the amount which he or she was eligible to receive.

A student may not receive TEACH Grant payments concurrently from more than one school.

Required TEACH Grant Entrance Counseling

Before receiving a TEACH Grant, a student must, among other requirements, complete initial and subsequent counseling on the TEACH website. You must ensure that exit counseling is conducted with each TEACH Grant recipient when that student completes or withdraws from the TEACH-eligible program. The exit counseling must be in person, by audio-visual presentation, or by interactive electronic means (such as the TEACH Grant website).

In each case, you must ensure that an individual with expertise in the FSA programs is reasonably available shortly after the counseling to answer the grant recipient's questions. (In the case of a grant recipient enrolled in a correspondence program or a study abroad program approved for credit at the home school, the grant recipient may be provided with written counseling materials within 30 days after her or she completes the program.

It is the school's responsibility to see that TEACH recipients receive exist counseling when the student is no longer enrolled in the program. You will receive reports from the DL servicing center on all students who have completed counseling. If the student doesn't complete the exit counseling session on the TEACH website, you must ensure that exit counseling is provided either in person, through interactive electronic means, or by mailing written counseling materials (such as the PDF version of the exit counseling program on the TEACH website) to the grant recipient's last known address. In the case of unannounced withdrawals, you must provide this counseling within 30 days of learning that a grant recipient has withdrawn from school (or from a TEACH Grant-eligible program).

TEACH GRANT FORMULAS

TEACH Grant Formula 1
34 CFR 686.22(a)(1),(b)

TEACH Grant Formula 2
34 CFR 686.22(a)(2),(c)

TEACH Grant Formula 3
34 CFR 686.22(a)(3),(d)

TEACH Grant Formula 4
34 CFR 686.22(a)(4),(e)

TEACH Grant Formula 5
34 CFR 686.25

The requirements for calculating a TEACH Grant payment for a payment period are exactly the same as Federal Pell Grant program requirements and use the same formulas as the Pell Grant program. TEACH Grant Formulas 1, 2, 3, 4 and 5 are identical to the corresponding Pell formulas. The school disburses a TEACH Grant, like Pell, over the hours and weeks of instruction in an eligible program's academic year as defined by the school.

As with Pell Grants, TEACH Grant Scheduled Awards are divided into at least two payments based on the payment periods in a year. The calculation formula you use depends on the academic calendar of a student's eligible program and would be the same formula used to calculate payments of Pell Grants for that academic program. Refer to Chapter 3 of this volume on Pell Grants for a more detailed explanation of these formulas.

A student's payment for a payment period is calculated based on the coursework in the student's TEACH Grant-eligible program. For a TEACH Grant, the school must ensure that the student's courses are necessary for the student to complete the student's TEACH Grant eligible program.

RECALCULATING TEACH GRANTS

TEACH Recalculations
34 CFR 686.35

Recalculating for changes in enrollment status

If a student's enrollment status changes from one term to another within the same award year, you **must** recalculate the TEACH Grant award for the new payment period, taking into account any changes in the cost of attendance.

If a student's projected enrollment status changes during a payment period after the student has begun attendance in all of his or her classes for that payment period, you may (but are not required to) establish a policy under which you recalculate such a student's TEACH Grant award. Any such recalculations must take into account any changes in the cost of attendance. In the case of an undergraduate or post-baccalaureate program of study, if such a policy is established, it must match your Pell Grant recalculation policy, and you must apply the policy to all students in the TEACH-eligible program.

If a student's enrollment status changes during a payment period before the student begins attendance in all of his or her classes for that payment period, you must recalculate the student's enrollment status to reflect only those classes for which he or she actually began attendance.

Recalculating for changes in cost of attendance

If a student's cost of attendance changes during the award year and his or her enrollment status remains the same, your school **may**, but is not required to, establish a policy under which you recalculate the student's TEACH Grant award. If you establish such a policy, you must apply it to all students in the program.

CHAPTER 6

Stafford/PLUS Loan Periods and Amounts

The rules for awarding Stafford and PLUS loans are different than for Pell Grants and other FSA programs. Annual loan limits vary by grade level, and there are aggregate limits on the total amount that may be borrowed at one time. Also, the loan period, payment period, and the disbursements within that period may not always correspond to the payment periods that you're using for Pell Grants. Finally, the requirement to prorate Stafford loan limits is different than the requirements for calculating Pell Grants.

To request Stafford or PLUS loan funds for a student, a school must certify that the borrower is eligible for the loan award, and must provide specific amounts and dates for each disbursement of the loan award.

A borrower's eligibility for a Stafford or PLUS Loan is calculated differently than for a Pell Grant. There are no fixed tables such as the Pell Grant Payment and Disbursement Schedules that determine award amounts. Stafford Loans have annual and aggregate limits that are the same for all students at a given grade level and dependency status. In general, you may not certify a loan for more than the:

- amount the borrower requests,
- borrower's cost of attendance (see Chapter 2),
- borrower's maximum borrowing limit as described in this chapter), or
- borrower's unmet financial need (as determined using the rules in Chapter 8).

In Direct Loans, the certification information is part of the loan origination record sent electronically to COD. An FFEL school may submit the certification to the lender electronically or on the paper Federal Stafford Loan School Certification form. You must provide this certification each time you make a loan under an MPN.

The school's certification/origination includes the borrower's grade level, loan period, anticipated disbursement dates, and the amounts of the disbursements (using the rules described in this chapter).

CHAPTER 6 HIGHLIGHTS:

■ Measurements of academic and loan periods
→ Loan periods, academic terms, & program length
→ Scheduled Academic Year (SAY) may be used for credit-hour programs with standard terms and certain nonstandard term programs.
→ Borrower-Based Academic Year (BBAY) may be used as an alternative to an SAY for programs also offered in an SAY
→ BBAY must be used for clock-hour, nonterm, and nonstandard-term programs, and for standard-term credit-hour programs without an SAY.
→ "SE9W" (a program with terms substantially equal in length, with each term comprised of 9 or more weeks of instructional time)

■ Annual Loan Limits
→ Stafford limits for dependent undergraduates; independent undergraduates & dependent undergraduates whose parents can't get PLUS; and graduate/professional students
→ Undergraduate limits based on grade level
→ Undergraduate limits must be prorated for a program or remaining portion of a program less than an academic year
→ Stafford limits for transfer students, teacher certification coursework, and coursework necessary for enrollment in an eligible program

■ Aggregate Loan Limits
→ Loan information provided through "Financial Aid History" on SAR, ISIR, and on NSLDS Web site.

Certifying/originating a loan

A financial aid administrator should be aware of the responsibility incurred in certifying/originating a loan. The school, not the lender, determines the student's or parent's eligibility for a Stafford or PLUS Loan. Schools that certify/originate loans for ineligible borrowers, or for loan amounts that exceed loan limits or the borrowers's need, are subject to administrative actions such as a fine, limitation, suspension and termination, as well as liabilities such as repayment to the government of interest and special allowance costs it has paid on the ineligible loans.

Refusing to certify/originate a loan

On a case-by-case basis, you may refuse to certify/originate the loan for a borrower. Similarly, you may certify/originate a loan for an amount less than the borrower's maximum eligibility. However, you must ensure that these decisions are made on a case-by-case basis, and do not constitute a pattern or practice that denies access to borrowers because of race, sex, color, income, religion, national origin, age, handicapped status, or selection of a particular lender or guarantor. Also note that your school cannot engage in a practice of certifying Stafford loans only in the amount needed to cover the school charges, or to limit unsubsidized Stafford borrowing by independent students. When you make a decision not to certify/originate a loan or to reduce the amount of the loan, you must document the reasons and provide the explanation to the student in writing.

Checklist for loan certification

For all Stafford and PLUS Loans, the school must confirm that the student (and parent) meet the definition of eligible borrower, including:

- ✓ determining that the student is enrolled at least half-time and making satisfactory academic progress (see Volume 1);
- ✓ reviewing the NSLDS information on the ISIR to ensure that the student is not in default, does not owe an overpayment on an FSA grant or loan (see Volume 1), and will not exceed the annual or aggregate loan limits (as described in this chapter);
- ✓ ensuring that the amount of the loan, in combination with other aid, will not exceed the student's financial need (see Chapter 8 of this Volume); and
- ✓ ensure that the loan disbursement dates meet cash management and disbursement requirements (see Chapter 1 of this Volume).

For a Stafford Loan, the school must also:

- ✓ determine the student's Pell Grant eligibility and if eligible, include the grant in the student's aid package;
- ✓ for an unsubsidized Stafford Loan, first determine the student's eligibility for a subsidized Stafford Loan;
- ✓ ensure that the amount of the loan will not exceed the student's annual or aggregate loan limit; and
- ✓ prorate the Stafford annual loan limit for an undergraduate enrolled in a program or remaining period of study that is shorter than an academic year (as described in this chapter).

Schools are no longer required to provide need analysis information to the lender. However, you must document the student's cost of attendance, Expected Family Contribution (EFC) and estimated financial assistance in the student's file. This information must be made available to the lender, the guarantor or the Department upon request.

LOAN PERIODS, ACADEMIC TERMS, & PROGRAM LENGTH

It's important to define the loan period (sometimes referred to as the *period of enrollment*) at the outset, because the length of the loan period will determine the timing and amount of disbursements. This discussion assumes that your school has already established its academic measurements. If you have not already done so, see Chapter 1 of this volume for a discussion of eligible programs, academic years, payment periods, and conversion of clock hours/credit hours.

Generally, if a credit-hour program uses standard terms (semesters, trimesters, or quarters), or has nonstandard terms that are substantially equal in length, with each term at least 9 weeks in length ("SE9W," see sidebar p. 3-79), the *minimum* loan period is a single academic term (e.g., a semester).

As an example, if a student will be enrolled in the fall semester only and will skip the spring semester, you may certify a loan for that term alone. (Remember, however, that the loan amount must be based on the reduced costs and EFC for that term, rather than for the full academic year.)

For all other programs, including clock-hour and nonterm credit-hour programs, the minimum loan period is the lesser of:

- the academic year as defined by the school (see Chapter 1)
- the length of the student's program (if the program is shorter than an academic year); or
- the remaining portion of the program (if the remaining portion of the student's program is less than an academic year).

Period of enrollment (loan period)

The period of enrollment for which a Stafford or PLUS loan is intended must coincide with an academic period established by the school for which institutional charges are generally assessed (e.g., semester, trimester, quarter, length of the student's program or academic year). The period of enrollment is also referred to as the loan period.

34 CFR 682.200(b)

34 CFR 685.102(b)

Minimum and Maximum Loan Periods

➔ Maximum = generally school's academic year. Greater than an academic year, in some cases, if loan is for the length of the program that is longer than an academic year.

➔ Minimum (standard term programs and SE9W programs) = one academic term.

➔ Minimum (all other programs, i.e, clock hour, nonterm, and other nonstandard term) = Lesser of the academic year, the student's program, the remaining portion of the program, or the remaining portion of an academic year. These loan periods also apply to programs that are a mixture of standard terms and nonstandard terms not offered in a traditional academic calendar.

Also, for these other programs, a school may certify a loan for the remaining portion of the academic year if:

- a student transfers into the school with credit or clock hours from another school, and the prior school certified or originated a loan for a period of enrollment that overlaps the period of enrollment at the new school, or

- a student completes a program at a school, where the student's last loan to complete that program had been for less than an academic year, and the student then begins a new program at the same school.

In either of these cases, the loan amount must not exceed the remaining balance of the student's annual loan limit at the loan level associated with the new program.

For all programs, the **maximum** loan period for annual loan limits is generally the school's academic year. However, you can have more than one loan in an academic year up to the annual loan limit.

Stafford/PLUS at multiple schools

Unlike Pell Grants, it is possible for a student who is separately enrolled and eligible at multiple schools to get a Stafford (and for a graduate/professional student or parent to receive a PLUS) at more than one school for the same period. The schools that the student is attending are responsible for coordinating to make sure that the total amount of the loans the student receives does not exceed the applicable annual loan limit. In addition, the schools must ensure that there is no duplication of non-institutional costs when determining the student's cost of attendance. (Note that in this case–which is different than the consortium arrangements discussed in Volume 2–loan funds awarded at one school are not to be included as estimated financial assistance by any other school the student is attending when determining the student's loan eligibility for the same period.)

Simultaneous FFEL and DL at the same school

Simultaneous FFEL and DL at the same school
34 CFR 685.300(a)(8)

A school may simultaneously participate in both the FFEL and DL programs, but student or parent borrowers may not receive the same type of loan (i.e, Stafford or PLUS) for the same period of enrollment. For example, a student may not receive Stafford loans from both the FFEL and DL programs at the same school for the same period of enrollment. However, a graduate/professional student may receive a Stafford loan from one program and a PLUS loan from the other program for the same loan period.

ANNUAL LOAN LIMITS

Stafford Loans have annual loan limits, based on the student's dependency status and grade level. There are higher unsubsidized Stafford annual loan limits for some health professions students, and special loan limits for certain students who are not enrolled in a degree or certificate program. In some cases, the annual loan limits must be prorated (reduced). The annual loan limits are the maximum amounts that a student may receive for an academic year.

Depending on the academic calendar of the program, a student who has reached the annual loan limit cannot receive another Stafford Loan until he or she either begins another academic year, or progresses within an academic year to a grade level with a higher annual loan limit.

Stafford Loan Limits

Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) (Dear Colleague Letter GEN-08-08)
HEA Sec. 425(a)(1)(A)
HEA Sec. 428(b)(1)(A)
HEA Sec. 428H(d)
FFEL - 34 CFR 682.204 and 682.201(a)(3)
DL - 34 CFR 685.203

Annual Loan Limits: Basic Principles

Annual loan limits

- Stafford loans and Graduate/Professional Loans have annual loan limits.
- There is an overall annual loan limit for Stafford loans, and a separate limit for subsidized Stafford.
- Dependent students have a lower annual loan limit than independent students; if a dependent student's parent(s) cannot borrow a PLUS loan, the student becomes eligible for the higher Stafford loan limits for an independent student.
- The academic year is used as the basis for the student's annual loan limits.
- The student's maximum annual loan limit increases as the student progresses to higher grade levels.
- The loan limit may have to be prorated if the student is attending a program (or remaining portion of a program) that is less than an academic year.

Academic years: SAY/BBAY

- For Stafford/PLUS, a school must use either a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY) to determine when a student is eligible for a new annual loan limit.
- An SAY generally begins/ends at the same time each year; a BBAY "floats" with the student's enrollment.
- A traditional calendar program, or an SE9W program with a comparable calendar, may use an SAY.
- A clock-hour or nonterm program, or a program that does not have an SAY, must use a BBAY.
- In a clock-hour or nonterm program, or a program with nonstandard terms that are not SE9W, the borrower must successfully complete the hours and weeks of instructional time in the FSA academic year before the borrower is eligible for a new annual loan limit.
- In a standard-term or SE9W program, it is possible for a student to advance a grade level and become eligible for a higher loan amount within an academic year.

Stafford limits for a dependent undergraduate student

Effective for loans first disbursed on or after July 1, 2008, for loan periods that include July 1, 2008 or begin on or after that date, dependent undergraduate students (excluding dependent undergraduates whose parents are unable to obtain PLUS loans) are eligible for an additional $2,000 in unsubsidized Stafford Loan funds each academic year. For these students, the annual loan limits are:

- $3,500 combined subsidized and/or unsubsidized plus $2,000 additional unsubsidized for dependent first-year undergraduates;
- $4,500 combined subsidized and/or unsubsidized plus $2,000 additional unsubsidized for dependent second-year undergraduates; and
- $5,500 combined subsidized and/or unsubsidized plus $2,000 additional unsubsidized for dependent third-, fourth-, or fifth-year undergraduates.

Subsidized and unsubsidized loans

There are two types of loans in the Stafford program: subsidized and unsubsidized. The federal government pays the interest on a subsidized student loan during in-school status, the grace period, and during authorized deferment periods. The student is responsible for paying the interest on an unsubsidized student loan during all periods.

These loan limits represent the total of all subsidized and unsubsidized Stafford Loans a dependent undergraduate student may borrow at each level of study, for a single academic year. For example, a dependent first-year undergraduate may receive up to $5,500 in Stafford Loans for a single academic year, but no more than $3,500 of this amount may be subsidized.

Increasing the loan amount when student changes dependency status during the academic year

For any type of educational program (whether term-based or nonterm, credit-hour or clock-hour), a dependent student who has already borrowed up to the annual loan limit within an academic year can receive additional loan funds if his or her dependency status changes to independent during that same academic year.

Increased unsubsidized Stafford limits for independent students and dependent students whose parents can't get PLUS

There are higher additional unsubsidized annual loan limits for independent undergraduate students. These higher additional unsubsidized loan limits also apply to dependent undergraduate students whose parents are unable to borrow PLUS loans due to adverse credit or other documented exceptional circumstances.

- $3,500 combined subsidized and/or unsubsidized plus $6,000 additional unsubsidized for independent first-year undergraduates;
- $4,500 combined subsidized/and or unsubsidized plus $6,000 additional unsubsidized for independent second-year undergraduates; and
- $5,500 combined subsidized and/or unsubsidized plus $7,000 additional unsubsidized for independent third-, fourth-, or fifth-year undergraduates.

Annual Limits for Sub/Unsub Loans

	Subsidized	Total (subsidized & unsubsidized)
Dependent Undergraduates (excluding dependent students whose parents can't get PLUS)		
First Year	$ 3,500	$ 5,500
Second Year	$ 4,500	$ 6,500
Third Year and Beyond	$ 5,500	$ 7,500
Independent Undergraduates & Dependent Students whose parents can't get PLUS		
First Year	$ 3,500	$ 9,500
Second Year	$ 4,500	$ 10,500
Third Year and Beyond	$ 5,500	$ 12,500
Graduate & Professional Students (all years)	$ 8,500	$ 20,500

Note: All undergraduate annual loan amounts are subject to proration.

Aggregate Limits for Sub/Unsub Loans

	Subsidized	Total (subsidized & unsubsidized)
Dependent Undergraduates (excluding those whose parents can't borrow PLUS)	$ 23,000	$31,000
Independent Undergrads & Dependent Students whose parents can't get PLUS.	$ 23,000	$ 57,500
Graduate & Professional Students	$ 65,500	$ 138,500

See p. 3-108 for additional unsubsidized eligibility for students in certain health professions prorams; special loan limits for preparatory & teacher certification coursework.

As with the loan limits for dependent undergraduates, these loan limits represent the total of all subsidized and unsubsidized Stafford Loans that an independent undergraduate student (or a dependent undergraduate whose parent is unable to obtain a PLUS loan) may borrow at each level of study, for a single academic year. For example, an independent first-year undergraduate may receive up to $9,500 in Stafford Loans for a single academic year, but no more than $3,500 of this amount may be subsidized.

Note that a dependent undergraduate whose parent is unable to obtain a PLUS loan is not eligible to receive both the $2,000 in additional unsubsidized Stafford described above, plus the additional $6,000 or $7,000 in additional unsubsidized Stafford that is available to independent undergraduates and dependent undergraduates whose parents are unable to obtain PLUS loans.

Stafford Loan limits for graduate and professional students

The subsidized loan limit for a graduate or professional student is $8,500 per academic year. The additional unsubsidized loan limit for graduate or professional students is $12,000 per academic year. (See the box at the end of this section for situations where a program combines graduate and undergraduate study, or a student with a degree is pursuing an undergraduate program.)

Example: additional unsub for independent undergraduate

Dottie is a first-year independent undergraduate student at Ferrar's Institute. Her COA is $14,500, her EFC is $1,800, and she is receiving a $2,981 Pell Grant. Dottie qualifies for a subsidized Stafford Loan of $3,500. She may also receive the maximum additional unsubsidized Stafford Loan amount of $6,000 to cover most of her unmet need. Her total loan amount in subsidized and unsubsidized Stafford Loans is $9,500. (Note that Dottie's loan eligibility would be the same if she were a dependent undergraduate whose parent was unable to obtain a PLUS loan.)

Stafford for students whose parents have ended financial support and refuse to file a FAFSA *NEW*

Schools may offer a dependent student an unsubsidized Direct or FFEL Stafford loan if the student's parents have ended financial support and refuse to file a FAFSA. For more detail, see Chapter 5 of the *Application and Verification Guide* and DCL GEN-08-12.

Health professions & accreditors

The following disciplines are eligible for the increased unsubsidized loan limits. (Must be accredited by the agency shown in italics.)

- **Doctor of Pharmacy**
Accreditation Council for Pharmacy Education
- **Graduate in Public Health**
Council on Education for Public Health
- **Doctor of Chiropractic**
Council on Chiropractic Education, Commission on Accreditation
- **Doctoral Degree in Clinical Psychology**
American Psychological Association, Committee on Accreditation
- **Masters or Doctoral Degree in Health Administration**
Commission on Accreditation of Healthcare Management Education.
- **Doctor of Naturopathic Medicine, Doctor of Naturopathy**
Council on Naturopathic Medical Education
- **Doctor of Allopathic Medicine**
Liaison Committee on Medical Education
- **Doctor of Osteopathic Medicine**
American Osteopathic Association, Bureau of Professional Education
- **Doctor of Dentistry**
American Dental Association, Commission on Dental Accreditation
- **Doctor of Veterinary Medicine**
American Veterinary Medical Association, Council on Education
- **Doctor of Optometry**
American Optometric Association, Council on Optometric Education
- **Doctor of Podiatric Medicine**
American Podiatric Medical Association, Council on Podiatric Medical Education

Example of annual loan limit

The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular Stafford annual loan limits.

For example, a student enrolled in a 9-month Doctor of Dentistry program is eligible for the regular Stafford subsidized/unsubsidized annual loan maximum for a graduate/professional student ($20,500, not more than $8,500 of which may be subsidized), plus the maximum increased unsubsidized amount of $20,000, for a total Stafford loan maximum of $40,500.

The regulations define a graduate/professional student as a student who is enrolled in a program or course above the baccalaureate level or in a professional program and has completed the equivalent of 3 academic years of full-time study either prior to entrance or as part of the program itself. Also, a student who is receiving FSA aid as an undergraduate student can't be considered a graduate/professional student for that same period of enrollment.)

There are several rules to consider if a student is simultaneously taking undergraduate and graduate courses. A student in an undergraduate program can't get the graduate loan limits based on taking graduate coursework as a part of the undergraduate program. In contrast, a graduate student who is taking some undergraduate coursework is eligible for the graduate loan limits if the student is enrolled at least 1/2-time in courses (either graduate or undergraduate) that can be applied to the graduate program requirements. However, the student must already be admitted into the graduate program—a student with a bachelor's degree who is taking preparatory work for graduate school (or whose full admission to the graduate program is contingent upon completion of certain undergraduate courses) is not eligible for graduate loan limits.

Increased unsubsidized eligibility for health professions students

To replace loan funds that otherwise would have been available under the HEAL Program, certain health professions students may borrow increased unsubsidized Stafford Loan amounts. Schools may award the increased unsubsidized amounts to students who are enrolled at least half-time in a health professions discipline that was eligible under the HEAL Program, or in certain Naturopathic medicine programs. The program must be accredited by an approved accrediting agency (see sidebar).

The disciplines that were eligible under the HEAL Program and the approved accrediting agencies for these disciplines are shown in the loan limit chart for the increased unsubsidized amounts at the end of this section. Note that the HEAL Program required a need analysis test, while need analysis (represented by the EFC) is not required for unsubsidized Stafford loans.

Because the increased annual unsubsidized Stafford Loan limits are intended to replace funds that would have been available previously under the HEAL Program, the annual loan limits for the increased unsubsidized amounts are the same as the HEAL Program annual loan limits.

In addition to the health professions disciplines that were eligible under the HEAL Program, domestic schools may also award additional unsubsidized Stafford Loan amounts to a students who is enrolled in a program that leads to a Doctor of Naturopathic Medicine (N.M.D.) degree or a Doctor of Naturopathy (N.D.) degree, and (the program must be accredited by the Council on Naturopathic Medical Education).

HEAL program phaseout
The Health Education Assistance Loan (HEAL) Program, administered by the Department of Health and Human Services, was gradually phased out from 1995-1999
"Dear Partner" Letter GEN-99-21

The chart on the next page shows the annual loan limits for the increased unsubsidized amounts, which vary by discipline and academic year length. The combined subsidized/unsubsidized aggregate loan limit for graduate and professional health professions students who are eligible to receive the increased unsubsidized amounts is $224,000 (not more than $65,500 of this amount may be in subsidized loans).

Foreign schools not HEAL-eligible
Foreign schools were not eligible to participate in the HEAL Program, and they may not award the increased unsubsidized Stafford Loan amounts.

If a student receives the additional Stafford loan amounts on the basis of study in a health profession program, but then leaves that program and enters a program in a different field, the student is no longer eligible for the increased Stafford loan limits. However, the additional loan amounts received on the basis of health professions study are not counted toward the normal aggregate Stafford Loan limit for that student.

PLUS loan amounts for parents & graduate/professional students

There are no fixed annual or aggregrate loan limits for PLUS loans. A graduate or professional student may be awarded a PLUS loan for up to the student's cost of attendance minus other estimated financial assistance (see Chapter 8 for packaging rules). Therefore, a graduate/professional student has additional PLUS eligibility beyond the maximum subsidized and unsubsidized loan limits.

PLUS Loans for Graduate/ Professional Students
PLUS loans for graduate/professional students were authorized by the Higher Education Reconciliation Act of 2005, effective July 1, 2006.
HEA Sec. 428(b)
DCL GEN-06-02

Similarly, the total PLUS Loan amount borrowed by one parent or borrowed separately by more than one parent (including a non-custodial parent) may not exceed the student's estimated cost of attendance minus other financial aid awarded for the period of enrollment.

This is the only borrowing limit for PLUS Loans. For more on borrower eligibility, see Volume 1, Chapter 7.

Entrance counseling requirements for Grad/ Professional PLUS borrowers
For entrance counseling requirements for Grad/Professional PLUS—see *Volume 2, Chapter 6, Providing Consumer Information.*

Increased Stafford limits for health professions students

Additional Unsubsidized eligibility for HEAL-eligible students

Schools may award the following additional Unsubsidized Loan amounts to students who are enrolled at least half-time in the following accredited health professions disciplines that were eligible under the former HEAL Program (administered by the U.S. Department of Health and Human Services). See previous page for accreditation requirements.

- *Graduate in Public Health; Doctor of Pharmacy or Chiropractic; Doctoral Degree in Clinical Psychology; Masters or Doctoral Degree in Health Administration*
  - 9-month academic year $12,500*
  - 12-month academic year $16,667*
- *Doctor of Dentistry, Veterinary Medicine, Optometry, Allopathic Medicine, Osteopathic Medicine, Podiatric Medicine,* Naturopathic Medicine, or Doctor of Naturopathy
  - 9-month academic year $20,000*
  - 12-month academic year $26,667*

Students in these programs are also eligible for higher aggregate limits for combined Subsidized/Unsubsidized loans ($224,000).

* PRORATION OF ANNUAL LOAN LIMIT FOR ACADEMIC YEAR COVERING 10 OR 11 MONTHS: For programs with an academic year covering 10 or 11 months, the annual additional unsubsidized loan limit must be prorated. If the academic year covers 10 or 11 months, the prorated annual loan limit is determined by dividing the applicable loan limit for an academic year covering 9 months by 9, and then multiplying the result by 10 or 11.

Stafford limits for preparatory coursework & teacher certification

In Volume 1, Chapter 1, we discussed 3 instances in which a student may receive a Stafford loan for coursework that is not part of an eligible program. If the student and the academic program meet the conditions described in that Volume, the annual loan limits are:

Preparatory coursework (not to exceed 12 consecutive months)

For undergraduate degree/certificate program:

- Subsidized & Unsubsidized $2,625**
- Additional Unsubsidized for independent students and dependent undergrads whose parents can't get PLUS $6,000**

For graduate or professional program:

- Subsidized & Unsubsidized $5,500**
- Additional Unsubsidized for independent students and dependent undergrads whose parents can't get PLUS $7,000**

State-required teacher certification coursework

- Subsidized & Unsubsidized $5,500**
- Additional Unsubsidized for independent students and dependent undergrads whose parents can't get PLUS $7,000**

Note that no additional unsubsidized loan amount is available to dependent undergraduate students who are enrolled in preparatory coursework or teacher certification coursework (except for dependent undergraduates whose parents can't get PLUS).

** Loan limit is not prorated if the coursework lasts less than an academic year. See Volume 1, Chapter 6, *FSA Handbook* for more information on FSA eligibility for this coursework.

Criteria for additional unsubsidized Stafford

Dependent students whose parents are unable to borrow PLUS loans due to adverse credit or other exceptional circumstances may receive additional unsubsidized Stafford loans for the same amount as independent undergraduate students. The increased loan amounts do not substitute entirely for the amount a parent may borrow under the PLUS program, which may be up to the difference between COA and EFA. As a result, you should examine the parent's ability to borrow a PLUS loan using an endorser who does not have an adverse credit history before certifying or originating additional unsubsidized loan amounts for the dependent student.

Before certifying or originating a loan for increased loan amounts, you must document the basis of the dependent student's eligibility. Some basic guidelines for making this determination include the following:

- The parent's unwillingness to borrow a PLUS does not make the dependent student eligible.
- A school's decision not to participate in the PLUS program does not make the dependent student eligible.
- The aid administrator's belief that a parent should not borrow a PLUS does not make the dependent student eligible.
- Only one parent must apply for a PLUS and be denied based on adverse credit. However, if both parents apply independently and one is approved and the other denied, the dependent student is not eligible for the increased loan amounts.
- The parent's denial of a PLUS loan based on adverse credit in one year does not support the dependent's eligibility in subsequent years.
- The dependent student may become eligible at any time during an academic year if a parent has first been approved and then later denied a PLUS based on a subsequent application. Under these circumstances, any previous PLUS funds received during the same period of enrollment are treated as estimated financial assistance in determining the student's remaining eligibility for additional unsubsidized loan amounts.

The dependent student may also be eligible for increased unsubsidized loan amounts if you determine and document that other exceptional circumstances exist that will prevent a parent from borrowing a PLUS loan. The regulations provide examples, but not an exhaustive list, of the exceptional circumstances that might be used to document the dependent student's eligibility:

- The parent is incarcerated.
- The parent's whereabouts are unknown.
- The parent has filed for bankruptcy and has provided a letter from the bankruptcy court stating that as a condition of the bankruptcy filing, the parent may not incur any additional debt.
- The parent's income is limited to public assistance or disability benefits and you have documented that the parent would not be able to repay the PLUS loan.
- In the DL Program, you have examined the family financial information and documented the parent's likely inability to repay the PLUS loan due to an existing debt burden or the parent's expected income-to-debt ratio, or
- In the FFEL Program, you have evidence that a lender that makes loans to students and parents of students at your school has denied a PLUS loan or will not make a PLUS loan to a parent under its lending policy due to the parent's existing debt burden, income-to-debt ratio, likely inability to repay, or other credit standards or factors the lender has elected to adopt as provided for under the regulations.
- The parent of a dependent student is not a U.S. citizen or permanent resident, or is not able to provide evidence from the U.S. Citizenship and Immigration Service that he or she is in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident.

If a dependent student is determined to be eligible for additional unsubsidized loan amounts under exceptional circumstances, you must re-examine and document that these exceptional circumstances continue to apply before certifying or originating additional unsubsidized loan amounts for the dependent in a subsequent year.

Graduate vs. Undergraduate limits: special cases

- ***Combined undergraduate/graduate programs.***

Some programs combine undergraduate and graduate study, where the first years of the program are undergraduate study and the final years of the program are graduate study. For instance, in a 5-year program leading to a graduate or professional degree, the school may define the first 3 or 4 years of study as being undergraduate level.

- ***Students returning for second baccalaureate degree.***

If a student with a baccalaureate degree enrolls in another baccalaureate program, his/her loan limits would be based on the amount of work that the school counts towards satisfying the requirements of the new program. For instance, if your school decides to accept 30 semester hours of a student's work in her previous baccalaureate program towards the requirements for a BS in Chemistry at your school and 30 semester hours are the amount needed to progress in grade level, then the student would be eligible for second-year undergraduate loan limits.

- ***Transfer from graduate to undergraduate program during an academic year***

If a student transfers from a graduate program to an undergraduate program in the middle of an academic year, the undergraduate annual loan limit for the student's grade level applies, but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. The total amount awarded for the academic year may not exceed the higher (grad/professional) annual loan limit.

- ***BA or AA but not a grad/professional student.***

A student who has an associate or baccalaureate degree that is required for admission into a program, but is not a graduate or professional student, may borrow up to the highest undergraduate annual loan limit ($5,500 for a dependent student; additional $7,000 in unsubsidized Stafford for an independent student or a dependent student whose parent is not eligible for PLUS), subject to the undergraduate aggregate loan limits.

- ***Undergraduate student with graduate degree.***

In some cases, a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program. Only the loans that the student received for the first undergraduate program are included in determining the student's remaining eligibility for loans for the second undergraduate program, up to the undergraduate aggregate limits.

Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits. (See example below.)

Example: graduate student returning to undergraduate program

An independent student has received the following loan amounts for a first undergraduate program and a graduate program:

	Subsidized:	***Unsubsidized:***	***Total***
Undergraduate	$20,500	$10,000	$30,500
Graduate	$45,000	$40,000	$85,000
Total	$65,500	$50,000	$115,500

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's undergraduate aggregate loan limit. Because the total amount received for the first undergraduate program ($30,500) does not exceed the aggregate loan limit for an independent undergraduate ($57,500, maximum $23,000 subsidized), the student has remaining loan eligibility for the second undergraduate program.

However, the loans received for the graduate program must still be considered to ensure that the student does not exceed the total aggregate loan limits. In this case, the total subsidized amount already received ($65,500) is the maximum subsidized amount that a student may receive for undergraduate and graduate study combined. Therefore, the student may receive only unsubsidized loans for the second undergraduate program. The student may not exceed the combined undergraduate/graduate aggregate loan limit of $138,500. This means that the student's remaining loan eligibility for the second undergraduate program is $23,000 in unsubsidized loans ($138,500 - $115,500 already received for the first undergraduate program and the graduate program).

ANNUAL LOAN LIMIT PROGRESSION

Academic Year & loan limits

The academic year is used as the basis for the student's annual loan limits. (The award year concept for Pell and the Campus-based programs is not a factor for Stafford and PLUS loans.) The loan period is often equivalent to an academic year, but there are also many situations where this is not the case. In this section, we'll discuss how you can match the student's loan periods to his/her enrollment and your school's academic calendar. (If you are not familiar with the definition of an academic year, see Chapter 1 of this Volume.)

Two types of academic years for annual loan limits: SAY and BBAY

There are two types of academic years that may be used to monitor annual loan limits for Stafford loans: a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY). (Note that although there is no annual loan limit for PLUS loans, PLUS loans are awarded for the same SAY or BBAY period that is used for Stafford loans.)

An SAY corresponds to a traditional academic year calendar that is published in a school's catalogue or other materials (for example, fall and spring semesters, or fall, winter, and spring quarters, or, for a nonstandard SE9W program, an academic calendar comparable to a traditional academic calendar).

An SAY is a fixed period of time that begins and ends at the same time each year. A BBAY does not have fixed beginning and ending dates. Instead, it "floats" with a student's (or group of students') attendance and progression in a program of study.

If a program is offered in an SAY calendar, you have the option of using either an SAY or BBAY 1 to monitor the annual loan limits for students in that program. You **must** use a BBAY to monitor the annual loan limits for any academic program that does not meet the definition of a program allowed to use an SAY. However, there are significant differences between:

- BBAY 1, for credit-hour programs using a Scheduled Academic Year with standard terms or nonstandard SE9W terms.
- BBAY 2, for credit-hour programs not using an SAY, with standard terms or nonstandard SE9W terms.
- BBAY 3, for clock-hour programs, nonterm programs, and any nonstandard-term program, or a program with standard and nonstandard terms, not described above.

We will describe the differences between the SAY, BBAY 1, BBAY 2, and BBAY 3 in more detail in the following pages.

Academic Year

See Volume 3, Chapter 1 for a discussion of academic year requirements.

Standard Terms

Standard terms are semesters, trimesters, or quarters. See Chapter 1 of this Volume for more detail on standard terms.
A standard term program may use an SAY if it has a traditional academic calendar (i.e., have terms that start at about the same time each year, where, for example, the fall and spring semesters or the fall, winter, and spring quarters normally make up the academic year) 34 CFR 668.4

Nonstandard "SE9W" Terms

If a credit-hour program has nonstandard terms, the terms are substantially equal in length, and each term is at least 9 weeks of instructional time in length, then the terms, for annual loan limit progression purposes, are referred to throughout this Chapter as "SE9W."

The length of terms are measured in weeks of instructional time, as defined in Chapter 1. Nonstandard terms are substantially equal if no term in the loan period is more than 2 weeks of instructional time longer than any other term in that loan period.

A nonstandard program with SE9W terms may use an SAY if it has a fixed academic calendar comparable to a traditional academic calendar (i.e., terms that start at about the same time each year, where 2 or more nonstandard terms normally make up the academic year in the fall through spring). 34 CFR 682.603(g)

SE9W SAY Example

Great Plains Business College has programs with an academic calendar using semester hours with four terms, each with 12 weeks of instructional time in length, with three of the terms offered over the fall through spring and the fourth term offered in the summer. Great Plains defines its academic year as 36 weeks of instructional time and 24 semester hours. As "quarters" using semester hours, the terms are nonstandard terms.

Because these terms are nonstandard terms that are substantially equal and at least nine weeks of instructional time in length (SE9W), and are offered in a fixed schedule that encompasses the FSA academic year and also there is a summer term in an academic calendar comparable to a traditional calendar, these programs may use an SAY and BBAY 1.

Monitoring Annual Loan Limits with an SAY or BBAY

Credit-hour programs offered in a Scheduled Academic Year (SAY) An SAY uses 1) a traditional academic calendar with at least two semesters or trimesters or three quarters in the fall through spring, or 2) a comparable academic calendar with nonstandard SE9W terms.		Credit-hour programs not offered in a Scheduled Academic Year, but with 1) standard terms, or 2) nonstandard SE9W terms	Clock-hour programs, nonterm programs, and programs with nonstandard terms that are not SE9W
May use SAY	May use BBAY 1	Must use BBAY 2	Must use BBAY3
1) An SAY generally begins/ends at same time each year. 2) The student does not have to be enrolled in the first term of the SAY. 3) An SAY for a program must at least meet the program's FSA academic year in weeks/hours. 4) Total of all loans received within SAY (including summer trailer/header) may not exceed annual loan limit 5) Student becomes eligible for new annual loan limit after SAY calendar period has elapsed. 6) After original loan, student may receive additional loans during same SAY if: • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent. 7) Summer term may be "trailer" or "header" per: • Strict policy; • By program; or • Case by case, by student	▶ *May use BBAY 1 for all students; certain students; or certain programs* ▶ *May alternate SAY and BBAY1 for a student provided academic years do not overlap* 1) BBAY1 "floats" with the student's enrollment. 2) Student must be enrolled in first term of the BBAY1 (less-than-½-time enrollment is acceptable). 3) Length of BBAY1 must equal the number of terms in the program's SAY, excluding the summer trailer/ header. • Number of hrs/wks in BBAY1 need not meet the regulatory requirements for an academic year if the BBAY1 includes summer term. • May include terms student does not attend if student could have enrolled at least ½--time. 4) Total of all loans received within BBAY1 may not exceed annual loan limit. 5) Student becomes eligible for new annual loan limit after BBAY1 calendar period has elapsed. 6) After original loan, student may receive additional loans during same BBAY1 if: • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent 7) Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard or nonstandard term (affects all FSA programs) • Student need not enroll in each minisession, but must have been able to enroll at least ½-time in the combined term.	1) BBAY2 floats with student's enrollment. 2) Student must be enrolled in first term of the BBAY2 (less-than-half-time enrollment is acceptable). The BBAY2 may include terms student does not attend if student could have enrolled at least half-time 3) The BBAY2 must meet at least the minimum requirements for hours/weeks of the program's FSA academic year, and it must consist of: • at least 2 consecutive semesters or trimesters; • at least 3 consecutive quarters; or • at least the number of consecutive SE9W terms covered by the program's FSA academic year. 4) Total of all loans received within a BBAY2 may not exceed annual loan limit. 5) Student becomes eligible for new annual loan limit after BBAY2 calendar period has elapsed 6) After original loan, student may receive additional loans during same BBAY2 if: • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent. 7) Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard term (affects all FSA programs) • Student need not enroll in each minisession, but must have been able to enroll at least 1/2-time in the combined term	▶ *BBAY3 also applies to programs that mix nonstandard terms and standard terms that do not have an SAY* 1) BBAY3 floats with student's enrollment. 2) The BBAY3 begins with student's enrollment on at least a half-time basis. 3) BBAY3 must meet at least the minimum requirements for hours/ weeks of the program's FSA academic year. 4) Total of all loans received within a BBAY3 may not exceed annual loan limit. 5a) Student becomes eligible for new annual loan limit only after successfully completing the clock or credit hours AND weeks of instructional time i n the BBAY3. 5b) A student may not become eligible for next grade level annual loan limits until after completion of a BBAY3. 6) After original loan, student may receive additional loans within BBAY3 only if: • Student did not receive maximum annual loan amount and has remaining eligibility; or • Student changes from dependent to independent

Credit-hour programs with traditional calendar using standard terms or nonstandard SE9W terms with a comparable calendar: may use SAY

As noted above, an SAY corresponds to a traditional academic year calendar, and usually begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). An SAY must meet the FSA requirements for an academic year (the latter as described in Chapter 1). An SAY may include one or more terms that a student does not attend.

Summer terms are generally not considered to be part of the SAY, but for loan limit purposes they may be treated as a "trailer" to the preceding SAY or as a "header" to the following SAY. Your school has the option to establish a policy that designates its summer term as either a trailer or header to the SAY for all students. You can also choose to make different designations for different educational programs, or for different students, as long as you ensure that there is no overlap in academic years. Note that a fixed designation of the summer term can limit a student's eligibility. For instance, if you always treat your summer term as a trailer to a preceding fall-spring SAY, a student who receives the full annual loan limit for fall-spring would have no remaining loan eligibility for summer.

The annual loan limit applies to the SAY, plus the summer trailer or header. Once the calendar period associated with all of the terms in the SAY and the summer header or trailer (if any) has elapsed, a student regains eligibility for a new annual loan limit.

Treatment of summer minisessions

Summer minisessions must be grouped together as a single trailer or header term if the program is to have a BBAY, or they can be treated separately and assigned to different SAYs. (See Chapters 1 and 3 for treatment of minisessions as payment periods and in determining Pell payments.) If the summer minisessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a minisession for which the student is not expected to be enrolled.

SAY for standard term, credit-hour programs using a traditional academic year calendar

Springfield Academy offers a 2-year program measured in semesters and awarding credit hours. It defines its FSA academic year in accordance with the minimum requirements and uses an SAY that provides 30 weeks of instruction and 24 semester hours, and includes two semesters (Fall and Spring), each 15 weeks of instructional time in length. Springfield Academy also offers a Summer session that it treats as a "trailer" to the SAY.

Most of Springfield's students do not attend the Summer session, so the aid office typically certifies Stafford loans for a period of enrollment that starts with the Fall semester (August 27) and concludes at the end of the Spring semester (May 2). However, there are some first-year students who decide to enroll in the Summer term in order to complete their studies sooner. The annual loan limit applies to the Fall through Spring SAY, plus the Summer trailer. Students who receive the maximum annual loan amount for Fall-Spring have no loan eligibility for summer and may not borrow again until the start of the next SAY in the Fall, unless Springfield opts to place them in a BBAY beginning with the summer term.

Fall Semester	Spring Semester	Summer Term
Year 1: Scheduled Academic Year		

Fall Semester	Spring Semester	Summer Term
Year 2: Scheduled Academic Year		

Academic Year for loan limit purposes = 2 semesters + summer trailer

Alternating SAY/BBAY 1

This treatment may allow a student to receive another loan sooner than would be allowed under an SAY standard. For instance, if you normally use an SAY consisting of Fall and Spring semesters with a Summer trailer, a student who received the maximum annual loan limit for Fall-Spring could not receive another loan until the start of a new SAY in the Fall. If the student enrolls for summer and wants a loan, you could choose to switch the student to a BBAY consisting of the Summer and Fall terms. The student could then receive a loan for the Summer term, since Summer would be the start of a new academic year. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

Credit-hour programs with an SAY: may use BBAY 1

If a program is offered in a SAY, you have the option of using a BBAY as an alternative to the SAY for monitoring annual loan limit progression. Unlike an SAY, a BBAY is not a fixed period that begins and ends at the same time each year. Instead, a BBAY's beginning and ending dates depend on the individual student's enrollment.

For programs with an SAY, a BBAY must include the same number of terms as the SAY that would otherwise be used (not including any summer "trailer" or "header"). For example, if the SAY includes three quarters (fall, winter, spring), a BBAY would consist of any three consecutive terms. A BBAY may include terms the student does not attend if the student could have enrolled **at least half-time** in those terms, but (unlike an SAY) it must begin with a term in which the student is actually enrolled (even though the student may be enrolled less-than-half-time for the first term and not eligible for a loan for that term). Also, any minisessions (summer or otherwise) that run consecutively within a term **must** be combined and treated as a single term.

Like an SAY, a BBAY must meet the minimum FSA requirements for an academic year. However, a BBAY that includes a summer term may include fewer than 30 weeks of instructional time or fewer credit hours than the minimum number required for an SAY. This is because a summer term may be shorter than a standard term in an SAY, but is recognized as academically equivalent to a standard term when used as one of the terms in a BBAY. (NOTE: This exception applies only to a BBAY used as an alternative for a program with an SAY.)

You may use BBAYs for all students, only for students in certain programs, or on a student-by-student basis. For example, you could use a BBAY for students enrolled in a program that begins in a term other than the first term of the SAY. You can even alternate BBAYs and SAYs for a student, provided the academic years don't overlap. This treatment may allow a student to receive another loan sooner than would be allowed under an SAY standard.

As with an SAY, the annual loan limit applies to the BBAY. Once the calendar period associated with all of the terms in the BBAY has elapsed, a student regains eligibility for a new annual loan limit.

Standard term, credit-hour programs using a traditional academic year calendar: BBAY 1

1. BBAY where SAY contains 2 semesters

Examples 1a through 1c illustrate the optional use of a BBAY for a program that is offered in an SAY consisting of two semesters, Fall and Spring, each 15 weeks of instructional time in length. (Note that in each example, the first BBAY is the same as the SAY.)

In example 1a, the initial Fall and Spring terms could be considered either an SAY or BBAY. If the student attends the Summer session at the school, the aid administrator can elect to treat the Summer term and the next Fall as a BBAY for the student. In that case, the following Spring and Summer would also constitute a BBAY. The maximum loan limit for an academic year applies to each BBAY. If these were the first three years of study for a dependent student and the student progressed a grade level each academic year, he/she would be eligible for up to the maximum Stafford amounts of $3,500, $4,500 and $5,500 for the respective academic years.

1a.

Fall	Spring	Summer	Fall	Spring	Summer
Year 1: SAY or BBAY		Year 2: BBAY		Year 3: BBAY	

A student doesn't have to attend all of the terms in a BBAY, but the BBAY cannot begin with a term that the student doesn't attend. In example 1b, the student is not enrolled in the second term (Fall) of year 2.

In example 1c, if the student does not attend a term that otherwise would have been the beginning of a BBAY (in this case, Spring), then the student's next BBAY cannot begin until the next term that the student attends. As with example 1a, the annual loan limit applies to each BBAY.

1b.

Fall	Spring	Summer	Fall (not enrolled)	Spring	Summer
Year 1: SAY or BBAY		Year 2: BBAY		Year 3: BBAY	

1c.

Fall	Spring	Summer	Fall	Spring (not enrolled)	Summer	Fall
Year 1: SAY or BBAY		Year 2: BBAY			Year 3: BBAY	

2. BBAY where SAY contains 3 quarters

The same concepts apply to quarter-term programs. For instance, in example 2, the Fall, Winter, and Spring terms constitute the school's SAY. If the student attends the Summer session at the school, it can be the first term of a BBAY that includes the following Fall and Winter terms

Fall	Winter	Spring	Summer	Fall	Winter
Year 1: SAY or BBAY			Year 2: BBAY		

Standard-term programs and nonstandard term SE9W programs without a SAY: BBAY 2

If a program with standard terms or nonstandard SE9W terms is not offered in a traditional academic year calendar (SAY), a BBAY **must** be used. If the program uses semesters or trimesters, a BBAY generally consists of any two consecutive terms (similarly, with quarters, any three consecutive terms). If the program uses SE9W nonstandard terms, a BBAY consists of the number of consecutive terms that coincide with the weeks of instructional time in the program's academic year.

As with the optional BBAY that may be used for programs with an SAY, the BBAY may include terms that a student does not attend (as long as the student could have enrolled at least half-time in those terms), but it must begin with a term in which the student is actually enrolled (even though the student may be enrolled less-than-full-time for the first term and not eligible for a loan for that term). Unlike the optional BBAY for programs offered in an SAY, there is no exception to the minimum FSA academic year requirements for a BBAY that includes a summer term: the BBAY for standard-term programs that are not offered in a traditional academic calendar, or a comparable calendar if SE9W nonstandard terms, must always include enough terms to meet the minimum FSA academic year requirements for weeks of instructional time.

The annual loan limit applies to the BBAY. Once the calendar period associated with all of the terms in the BBAY has elapsed, a student regains eligibility for a new annual loan limit.

Standard term, credit-hour programs not using a traditional academic year calendar: BBAY 2

Springfield Academy also has a program that measures academic progress in credit hours and uses 15-week semesters, but is not offered in a traditional academic year calendar (SAY). New students begin the program each month, and a 15-week semester begins at that time for that cohort of students. The school must use a BBAY to monitor annual loan limits. A BBAY consists of any two consecutive semesters, beginning with a semester in which a student is enrolled:

Semester #1 (begins program)	Semester #2	Semester #3	Semester #4 (not enrolled)	Semester #5	Semester #6
Year 1: BBAY		Year 2: BBAY		Year 3: BBAY	

Clock-hour, nonterm credit-hour, and nonstandard term programs that are not SE9W: BBAY 3

All clock-hour programs, nonterm credit-hour programs, and nonstandard term programs with terms that are not SE9W must use a BBAY that meets the minimum requirements for an academic year. That is, the BBAY must contain at least 30 (or, for clock-hour programs, 26) weeks of instructional time and at least the appropriate number of credit or clock hours: for undergraduate programs, 24 semester or trimester hours, 36 quarter hours, or 900 clock-hours; for graduate programs, the number of hours a student would complete under the school's full-time standard in the weeks of the FSA academic year, which must be a minimum of 30 weeks of instructional time, or, for clock-hour programs, at least 26 weeks of instructional time. This requirement also applies to a program that consists of both standard and nonstandard terms and that does not qualify to use an SAY.

The BBAY begins when a student enrolls and does not end until the later of the date the student successfully completes the hours in the academic year, or the number of weeks of instructional time in the academic year.

Because a student must successfully complete the minimum number of hours or weeks of instructional time in an academic year (whichever comes later) before a new BBAY begins, a student's enrollment status may affect how soon the student regains eligibility for a new annual loan limit. For example, a student who is attending part-time will take longer to complete a BBAY than a full-time student. (In contrast, an SAY or BBAY for a standard term program, or a nonstandard SE9W program ends when the *calendar period* associated with the terms in the SAY or BBAY has elapsed, regardless of how many credit hours or weeks of instruction the student completed during the SAY or BBAY.)

Clock-hour, nonterm and nonstandard BBAYs based on full-time progress

In many clock-hour, nonterm and nonstandard-term programs, students are allowed to progress at an individual pace. For example, a school that defines its academic year as 900 clock hours and 26 weeks of instructional time offers a 900 clock-hour program that most students complete in 26 weeks. However, one student might complete 900 clock hours in 22 weeks, and another in 30 weeks. You do not have to prorate the loan limit for the occasional student who completes the program in less than 26 weeks. (Note that this policy applies only to programs that are exactly one academic year in length. If a program is longer than an academic year, proration may be required for a loan covering the remaining portion of the program if a student completes more than the minimum number of hours during the first 26 weeks of instructional time. See loan limit proration example 3 later in this chapter).

BBAY 3 and programs with standard terms

If a program has standard terms and nonstandard terms and does not qualify to use an SAY, the program must use BBAY 3. One common example is a program with a 4-1-4 calendar where the winter intersession is not combined with either the fall or spring semester (it is not permissible to ignore a student's enrollment in a winter intersession).

Another common example is a degree-completion program with 20-week nonstandard terms where students must also attend regular semesters to complete their degree (these programs can affect all degree-seeking students at an institution depending on how they are structured).

BBAY 3 Program remaining eligibility
34 CFR 668.4(g)
34 CFR 682.603(f)
34 CFR 685.301(a)

Clock-hour, nonterm, and nonstandard term programs (other than SE9W programs): BBAY 3

Example 1: Nonterm credit-hour program

A school offers a 48 semester hour, 60 weeks of instructional time program with a defined academic year of 24 semester hours and 30 weeks of instructional time. A student could receive two loans for this program. The period of enrollment for the first loan would be the time needed for a student to successfully complete the first 24 hours and 30 weeks of instructional time. The period of enrollment for the second loan would be the time needed to complete the remaining hours and weeks of instructional time of the program. A student does not become eligible for the second loan until the later of the date that he/she successfully completes (passes) either 24 semester hours or 30 weeks of instructional time before receiving the second loan.

Example 2: Nonstandard term, credit hour program, terms not substantially equal in length

A school offers a 72 quarter hour program with 60 weeks of instructional time and a defined academic year of 36 quarter hours and 30 weeks of instructional time. Courses are offered in 2-week and 5-week terms. A student could receive two loans, one for the period in which the student successfully completes the first 36 hours or 30 weeks, whichever comes later, and another for the remaining hours and weeks of the program.

Although this program uses terms and measures academic progress in credit hours, the terms are nonstandard terms that are not substantially equal in length. A student does not become eligible for the second loan until he or she has completed 36 quarter hours or 30 weeks of instructional time, whichever comes later, regardless of the number of terms that have elapsed. For instance, a student who successfully completes (passes) thirty-three quarter hours in the first 30 weeks of instructional time must complete an additional three quarter hours before receiving the second loan. Generally, one would certify a loan through the term in which the student would complete the hours and weeks of instructional time of the academic year.

Example 3: Clock-hour Program

Springfield Academy has an 1,800 clock-hour program with 52 weeks of instructional time, and defines its academic year as 900 clock hours and 26 weeks of instructional time. The initial BBAY always begins with the student's actual enrollment date. An enrolling student may receive two Federal Stafford Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The period of enrollment for the first loan would be the time it will take the student to successfully complete (pass) either 900 clock hours or 26 weeks of instructional time, whichever comes later. The period for the second loan would be the time it takes to successfully complete the final 900 hours and 26 weeks of instructional time. Note that the student cannot receive the second loan until he/she has successfully completed the first 900 hours of the program or 26 weeks of instruction, whichever comes later.

A student who completes the first 900 hours in less than 26 weeks must still complete 26 weeks of instructional time before a new BBAY begins and the student becomes eligible to receive another loan. In this case, the second loan period would be for the clock hours remaining and the weeks of instructional time to complete those hours. Similarly, a student who has completed fewer than 900 clock hours after 26 weeks of instructional time must successfully complete 900 hours before receiving another loan.

GRADE LEVEL PROGRESSION

The annual loan limit for Stafford Loans increases as a student progresses in his/her studies. Generally, a student's grade level for loan limit purposes is set according to the school's academic standards. Progression to a higher grade level does not always coincide with the beginning of a new academic year. For example, a student in a standard term program (or a student in a SE9W program) who completes only 12 semester hours during the first academic year could receive another loan when the calendar period associated with that academic year has elapsed. However, the student will still be classified as a first-year undergraduate at the start of the second academic year.

Grade level progression within the same academic year

In standard term programs or nonstandard SE9W programs, a student who has already borrowed up to the annual limit within an academic year can receive additional loan funds if the student progresses to a grade level with a higher annual loan limit during that same academic year.

For instance, if a dependent student was classified as a 2nd-year student in the fall, he/she might have received as much as $3,250 in the first Stafford disbursement. If the student achieved 3rd-year academic status based on the coursework completed in the fall semester, the student would now be eligible for the $7,500 Stafford annual limit. If the student had sufficient financial need, you could disburse the difference between the amount the student already received and the new annual limit in the spring term ($7,500 minus $3,250 = $4,250).

In all cases, the student may borrow the difference between the amount already borrowed within the academic year and the student's new loan limit. Usually, the increase in the loan amount can be made as an adjustment to the student's existing loan rather than making a new loan. For a clock-hour program, nonterm program, or nonstandard-term program that is not SE9W, the student will never progress to a higher grade level within an academic year. In a clock-hour program, nonterm program, or nonstandard-term program that is not SE9W that is longer than an academic year, the student moves to a higher grade level only when he or she completes the BBAY.

Grade level progression

While the law defines minimum coursework for an academic year, it doesn't define how much coursework a student must complete to progress from one grade level to another. Unless a student's program of study or a school's academic standards clearly specify when this grade-level progression takes place, a reasonable approach would be to base grade levels on the number of credits required for the program, divided by the number of academic years it takes a typical student to earn that number of credits. For instance, if your school has a baccalaureate program that requires 120 semester hours of work and is typically completed in four academic years, then you might use a standard of 30 hours completed at each grade level.

Remedial work & grade level

Remedial coursework can be counted towards the student's grade level progression, but only if the school's written and officially approved academic grade level progression policy specifies that remedial coursework can be counted for this purpose. Example: A school requires that the student complete 30 semester hours to progress to second-year grade level, and specifies that up to 10 of the hours may be in the form of remedial coursework.

Increasing the loan when grade level changes during academic year

The best method for increasing the amount of an existing loan may depend on your school's software and the lender's loan system. Here are two commonly-used mehods:

1. Certify/originate a new loan at the new grade level for the applicable amount (the difference between the new loan limit and the amount of the first loan). The loan period for the new loan must correspond to the term(s) during which the student qualifies for the higher loan limit (that is, it may not include a prior term when the student was classified at a lower grade level). If the new loan period is for a single term, the loan must be disbursed in two installments. (The school could also choose to cancel any pending disbursements of the first loan and certify/originate a new loan for an amount equal to the canceled disbursements of the first loan plus the additional amount for which the student is eligible due to the grade level change.)

2. Adjust the amount of the current loan. For FFEL, contact the lender to determine whether an increased loan amount due to grade level progression within an academic year may be processed as an adjustment without a new loan certification. For Direct Loans, change the grade level in the loan record and increase the amount of the existing loan to the new amount. For both loan programs, if the increased amount is for a single term (for example, a spring semester), it must be disbursed in two equal installments, one at the beginning of the term and one at the midpoint.

With either option, the student's remaining financial need must be calculated using only the costs and estimated financial assistance for the term(s) during which the student qualifies for the higher loan limit.

Grade level progression: clock-hour, nonterm credit-hour, and other nonterm programs

In contrast, progression to a higher grade level and the beginning of a new academic year for loan limit purposes always happen at the same time for a student in a clock-hour program, nonterm program, or nonstandard-term program in which the terms are not substantially equal in length or one or more terms have less than nine weeks of instructional time. In order to advance to the next grade level in such a program, for annual loan limit purposes a student must successfully complete the weeks and hours in the program's FSA academic year, i.e., at least 30 weeks of instructional time (or, for clock-hour programs, at least 26 weeks) and the academic credit, whichever comes later. For instance, a first-year student in a 2-year nonterm program who earns 36 quarter-credits over 24 weeks of instructional time cannot progress to the next grade level until another 6 weeks of instructional time are completed (the point at which the loan period for that academic year will be completed).

If a program can normally be completed in one year of full-time study, a student in that program can never receive more than the 1st-year annual loan limit in any given year, no matter how long it takes the student to finish. (Similarly, a student in a two-year program can never receive more than the 2nd-year annual loan limit for an academic year.)

New annual amount for same grade level

For standard-term programs, and SE9W programs, if a student is enrolled at the same grade level after a full academic year has elapsed, the student may be eligible for a new annual maximum amount. For instance, if the student maintains satisfactory academic progress, he or she could conceivably receive two Stafford loans at the maximum annual loan limit for a first-year undergraduate while completing the first year of the program.

If the student is maintaining satisfactory academic progress, your school is not permitted to have a general policy that limits the number of times the student can receive the maximum annual loan limit at one grade level. A school may refuse to certify/originate a loan, or may certify/originate a loan for an amount less than the borrower's maximum eligibility, only on a case-by-base basis.

Transfers & grade level

If you're awarding a Stafford loan to a student who is transferring from a program at another school to a program at your school that is greater than one academic year in length, you may use the loan limits for a student in the 2nd-year or higher level of study if your school classifies the student at that level based on the number of academic credits it accepts from the prior school, or based on the granting of advance standing in the new program. Note, however, that if an associate or bachelor's degree is required for entry into a program at your school, you *must* use the 3rd-year loan limits for a student who transfers to that program.

Note that the "Eligibility and Certification Approval Report" lists "1-year" as the highest educational program offered by the school if its longest program is 1 year or more, but less than two years in length. Students in programs longer than 1 year can be paid as 2nd year students even though the ECAR lists the school's highest offering as "1-year." For instance, if a student is enrolled in a 1,500-hour program, he/she would be eligible for the 2nd-year loan limits after completing 900 clock hours and 30 weeks of instruction (or, for clock-hour programs, at least 26 weeks). However, the loan limit would have to be prorated for the remaining hours of the student's program (see next section).

Loan limits and work in a prior certificate program

A school may not link two stand-alone 1-year programs by making one a prerequisite for admission to the other so that students beginning the second 1-year program could be classified as second-year students for loan limit purposes. However, hours or credits earned in a prior certificate program could be used to classify a transfer student at a grade level higher than grade level 1, if the student transfers into a program that is greater than one academic year in length and the new school accepts a year's worth of credits/hours from the prior program. For instance, if a school admits a transfer student from a certificate program and accepts 900 clock hours that the student earned towards its 1,500-hour program, the student could be eligible for the 2nd-year loan limits if other students in the program are eligible for 2nd-year loan limits after completing the first 900 hours of the program.

Stafford Loan proration
FFEL: 34 CFR 682.204(a), (d)
Direct Loans: 34 CFR 685.203(a), (c)

When and when not to prorate
You must prorate a Stafford Loan limit for an undergraduate program if:
• the academic program is shorter than an academic year; or
• the student's remaining period of study is shorter than an academic year.

Stafford Loan limits are prorated only in these two situations. Loan limits are not prorated based on a student's enrollment status, such as when a student is enrolled less than full-time or is enrolled for a period of less than a full academic year that is not a remaining period of study. In addition, Stafford Loan limits are not prorated for students enrolled in graduate or professional level programs.

Loan proration requirements also do not apply to loans made to students taking preparatory coursework or coursework necessary for teacher certification. The annual loan limit must be prorated only when a student is enrolled in a program or remaining portion of a program that is shorter than an academic year. Students taking preparatory coursework or coursework needed for teacher certification are not enrolled in a program.

PRORATING ANNUAL LOAN LIMITS FOR STAFFORD LOANS (UNDERGRADUATE ONLY)

The annual maximum loan amount an undergraduate student may borrow must be prorated in certain situations:

- when the student is enrolled in a program that is shorter than a full academic year; and
- when the student is enrolled in a program that is one academic year or more in length, but is in a remaining period of study that is shorter than a full academic year.

Bear in mind that loan limit proration determines the maximum loan amount that a student may borrow for a program or remaining balance of a program, not the loan amount that the student actually receives. In some cases, the actual loan amount that a student is eligible to receive (based on costs, EFC, and other aid) may be less than the prorated loan limit.

Prorating loan limits for programs of study shorter than a full academic year

If an academic program is shorter than a full academic year in length, you must multiply the applicable loan limit(s) by the *lesser* of —

$$\frac{\text{Semester, trimester, quarter, or clock hours enrolled in } \textit{program}}{\text{Semester, trimester, quarter, clock hours in } \textit{academic year}}$$

or

$$\frac{\text{Weeks enrolled in program}}{\text{Weeks in the academic year*}}$$

The result is the prorated annual loan limit for that program. (You may express these fractions as decimals to see more easily which is less or to calculate the prorated limit.)

Prorating loan limits for remaining periods of study shorter than an academic year

You must also prorate loan limits for students enrolled in remaining periods of study shorter than an academic year. This circumstance can occur when a student is enrolled in a program that is one academic year or more in length, but the remaining period of study needed to complete the program will be shorter than an academic year.

Proration is required only when it is known in advance that a student will be enrolled for a final period of study that is shorter than an academic year. If a student originally enrolls for a final period of study that is a full academic year in length, but completes the program early in less than a full academic year, it is not necessary to retroactively prorate the annual loan limit.

In a *standard term program, or a credit-hour program using nonstandard SE9W terms,* a remaining period of study is considered shorter than an academic year if the remaining period contains fewer terms than the number of terms covered by the school's FSA academic year. (For programs that are offered in a Scheduled Academic Year, the number of terms covered in the school's FSA academic year usually does not include any summer "header" or "trailer" term.)

In a *clock-hour program, nonterm program, or a program with nonstandard terms that are not SE9W,* a remaining period of study is considered less than an academic year for this purpose if the remaining period consists of fewer clock or credit hours than the program's defined FSA academic year.

For all types of programs, in each of the cases where there is a remaining portion less than an academic year, the annual loan limit for the student's grade level is multiplied by the following fraction to determine the prorated loan limit:

$$\frac{\text{Semester, trimester, quarter, or clock hours enrolled in } \textit{program}}{\text{Semester, trimester, quarter, clock hours in } \textit{academic year}}$$

Unlike proration for programs that are shorter than an academic year, there is no comparison of weeks and hours. *Only the credit or clock hours that the student is scheduled to attend or is actually attending at the time of certification or origination are used in the calculation.*

Note on fractions and decimals for prorating Stafford Loans

It is acceptable to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but this conversion is not a requirement. You may still choose to multiply the annual loan limit by the original fraction. However, you should be consistent in the method you use, since the fraction and decimal calculations sometimes result in slightly different prorated loan limits. (The decimal method will generally—if not always—result in an amount that is equal to or slightly higher than the amount calculated using the original fraction.)

Using school's definition of academic year if > FSA minimum

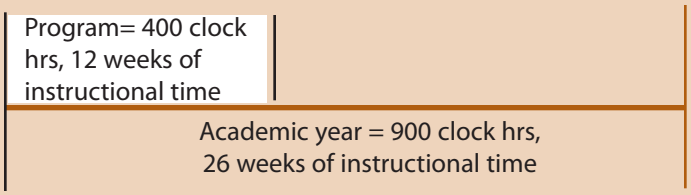
A school may choose to define its academic year as longer in weeks or hours than the minimum statutory requirements. If so, then it's the school's standard – not the statutory minimum – that applies when determining whether a program or a final period of study is shorter than an academic year.

Prorating remaining portions of term programs

- A student who is enrolled in a 4-year program that is offered in a Scheduled Academic Year consisting of three quarters plus a summer "trailer" has completed four academic years of study and received four Stafford Loans. The student needs to attend an additional quarter term to complete the program requirements. The final quarter term would fall in a new academic year, and thus the loan maximum would have to be prorated, because the remaining period of study (a single quarter) is less than a full academic year.
- A student who is enrolled in a 2-year program without a Scheduled Academic Year where the FSA academic year covers two 15-week semesters has completed two academic years of study, but needs to return for an additional semester to complete the program requirements. Again, the loan limit would have to be prorated if the student receives a loan for the final semester.

Proration examples for programs shorter than an academic year

Example 1



Jill is a dependent student enrolled in a 12-week program at Hancock Career College. HCC defines the academic year for this program as 900 clock hours providing 26 weeks of instructional time. Measured in clock hours, Jill's program is 400 clock hours long.

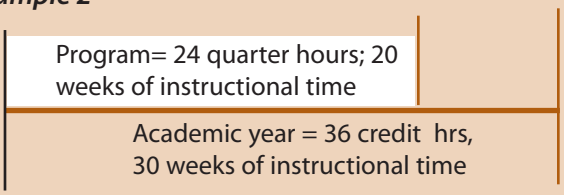
To determine the maximum loan amount she can borrow, convert the fractions based on weeks (12/26 = .46) and hours (400/900 = .44) to decimals. Multiply the smaller decimal (.44) by the first-year annual loan limits: $3,500 subsidized and $2,000 unsubsidized.

$3,500 x .44 = $1,540 subsidized

$2,000 x .44 = $880 unsubsidized

The maximum combined subsidized and unsubsidized loan amount Jill can borrow for the program is $2,420, but no more than $1,540 of this amount may be in subsidized loans.

Example 2



Morgan is an independent student enrolled in a program at Hancock Career College that provides 24 quarter hours and 20 weeks of instructional time. HCC defines the academic year for this program as 36 quarter hours and 30 weeks of instructional time. To determine the maximum loan amount she can borrow, convert the fractions based on weeks (20/30 = .67) and quarter hours (24/36 = .67) to decimals. Multiply the smaller decimal (in this case, both are .67) by the first-year annual loan limits for subsidized and unsubsidized Stafford:

$9,500 x .67 = $6,365 total Stafford

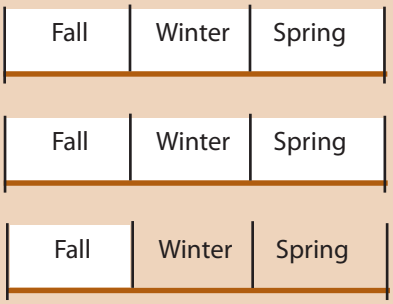
$3,500 x .67 = $2,345 subsidized

The maximum combined subsidized and unsubsidized Stafford amount Morgan can borrow for the program is $6,365, with the subsidized loan amount limited to $2,345.

*** at least 30 weeks of instructional time, or, for clock-hour programs, at least 26.**

Proration examples for remaining period of study shorter than an academic year

Example 1: Academic year contains 3 quarters Remaining period = 1 quarter

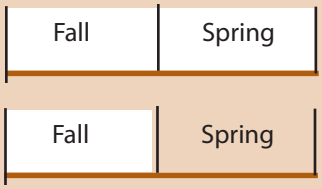


Rudy has attended 6 quarters in a 2-year program at Beulah Community College, but to finish the program, he needs to attend an additional quarter as a half-time student (6 quarter hours). Rudy is a dependent undergraduate student, and BCC defines its academic year (covering three quarters) as 36 quarter hours and 30 weeks of instructional time.

To determine the prorated Stafford loan limit, convert the fraction based on the hours that Rudy is expected to attend and the hours in the academic year to a decimal (6/36 = .17).

Multiply this decimal by the second-year undergraduate annual loan limits: $4,500 (subsidized) x .17 = $765 ; $2,000 (unsub) x .17 = 340. Total prorated Stafford limit $1,105, of which $765 may be subsidized.

Example 2: Academic year contains 2 semesters Remaining period = 1 semester



Rudy transfers to a BA program at Lacy Springs College. By taking 18 hours a semester, he will be able to graduate in the Fall term of his second year. Rudy is a dependent undergraduate student, and Lacy Springs defines its academic year (covering two semesters) as 24 credit hours and 30 weeks of instructional time.

To determine the prorated Stafford loan limit, convert the fraction based on credit hours to a decimal (18/24 = .75). Multiply this decimal by the fourth-year undergraduate annual loan limits:

$5,500 (subsidized) x .75 = $4,125; $2,000 (unsubsidized) x .75 = $1,500. Total prorated Stafford limit $5,625, of which $4,125 may be subsidized.

Example 3: Academic year contains 900 clock hours and 26 weeks Program = 1800 clock hours

Year 1: Student completes 1040 clock hours in 26 weeks
Year 2: 750 clock hours remaining in program

Knox Career College has an 1800 clock-hour program and defines its academic year as 900 clock hours and 26 weeks of instructional time. Sally, a dependent undergraduate student, successfully completes the first 900 clock hours of the program in 22 weeks of instructional time. However, she must complete an additional four weeks of instructional time before she may receive a second loan. After 26 weeks of instructional time have elapsed, Sally has successfully completed 1040 clock hours. She may then receive a second loan, but the loan limit must be prorated based on the number of clock hours remaining in her program at this point.

To determine the prorated loan limit for Sally's second loan, convert the fraction based on the clock hours remaining to a decimal (760/900 = .84). Multiply this decimal by the second-year undergraduate annual loan limit (total with added unsub):
$6,500 x .84 = $5,460

Example 4: Remaining period of study with scheduled period of nonenrollment

O'Donnell Institute has an academic year that covers three quarters: fall, winter, and spring. Milton will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter.
Because the fall quarter is in the same academic year as Milton final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which he will not enroll. O'Donnell Institute may award Milton a single loan for the fall and spring quarters (costs for the winter quarter must be excluded), or separate loans for fall and spring. In either case, the annual loan limit must be prorated. If Milton decided to enroll for the winter quarter on a less-than-half-time basis, his remaining period of study (three terms) would be equal to a full academic year and proration would not be required for a loan covering the fall and spring quarters.

REMAINING LOAN ELIGIBILITY FOR STUDENTS WHO TRANSFER OR CHANGE PROGRAMS

The annual loan limits are based on an academic year. If a student transfers from one school to another school or changes to a different program at the same school and there is an overlap of academic years, this overlap may affect the amount that the student is eligible to borrow at the new school or for the new program.

An overlap in academic years exists at the new school if the academic year at the new school or new program at the same school begins before the calendar end date of the academic year at the prior school or program. You may obtain documentation from the prior school of the specific beginning and ending dates for the prior academic year or may consider the prior academic year to have begun with the starting date of the student's most recent loan period (as shown in NSLDS) and to have ended 30 calendar weeks later. (However, if the most recent loan period was more than 30 calendar weeks in length, the new school must consider the academic year at the prior school to have ended on the last date of the prior loan period.)

The same principles for students who transfer from one school to another school would apply in the case of students who change programs within the same school.

For programs with standard terms or nonstandard SE9W terms (use SAY, BBAY 1, or BBAY 2)

If a student enrolls in a program with standard terms (or nonstandard SE9W terms) after already having taken out a loan at another school with an overlapping academic year, the student initially may not receive more than the annual loan limit minus the amount received at the prior school.

However, the student may borrow again for a subsequent term within the same academic year at the new school if the term begins after the end of the academic year at the prior school. For a subsequent term that begins after the end of the prior school's academic year, but within the initial academic year at the new school, the student may borrow up to the difference between the applicable annual loan limit and the amount already received for the new school's academic year.

Remaining loan eligibility on transfer/program change

Standard Term

A student receives a $2,000 Stafford loan at School A for a loan period from May 1 to August 31. The student, a dependent undergraduate, transfers to a program at School B in September and is admitted at grade level 2. The student requests a loan for the Fall and Spring semesters (September-May). School B makes a determination that the academic year at School A ended on November 27 (30 weeks after the start of the loan period at School A).

Because the academic year at School B begins before the end of the academic year at School A, the student may initially receive only up to a maximum of $4,500 for the Fall semester at School B. This amount represents the difference between the annual loan limit ($6,500) and the amount received at School A ($2,000) for the overlapping academic year period. At the start of the Spring semester in January (after the end of the academic year at School A), the student may borrow up to an additional $2,000, the difference between the annual loan limit and the amount already borrowed for the Fall-Spring academic year at School B.

As an alternative, School B could choose to place the student on a BBAY schedule beginning with the Spring semester. The student would then be eligible to borrow up to the full annual loan limit for a Spring/Summer BBAY.

Clock-hour program

For example, a student receives the first disbursement ($2,750) of a Stafford loan at School A for a loan period from April 1 to December 31. The student, a dependent undergraduate, leaves school A in June and transfers to an 1,800 clock-hour program at School B, and School B does not accept any transfer hours. Because the academic years at the two schools overlap, the maximum loan amount that the student may receive for the first academic year of the program at School B (900 clock hours and 30 weeks of instructional time) is $2,750, the difference between the first-year annual loan limit ($5,500) and the amount received at School A ($2,750).

If School B had accepted some hours on transfer, it would certify a loan for the remaining balance of the annual loan limit for the period that covers the remaining portion of the School A loan period. After this remaining balance is completed, the student would progress to a new annual loan limit.

For clock-hour and nonterm programs, and programs with nonstandard terms that are not SE9W (use BBAY 3)

Transfers between schools:

A student who enrolls in a clock-hour or nonterm program (or a program with nonstandard terms that are not SE9W) after already having taken out a loan at another school with an academic year that overlaps the academic year at the second school, the student is restricted to the original annual loan limit until the completion of the first academic year at the new school unless the second school accepted transfer credits or clock hours from the first school. If the second school accepts transfer hours from the first school, the second school would certify a loan for the remaining balance of the annual loan limit for the period that covers the remaining portion of the loan period at the first school. After this remaining balance is completed, the student would progress to a new loan period and a new annual loan limit.

Transfers between programs at the same school:

For a transfer between programs at the same school, you would look to the requirements for payment periods. There would be a new loan period with new payment periods or, if you choose to consider the student to be in the same payment period, there would be no new loan period.

Same payment period and same loan period–At your option, you can consider a transferring student to be in the same payment period if:

- The student is continuously enrolled at the school;
- The coursework in the payment period the student is transferring out of is substantially similar to the coursework the student will be taking when he or she first transfers in the new program;
- The payment periods are substantially equal in length in weeks of instructional time and credit or clock hours, as applicable;
- There are little or no changes in school charges associated with the payment period to the student; and
- The credits or clock hours from the payment period the student is transferring out of are accepted toward the new program.

If the student is kept in the same payment period, the original loan period should remain the same. However, you may need to take into account any changes as to when the student would complete the hours and weeks of instructional time of the academic year and make adjustments such as the ending date of the loan period or the date of the second disbursement.

New payment period and new loan period

If a transferring student is placed, or must be placed, in a new payment period, you would perform a Return of Title IV calculation for his or her withdrawal from the payment period in the old program (assuming that the student did not complete that payment period without starting a new one before transferring into the new program if the R2T4 is done on a payment period basis; or assuming the student did not complete the loan period if the R2T4 is done on a period of enrollment basis). That calculation would close out the original loan period. Then the student would start over with a new loan period for his new program that uses the remaining annual loan limit eligibility from the prior loan period. The new loan period would be for an academic year using the remaining annual loan limit eligibility if the student's new program is at least an academic year in length. If the new program is less than an academic year, the student's annual loan limit is the lesser of the remaining annual loan limit eligibility or the prorated annual loan limit based on hours to be completed in the new program.

Student completes a program and starts another at the same institution

A student completes a program at your school and then begins a new program at your school, and the student's last loan for the completed program is for less than an academic year. In this case, you may certify or originate the loan for the remainder of the academic year for the new program. You may certify or originate the loan for an amount that does not exceed the remaining balance of the student's annual loan limit at the loan level associated with the new program.

Aggregate Loan Limits
FFEL: 34 CFR 682.204(b), (e)
DL: 34 CFR 685.203(d), (e)
DCL GEN-08-08

NSLDS on the Web
You can review the complete student loan history for your students and generate reports on the NSLDS Web site for aid professionals:
https://www.nsldsfap.ed.gov/

NSLDS guides & help center
Guides for Enrollment Reporting, Transfer Student Monitoring and other user documentation are currently posted on IFAP under "Current FSA Publications" or "On Line References."
Also see NSLDS Newsletter #6 on IFAP for more specific information on how the OPB and Agg OPB are calculated in NSLDS.
Technical assistance for NSLDS is available at:
1-800-999-8219

Resolving negative information in NSLDS
If you can document that the student is eligible for FSA funds despite the information shown on NSLDS, you may award and disburse aid. An example would be if the NSLDS Financial Aid History page of the SAR or ISIR shows that the student has a defaulted loan, but you have obtained documentation from the holder of the loan that the borrower had made "satisfactory arrangements to repay."
GEN-96-13, Q&A 37

School's responsibilities for checking NSLDS data
In some instances, because of timing or coding problems by lenders and guaranty agencies, all of the loans that made up a consolidation loan will not be included in the NSLDS. Schools will be responsible only for the data contained in the NSLDS and are not expected to research further or to make assumptions regarding other non PC loans contained in NSLDS.
GEN-96-13, Q&As 54 and 55

AGGREGATE LOAN LIMITS

A borrower who has reached his or her aggregate borrowing limit may not receive additional loans. Once the loans are repaid, in full or in part, the borrower may apply for additional Stafford Loans. Certain aggregate loan limits have increased for loans disbursed on or after July 1, 2008.

The maximum outstanding **total subsidized and unsubsidized** Stafford Loan debt is:

- $31,000 for a dependent undergraduate student,
- $57,500 for an independent undergraduate student (or a dependent undergraduate student whose parents do not qualify for PLUS loans). No more than $23,000 of this aggregate amount may be in the form of subsidized loans.
- $138,500 for a graduate or professional student (including loans for undergraduate study). No more than $65,500 of this aggregate amount may be in the form of subsidized loans.

The loan amounts counted towards these maximums include any outstanding amounts borrowed in the form of Stafford Loans or Supplemental Loans for Students program (the discontinued SLS program). In the case of a Consolidation Loan, the outstanding amount of the Consolidation Loan representing any underlying Stafford or SLS loans that were paid off by the Consolidation Loan is counted towards the aggregate Stafford Loan limits.

Checking loan amounts on NSLDS

If a student at your school has FSA loans that were received at other schools, you may need to check the National Student Loan Data System (NSLDS) Web site to make sure the student still has remaining eligibility under the aggregate loan limits.

As long as there is no conflicting information, you may rely on the financial aid history (provided on the ISIR as well as the NSLDS Web site) and the Transfer Student Monitoring process to tell you if a student is about to exceed the aggregate Stafford Loan limits. (The NSLDS financial aid history may affect eligibility for other FSA programs, so it is discussed in more detail in Volume 1, Chapter 3.)

The aggregate loan limits do not include accrued interest and other charges. To avoid counting interest and other charges when determining a student's remaining loan eligibility using NSLDS, use the *aggregate outstanding principal balance (Agg OPB)* shown in NSLDS for each of the student's outstanding Stafford Loans. For instance, if the student has been making payments on a $3,500 loan and the aggregate outstanding principal balance is now $3,100, count the $3,100 towards the student's aggregate loan limit.

For Consolidation Loans, which may include Subsidized and Unsubsidized Stafford Loans, NSLDS will now show separate totals for the *Subsidized AggOPB* and *Unsubsidized Agg OPB*. In addition, NSLDS will show a total for "Unallocated" loan amounts for loans that cannot be identified. You are not responsible for reviewing these Unallocated loans to determine their origin.

Effect of change in student status on aggregate loan limits

In some cases, a student may qualify for higher loan limits, but then lose the eligibility for the higher limits. This situation could occur because a dependent student's parent received a PLUS loan after having been denied in previous years, and the student therefore could no longer borrow at the independent student loan levels, or because a student with a graduate degree entered an undergraduate degree program. In these cases, you only count the loan amounts that the student would have received under his or her current eligibility as an undergraduate or dependent student against the applicable undergraduate aggregate loan limit.

Financial Aid History Requirement & NSLDS

To ensure that a student doesn't exceed the annual and aggregate Stafford Loan limits, the student's FAFSA data is matched with the National Student Loan Data System and the student's loan history is included in the ISIR. If a student transfers to your school, you must inform NSLDS so that it can begin the Transfer Student Monitoring process. More detailed information on how this requirement applies to all of the FSA programs can be found in Volume 1, Chapter 3 of the FSA Handbook.

Handling unallocated amounts in NSLDS

You do not have to review unallocated amounts in NSLDS. NSLDS does not add the amount of unallocated loans when triggering the close to or exceeds aggregate limits flags. See *NSLDS Newsletter 11*, February 2006

Treatment of consolidated Perkins Loans

A consolidated Perkins Loan is not counted toward the aggregate Stafford Loan limits in either the FFEL or Direct Loan program.

Method used in NSLDS to estimate sub/unsub FFEL amounts

The subsidized and unsubsidized amounts of Direct Consolidation Loans have always been reported to NSLDS along with the total loan amount. The specific amounts for underlying subsidized and unsubsidized loans are not available for FFEL Consolidation Loans from private lenders, but NSLDS now provides an estimate of the Subsidized, Unsubsidized, and "Unallocated" amounts included in an FFEL Consolidation Loan.

Since Stafford and Perkins loans are reported to NSLDS, the system will be able to properly categorize those loans. (Perkins Loans are not counted towards the Stafford Loan limits, but loans from the SLS program in the 1980s are included, because SLS was a forerunner of today's unsubsidized Stafford Loan.)

However, the FFEL Consolidation Loan may also include some non-FSA loans that NSLDS can't identify, such as loans from the Health and Human Services (HHS) programs. If NSLDS can't determine from the reported underlying loans whether part of a FFEL Consolidation Loan should be counted in the subsidized or unsubsidized category, it will report that portion as "Unallocated."

NSLDS takes the total amount originally disbursed for all of the identified underlying subsidized loans and divides that amount by the originally disbursed amount of the Consolidation Loan, which approximates the percentage of the total original consolidation loan that can be attributed to the subsidized loans. This percentage is then applied to the current outstanding balance of the Consolidation loan with the result being the amount that is included in the NSLDS calculation of the total amount of Subsidized loans for the student. A similar process is followed to allocate the unsubsidized amount.

NSLDS subtracts the total of the calculated subsidized and unsubsidized outstanding balance amounts from the actual outstanding balance of the consolidation loan. Any balance is considered to be "unallocated."

NSLDS assumes the amount was borrowed from the FFEL or Direct Loan programs and is included in the total combined balance. However, none of the "unallocated" amount is included in the Subsidized balance as it is unlikely to have come from a Subsidized Loan.

Example: Consolidation and Stafford Loan Limits

An independent undergraduate student transfers to your school to complete her fourth year of baccalaureate study. She applies for a Stafford Loan and has financial need for the maximum annual loan amount ($5,500 in subsidized Stafford and $7,000 in unsubsidized Stafford). Her NSLDS record indicates that she has an Agg OPB of $24,625 on a Consolidation Loan made by a FFEL lender. Because the undergraduate aggregate subsidized limit is $23,000, you cannot disburse any subsidized loan funds unless you can determine that the total amount of subsidized Stafford Loans represented in the consolidation amount is less than $23,000.

The student's loan record shows that her Consolidation Loan was made on August 30, 2007. She previously had three subsidized loans that were paid through consolidation (PC) earlier in July and August. The Disbursed Amounts for her loans are: $2,625 for her first-year loan, $3,500 in her second year, and $5,500 in her third year. The NSLDS record also shows two unsubsidized loans, paid-in-full in July and August, which she received in her second and third years, when she qualified as an independent student. Note that although the annual loan limits have risen; these amount are for past years with the old annual loan limits.

STAFFORD LOANS (CONSOLIDATED)		STAFFORD LIMIT	REMAINING ELIGIBILITY
Subsidized	$2,625		
Subsidized	$3,500		
Subsidized	$5,500		
TOTAL SUBSIDIZED	$11,625	$23,000	$11,375
Unsubsidized	$4,000		
Unsubsidized	$5,000		
TOTAL SUB + UNSUB	$20,625	$57,500	$36,875

Adding the loans up, we can see that the student has received a total of $11,625 in subsidized Stafford and an overall total of $20,625 in Stafford funds.* Therefore, you may pay the student her full loan amounts ($5,500 subsidized and $7,000 unsubsidized) without exceeding the aggregate Stafford Loan limit ($57,500) for an independent undergraduate.

*There are several possible reasons why the $25,000 Consolidation Loan is greater than the total Stafford borrowed ($20,625)— the Consolidation amount may include Perkins or health loans that have been consolidated, or it may include capitalized interest or other charges.

Example: Student loses eligibility for higher loan limits

For instance, if a dependent student was treated as an independent student for loan limit purposes and received additional unsubsidized Stafford amounts for the first 3 years at your school because a parent was denied a PLUS loan for each of those years, but a parent was eligible to borrow PLUS for the student's fourth year, the student would be eligible for the following Stafford amounts:

1st year (independent student loan limit)= $9,500
2nd year (independent student loan limit) = $10,500
3rd year (independent student loan limit) = $12,500
4th year (dependent student loan limit) = $7,500

The additional unsubsidized Stafford Loan amount of $19,000 that the student received in the first three years of the undergraduate program is not counted against the $31,000 dependent undergraduate aggregate loan limit. Excluding the additional unsubsidized amount, the student received only $13,500 for the first three years. The student may therefore receive the entire 4th year maximum loan amount, even though the student's total outstanding Stafford Loan amount will be $40,000.

EFFECT OF OVERBORROWING

A student who has inadvertently received more than the annual or aggregate Stafford loan limits is ineligible to receive *any* FSA funds until the overborrowing is resolved. The student can regain eligibility for aid by repaying the amount that exceeded the Stafford annual or aggregate loan limits, or by making satisfactory arrangements with the Stafford lender (or the DL servicer) to repay the excess amount. The holder of the loan may choose to develop a repayment plan that has the borrower reaffirm that he or she will repay the excess according to the terms and timing of the original promissory note. If the inadvertent overborrowing occurred at your school, you should work with the student and the loan holder to ensure that the necessary actions are taken to restore the student's eligibility.

Once you have documented that the student has either repaid the excess loan amount or has made satisfactory arrangements with the loan holder to repay the excess amount, you may award additional aid. However, the student may or may not be eligible to receive additional Stafford loan funds, depending on the circumstances. For example, a dependent undergraduate who inadvertently exceeded the $23,000 aggregate Stafford limit could not receive any additional Stafford Loan funds as a dependent undergraduate unless the outstanding debt was paid down below the $23,000 limit. However, the student could receive additional non-Stafford aid. An independent undergraduate who inadvertently exceeded the $23,000 subsidized limit (but who has not reached the $57,500 combined aggregate loan limit for independent undergraduates) could borrow additional unsubsidized Stafford once he or she makes satisfactory arrangements to repay the subsidized amount that exceeds $23,000. For more on overborrowing and overawards, see Volume 5.

Consolidation of loan amounts that exceed the annual or aggregate loan limit

If a borrower who inadvertently received more than the annual or aggregate Stafford Loan limits has consolidated the loan(s) that caused the borrower to exceed the loan limit, the consolidation loan is considered to be a satisfactory arrangement to repay the excess amount that restores the borrower's eligibility for FSA aid. (Note, however, that consolidation of an amount that exceeded the aggregate Stafford Loan limits does not automatically make a student eligible for additional Stafford Loan funds. See the discussion on this page under "Effect of Overborrowing.")

Example: Resolving cases of overborrowing

Beth, an independent undergraduate student, is applying for a Stafford Loan for her fifth and final year of baccalaureate study at your college. Beth has remaining loan eligibility under the $57,500 combined aggregate loan limit for independent undergraduates and at first, she appears to be within the aggregate limit for undergraduate subsidized Stafford Loans.

However, you have recently become aware that Beth previously borrowed Stafford Loans while attending a community college several years prior to coming to your college. Note that although the annual loan limits have risen for 2008-2009, these amount are for past years with the old annual loan limits.

STAFFORD LOANS

Subsidized BANK ONE 1991 ..... $2,625
Subsidized BANK ONE 1992 ..... $3,500

Subsidized BANK TWO 1998 ..... $2,625
Subsidized BANK TWO 1999 ..... $3,500
Subsidized BANK TWO 2000 ..... $5,500
Subsidized BANK THREE 2001 ..... $5,500

TOTAL SUBSIDIZED $23,250

Your review of her NSLDS records indicates that Beth has borrowed $250 in subsidized Stafford Loans in excess of the aggregate undergraduate limit (although the overall aggregate limit has increased, the subpart of this aggregate limit that is permitted to be in subsidized loans remains the same at $23,000). Because the loan made by BANK THREE was the one that exceeded the loan limit, Beth needs to make arrangements with BANK THREE to repay the amount for which she was not eligible.

When BANK THREE has confirmed that Beth has made satisfactory arrangements to repay the excess loan amount, you may make other FSA awards to Beth, including unsubsidized Stafford Loans.

You can't make a subsidized Stafford Loan to Beth until she has repaid the $250 that exceeds the aggregate subsidized Stafford Loan limit and further repaid enough of her outstanding balance to be eligible for the Stafford amount that you intend to award to her.

Review of the Stafford MPN Process

The process for completing the MPN for a Stafford Loan and making the initial loan includes the following elements, though the process may be a bit different for the FFEL and Direct Loan Programs and some school and lender procedures may be in a slightly different order.

Student Applies for Aid.
The student fills out the FAFSA (or a renewal FAFSA) and an MPN for the initial loan.

School Determines Eligibility and Loan Amount.
The school confirms the student's eligibility for federal student aid, determines the loan period and loan amount and packages the loan(s) requested.

Certification/Origination.
For FFEL loans, the school certifies the student's loan eligibility. For Direct Loans, the school originates the loan.

- In the FFEL Program, the loan is approved by the lender or guaranty agency.
- In the Direct Loan Program, the school submits an origination record to COD and receives an acknowledgment from COD.

Student completes MPN.
The student fills out an MPN for the initial loan.

- The ***Borrower's Rights and Responsibilities Statement*** must be given to the borrower with the MPN.

Disclosure & Entrance Counseling.
Either before or at the time of the first disbursement, the borrower must be given a disclosure statement with specific information about the types of loans the borrower is getting, anticipated disbursement amounts, anticipated disbursement dates and instructions on how to cancel the loans. (The disclosure is often provided by the lender or ED.)

- First-time Stafford borrowers must complete entrance counseling before a disbursement can be made. (See *Volume 2, chapter 6*.)

Disbursement to the Borrower.
The school (after checking that the borrower is still eligible) disburses the loan funds to the student's account or directly to the borrower, and notifies the borrower of each disbursement. (See Chapter 2 of this Volume.)

Making Subsequent Loans.
If the MPN is used as a multi-year note, a new MPN is not required for subsequent loans. However, your school must use a confirmation process (either active or passive) for subsequent loans, and the borrower must receive a Plain Language Disclosure, at or prior to the disbursement of any subsequent loans provided under an existing MPN. (The Plain Language Disclosure is usually sent to the borrower by the lender or ED.) If the MPN is not used as a multi-year note, a borrower completes a new MPN for each subsequent loan period.

- Copies of the Master Promissory Note are provided by lenders, guarantors or ED to borrowers and schools. For your reference, sample copies of the MPN and related materials are available online :

  FFEL Stafford Loan MPN: http://ifap.ed.gov/dpcletters/GEN0207.html
  Direct Stafford Loan MPN: www.ed.gov/DirectLoan/mpn.html

Awarding Campus-Based Aid

CHAPTER 7

Your school has more latitude in selecting recipients of its Campus-Based funds than in Pell or Stafford/PLUS. This chapter discusses the criteria that you must consider when selecting Campus-Based recipients, and the amounts that you may award to them. In addition, the student must meet the general eligibility criteria discussed in Volume 1, and your Campus-Based awards may not exceed the student's financial need, as described in Chapter 8 of Volume 3.

GENERAL CAMPUS-BASED AWARD RULES

Selecting independent & part-time students

If any part of a school's FSEOG, FWS, or Federal Perkins Loan allocation is directly or indirectly based on the financial need of independent students or students who are attending part-time, then you must offer a *reasonable proportion* of the FSEOG allocation, the FWS allocation, and the dollar amount of the loans made from the Perkins revolving fund to such students. This requirement includes part-time students at eligible branch campuses as well as part-time students on the home campus. A policy that excludes part-time or independent students is not acceptable.

"Part-time students" also include correspondence students. To be considered enrolled in a program of correspondence study, the student must be enrolled in a degree-seeking program and must have completed and submitted the first lesson.

Uneven costs/unequal disbursements

If the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, you may make unequal disbursements of FSEOG and Perkins. There is no explicit provision for unequal disbursements in FWS. However, because FWS wages are disbursed as work is performed, usually on a weekly or bi-weekly schedule, total disbursement amounts are likely to be different from one payment period to the next. In addition, as we'll discuss in the FWS section, a student may be paid for work performed during certain periods of non-attendance.

Summer school and special sessions

A student who enrolls as a regular student in an eligible program during summer school or a special session may receive Campus-Based aid if he or she meets the same general eligibility requirements that apply to a student enrolled in a regular session. If a student is not enrolled during the summer or special session, the student is not eligible to receive Campus-Based aid during the period of **nonattendance**, except in the case of an FWS job. (See FWS discussion in this chapter.)

CHAPTER HIGHLIGHTS

FSEOG:
- Undergraduate only — see Volume 1 for rules.
- Maximum $4,000, Minimum $100.
- Priority order for FSEOG recipients is based on Pell eligibility and lowest EFCs.

Perkins:
- Undergraduate/graduate eligibility.
- Undergraduate: $5,500 annual and $11,000/$27,500 aggregate.
- Graduate: $8,000 annual and $60,000/aggregate.
- Selection based on exceptional financial need as defined by school.
- Also note Equal Credit Opportunity requirements.

FWS
- Undergraduate/graduate eligibility.
- Awards based on academic workloads & other factors, packaged based on net earnings, after taxes and job-related costs are subtracted.
- Student may be employed during certain periods of nonattendance.

Related Information:
- See Chapter 8 of this Volume for a discussion of packaging Campus-based aid with other assistance so as not to exceed the student's financial need.
- See Volume 1 for rules on undergraduate vs. graduate status.
- See Volume 4 for rules governing timing of disbursements & general FSA funds management.
- See Volume 6 for information on operating an FWS or Perkins Loan program, including allowable types of employment, JLD and Work-Colleges, due diligence in making Perkins loans, terms of repayment, etc.

Selecting independent and part-time students
34 CFR 674.10(b), 675.10(c), 34 CFR 676.10(b)

FSEOG cites

Selection Procedures 34 CFR 676.10
Frequency of disbursements 34 CFR 676.16(a)and (e)
Minimum and maximum awards 34 CFR 676.20

Award year & payment period

"Award year" is defined as "the period of time from July 1 of one year through June 30 of the following year."
Institutional Eligibility regulations, 34 CFR 600.2
As discussed in Chapter 1 of this volume, the payment period for a program that uses standard academic terms is a semester, trimester, or quarter. See Chapter 1 for a description of payment periods in programs not using terms or not using standard terms.
Payment period defined: 34 CFR 668.4

Selecting FSEOG Prohibitions

A school would not be in compliance with the Higher Education Act, as amended, and with the FSEOG regulations were it to award FSEOGs on a first-come, first-served basis or were it to arbitrarily set expected EFC benchmarks (cutoffs) from below which it would select FSEOG recipients. Such a practice might exclude otherwise eligible students from the selection process. Furthermore, professional judgment is not an appropriate means of attempting to resolve the indicated circumstance; professional judgment is applicable only to making an adjustment or adjustments to an expected EFC or to a cost of attendance amount, not as a means to circumvent the FSEOG selection policy.

Crossover payment period example

Brian and Brad are enrolled at Scruples Business School in a payment period that begins in June 2006 and ends in August 2006, and both are among those students with the lowest EFCs who will also receive Pell Grants in that payment period. Brian is receiving a 2005-2006 Pell Grant disbursement for that payment period and Brad is receiving a 2006-2007 Pell Grant disbursement for that payment period—both students have met the FSEOG first selection group requirement for that crossover payment period.

AWARDING FSEOG

Award Amounts

The maximum Federal Supplemental Educational Opportunity Grant (FSEOG) for a full academic year is usually $4,000. However, you may award as much as $4,400 to a student participating in a study-abroad program that is approved for credit by the home school. The minimum FSEOG amount is $100, but you may prorate this amount if the student is enrolled for less than an academic year.

The FSEOG maximum award for a student applies to both the Federal share and the required non-federal share. However, when your school has a waiver of the non-federal share, the FSEOG maximum applies to just the FSEOG federal funds. When there is no waiver, the FSEOG federal dollars awarded to a student are considered to be 75 percent of that student's total FSEOG award and the school must account for the remaining 25 percent non-federal share, regardless of the type of school resources used and the method used to match. For more detail on the requirements of federal and non-federal shares, see Volume 6, Chapter 1.

Selecting FSEOG Recipients

When awarding FSEOG funds for an award year, you must first select students with the lowest expected family contributions (EFC) who will also receive Pell Grants in that award year. This group is known as the FSEOG first selection group. If your school has remaining FSEOG funds after making awards to all Pell Grant recipients for that award year, you must next select students with the lowest EFCs who are not receiving Pell Grants. This group of students is known as the FSEOG second selection group.

A student who will also receive a Pell Grant in that award year is a student who has demonstrated Pell Grant eligibility for the same award year based upon an EFC that you have calculated for the student, or the EFC on the student's SAR or ISIR.

You must keep documentation of the eligible EFC that was calculated for the student, and you must confirm Pell Grant eligibility prior to disbursement of the FSEOG. If the FSEOG recipient does not actually receive a Pell Grant during the award year, but the documentation shows that the FSEOG award and disbursement was made in good faith, you are not required to recover the FSEOG funds. If the student loses Pell Grant eligibility prior to disbursement of the FSEOG, you must cancel the FSEOG award.

Crossover payment period

Certain flexibilities exist when determining whether a student is considered to be in the FSEOG first selection group during a crossover payment period, that is, a period that begins before July 1 of any award year and ends after July 1 of that same award year. If a student will also receive a Pell Grant during a payment period that occurs in two award years and the student is among those students with the lowest EFCs, the student satisfies the FSEOG first selection group requirements for the same crossover period regardless of which award year the Pell Grant funds are attributed.

In order to be considered part of the FSEOG first selection group, a student does not necessarily have to receive a Pell Grant in the same crossover payment period. A student can also be awarded FSEOG funds under the FSEOG first selection group requirements during a crossover payment period, from either award year's allocation, as long as the student will also receive a Pell Grant in the award year to which the crossover payment period is attributed for Pell Grant purposes.

Establishing categories of students

Categories of students for FSEOG selection

This guidance is based on Dear Colleague Letter CB-91-8.

Your selection procedures may specify categories of students to ensure that the students in each category have an opportunity to be awarded FSEOG funds. Categories may be based on class standing, enrollment status, program, date of application, or a combination of factors. You may choose to assign a percentage or dollar amount of FSEOG funds to each category; there is no requirement to make the percentage or dollar amount proportional to the need of students in a particular category or even to the number of students in the category.

However, categorization may not be used to exclude certain students or groups of students from consideration. If you know that your school's funds are so limited as to effectively exclude year after year categories that come later in the sequence, your school may not be in compliance with the "reasonably available" provision.

Your school's written selection procedures must ensure that FSEOG recipients are selected on the basis of the lowest EFC and Pell Grant priority requirements over the entire award year. If your school enrolls students as often as monthly or weekly, FSEOG funds can be reserved for use throughout that award year (on the basis of your school's experiences from previous periods), and selection practices can be applied in a manner that would assure a reasonable consistency over the entire award year.

When you use categories to package FSEOG, within each category you must first award the assigned FSEOG funds to students with the lowest EFCs who will also receive a Pell Grant. If FSEOG funds assigned for that category still remain, you must next award FSEOG funds to students in the category with the lowest EFCs who will not receive a Pell Grant.

Frequency & amount of FSEOG disbursements

If you're awarding an FSEOG for a full academic year, you must pay a portion of the grant during each payment period, *even if the student's program doesn't use standard academic terms.* (See Chapter 1 of this volume for an explanation of payment periods.)

To determine the amount of each disbursement, you would usually divide the total FSEOG award by the number of payment periods the student will attend. However, you are allowed to pay an FSEOG in unequal amounts if the student has costs or resources that are different for different payment periods. You may make payments *within* a payment period in whatever installments will best meet the student's needs.

Perkins citations

Selection procedures: 34 CFR 674.10
Exceptional need: 34 CFR 674.10(a)(1)
Must have estimate of Pell eligibility: 34 CFR 674.9(d)
Selection of independent & part-time students: 34 CFR 674.10(b)
Equal credit opportunity: 34 CFR 674.20

Example: Perkins selection procedures

When packaging aid, Barton University first awards Perkins Loans to third-year students whose financial need is at least $500 after their EFCs, Pell Grants, and any scholarships received have been subtracted from the cost of attendance. Next, the University awards Perkins Loans to second-year students whose financial need is at least $750. The school continues to award Perkins Loans to such pre-defined groups until the Fund is exhausted or all exceptional financial need is met.

Grad/undergrad status in teacher certification program

A student enrolled in a teacher certification program may be considered either an undergraduate or a graduate student. If a teacher-certification student has already borrowed the maximum aggregate allowed for an undergraduate, but your school considers him/her to be a graduate student, the student is eligible to receive an additional Perkins Loan. At the point the school classifies and treats this student as a graduate student, he/she would only be eligible for graduate level Title IV aid.

Uneven costs/unequal disbursements example

Dan will receive a $1,000 Perkins Loan and must spend $300 for books and supplies at the beginning of the school year. Ingram College could disburse that $300 along with the first payment. To determine the first payment, Ingram College subtracts the extra amount (in this case, $300) from the total loan ($1,000) and divides the remainder ($700) by the number of payment periods (in this case, 2). Ingram then adds the regular amount for one payment period ($350) to the extra amount ($300) to determine the initial payment ($650). The remaining amount ($350) is then disbursed during the second payment period for a total loan of $1,000.

AWARDING PERKINS LOANS

The maximum amount an undergraduate student may borrow is $5,500 per award year; the maximum for a graduate or professional student is $8,000 per award year.

Like Stafford Loans, Perkins also have aggregate loan limits:

- $11,000 for any student who has not completed two academic years of undergraduate work.
- $27,500 for an undergraduate student who has completed two academic years and is pursuing a bachelor's degree.
- $60,000 for a graduate or professional student, including loans borrowed as an undergraduate student.

The aggregate loan limits now include only unpaid principal. (Previously, a student who had borrowed the maximum cumulative amount for a graduate or professional student would not be eligible for another loan even if the student had repaid part or all of the amount he or she had borrowed.)

The annual maximums and aggregate maximums include any amounts borrowed previously under the Federal Perkins Loan Program, including National Direct/Defense Student Loans.

Perkins selection criteria

When awarding Perkins Loans, you must give priority to those students with exceptional financial need, as defined by your school. Your school's Perkins selection procedures must be in writing, uniformly applied, and kept on file at the school. See Volume 2 for record retention and consumer information requirements.

Before you may award a student a Perkins Loan, you must determine the student's Pell Grant eligibility. You may use an unofficial calculation to determine Pell Grant eligibility before a student has filed a *Free Application for Federal Student Aid* (FAFSA). However, your school may not disburse the Perkins Loan until you have received the student's official EFC for that award year (on the student's SAR or ISIR).

Increased loan eligibility to cover higher costs of study abroad

If the reasonable costs of the foreign study program exceed the cost of attending the home school, the awarded Perkins Loan may exceed the annual and/or aggregate loan limits by up to 20%. A school may disburse a Perkins Loan to a student engaged in a program of study abroad if the student meets all eligibility requirements and is enrolled in an eligible program at the school that will accept credits earned abroad.

Equal Credit Opportunity Act (ECOA) rules

A school making Perkins loans is subject to the requirements of the ECOA. With only limited exceptions, the ECOA prohibits a lender from considering the applicant's age, race, color, religion, national origin, sex, marital status, or receipt of public assistance when evaluating loan applications. Lenders are not permitted to consider whether the applicant has a telephone, whether the applicant's sources of income are from retirement benefits or part-time employment, or whether the applicant might bear or rear children.

In the case of a "special purpose credit program" that uses financial need as a criteria for the loan, a lender may collect certain borrower information. The Perkins program is considered a special purpose credit program, therefore you "may request and consider, in determining an applicant's eligibility for the program, information regarding the applicant's marital status; alimony, child support, and separate maintenance income; and the spouse's financial resources." This information is collected on the FAFSA.

ECOA regulations: 12 CFR 202

AWARDING FEDERAL WORK-STUDY (FWS)

Unlike the other two Campus-Based programs, the FWS Program does not require that priority be given to students who have *exceptional* financial need. However, you must make FWS jobs reasonably available, to the extent of available funds, to all eligible students. Your selection procedures must be in writing, uniformly applied, and kept in your school's files.

There are no specific award limits for FWS earnings, other than the requirement that the amount of the FWS award not exceed the student's financial need. For a full discussion of packaging FWS with other aid, see Chapter 8 in this volume.

When deciding on an appropriate FWS award for a student, you should consider the student's academic workload and any other factors that might affect the hours that a student could work each week.

Basing FWS awards on net work earnings

The *gross* amount of the award is based on the total number of hours to be worked multiplied by the anticipated wage rate. For awarding and packaging purposes, you should use the student's *net* FWS earnings, which exclude taxes and job-related expenses. To determine the student's *net* FWS earnings, you should subtract any job-related costs and non-refundable taxes from the student's *gross* FWS earnings. If you are certain that the student's federal or state taxes paid will be refunded, you should not subtract those taxes paid from the student's gross earnings.

Job-related costs are costs the student incurs because of his or her job. Examples of job-related costs include uniforms, the cost of meals at work, and transportation to and from work. For work during vacation periods, job-related costs can include room and board as long as the FWS student incurs these costs only because of the FWS employment. For example, room and board during the summer *cannot* be included in job-related costs if the FWS student also takes summer courses.

Earnings for the next period of enrollment

Many FWS students must pay the bulk of their education costs in the beginning of each period of enrollment, before they have had a

Calculating Maximum Gross Earnings Example

Chris has unmet financial need of $1,000 at Peterson University. Because Chris has a Social Security tax of 7.65% (that will not be refunded) and $108 in job-related costs, the school may allow Chris to earn an FWS award amount that is higher than his $1,000 unmet financial need in order for him to earn the allowable $1,000 net FWS earnings.

To calculate the FWS award amount to reflect the maximum gross FWS earnings that Chris may earn without the net FWS earnings exceeding the student's $1,000 financial need, the school must do the following:

1. Add the amount of job-related costs to the amount of his unmet need ($108 + $1,000 = $1,108) for a total of $1,108.
2. Account for the Social Security tax by determining that his net FWS earnings are 92.35% of his gross earnings (100% - 7.65% = 92.35%) or (.9235).
3. Divide the total in step 1 by the ratio in step 2 ($1,108/.9235 = $1,199.78) for a result of $1,199.78 ($1,200 after rounding).

Peterson University may give Chris a $1,200 FWS award and his net FWS earnings will not exceed his $1,000 unmet financial need.

Taxes and job-related costs cite
34 CFR 675.25(a)

Work during nonattendance
For further information about working during vacation periods or periods of nonattendance, see the discussion of enrollment requirements in Volume 1.

FWS for period preceding study abroad
A student in an eligible program of study abroad may be employed during a period of nonattendance preceding the study abroad if he or she will be continuously enrolled in his or her American school while abroad and if the student's study is part of the American school's own program. In such a case, a student may be employed in a qualified position in the United States, at the American school's branch campus in a foreign country, or at a U.S. government facility abroad.

chance to earn FWS wages. Therefore, you may allow a student to earn FWS wages to cover educational expenses in the next period of enrollment that your school offers. The student must be planning to enroll in that next period of enrollment and must demonstrate financial need for that period of enrollment. The next period of enrollment is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year.

A student may earn FWS funds for the next period of enrollment during any period of enrollment, including a period of enrollment that is comprised, in whole or in part, of mini-sessions. A student may also earn FWS wages towards the next period of enrollment during a period of nonattendance, as discussed below.

Working during periods of nonattendance

A student may be employed under FWS during a period of nonattendance, such as a summer term, an equivalent vacation period, the full-time work period of a cooperative education program, or an unattended fall or spring semester. To be eligible for this employment, a student must be planning to enroll for the next period of enrollment and must have demonstrated financial need for that period of enrollment. The student's net earnings (earnings minus taxes and job-related costs) during this period of nonattendance must be used to cover expenses associated with his or her financial need for the next period of enrollment.

When a student who had an FWS job in a period of non-attendance fails to enroll in the next academic period, you must be able to demonstrate that the student was eligible for employment and that, at the time the FWS was awarded, you had reason to believe the student intended to enroll in the next period. At a minimum, you must keep a written record in your files showing that the student had accepted the school's offer of admittance for the next period of enrollment. If during the period of nonattendance you learn that the student will no longer enroll in the next period of enrollment, the student must immediately stop working under FWS.

Minisession example
Lutz University has a summer term made up of three mini-sessions. Robert enrolls in classes for the June and August mini-sessions, but does not enroll in any classes for the July mini-session. Robert has a financial need of $500 for his attendance in two of the summer mini-sessions. Robert also plans to enroll in the following fall semester and has a remaining need of $250 for that semester. Robert is given a $750 FWS award in the summer ($500 for the two summer mini-sessions and $250 for the fall semester). Robert knows his June mini-session courses will be very demanding and he will not have time to work. So, Robert earns $500 during the July mini-session when he has no classes. Robert has classes again in August, but his academic workload is lighter. In August, Robert earns $250 towards his education costs in the upcoming fall semester.

FWS and minisessions

If your school combines a series of mini-sessions or modules into one term (e.g., three summer mini-sessions into one summer semester), an FWS student attending any of the mini-sessions may earn FWS wages at any time throughout that term. You may apply those earnings towards the student's financial need for the mini-session(s) attended and/or the next period of enrollment. You must base the student's financial need for attending the summer term on the period when the student is actually enrolled in the mini-sessions.

The amount of FWS wages a student may earn at any given point in the term does not depend on whether or not the student is enrolled in a mini-session at that point in time. You have some flexibility in deciding with the student how to distribute the hours worked throughout the summer term. (See the example in the sidebar.)

Packaging Aid

CHAPTER 8

Once you've received the student's FAFSA information (including EFC) and calculated the student's aid eligibility, you can package the student's aid. The general rule in packaging is that the student's total financial aid and other Estimated Financial Assistance (EFA) must not exceed the student's financial need (Need = Cost minus the EFC). If you discover that the student has other EFA that cause the aid package to exceed the student's need, you must attempt to adjust the aid package to eliminate the overaward. If the overaward can't be eliminated, you must follow the overaward procedures in Volume 5.

In earlier chapters of this volume, we described how to calculate student awards, based on costs, period of enrollment, and statutory award maximums. Except for Pell Grants, FSA award amounts are also constrained by the other aid that a student receives, known as *estimated financial assistance* (EFA). The general rule is that the student's total aid may not exceed the student's financial need. (Need = Cost of Attendance minus EFC.)

The process of awarding aid without exceeding the student's financial need is traditionally called packaging. Packaging is a process that varies from school to school, depending on the types of scholarship and other aid available at the school, and the characteristics of the student population. Schools may have different packaging philosophies, but they generally try to find the best combination of aid to meet the financial need of the students they serve.

To help you package Federal student aid with your other aid awards, we provide a Packaging module in EDExpress. You can enter information about your school's student aid programs and set up factors to be considered in packaging, and then use the software to automate the packaging process.

Most schools use some form of packaging software, whether EDExpress or software from a commercial vendor. You are not required to use EDExpress to package FSA awards, and you do not have to report the student's aid package to the Common Origination and Disbursement system.

CHAPTER HIGHLIGHTS:

- Related software: EDExpress Packaging Module
  - → Available at http://www.fsadownload.ed.gov
- Packaging Principles
  - → Pell Grants packaged first; not reduced for other aid.
  - → ACG/SMART may be reduced to eliminate an overaward.
  - → Campus-based and Subsidized Stafford Loans based on Pell, eligibility, EFC, and estimated financial assistance.
  - → Subsidized Stafford Loans based on Pell. eligibility, EFC, and estimated financial assistance.
  - → Unsubsidized Stafford Loans and PLUS based on Pell eligibility and estimated financial assistance.
- Treatment of need-based earnings
- Treatment of other aid: special cases
  - → Americorps and veterans educational benefits
  - → Vocational rehabilitation assistance
  - → Bureau of Indian Affairs grants

Financial need

Cost of Attendance
- EFC
Financial Need

Some key points from Chapter 6 (Calculating Stafford/PLUS Awards)

- Before you certify or originate a Stafford Loan, you must determine the student's eligibility for a Pell Grant.
- You may certify or originate a subsidized Stafford Loan only for the amount of student's financial need—the student's costs minus the student's EFC and estimated cost minus financial assistance.
- A student may qualify for a combination of subsidized and unsubsidized Stafford loans.
- If they meet program requirements, the parents of a dependent student can take out a PLUS loan to pay for the student's cost of attendance. There is no fixed loan limit for PLUS loans—the maximum loan amount is based on the student's financial need.
- If the student is independent, or his/her parents can't borrow a PLUS, the student is eligible for additional unsubsidized Stafford amounts.
- Unsubsidized Stafford loans and PLUS loans can be used to replace the EFC, as well as to cover the student's unmet need.
- PLUS Loans are now available to graduate and professional students

PELL GRANTS AS FIRST SOURCE OF AID

Pell Grants are considered to be the first source of aid to the student, and packaging FSA funds begins with Pell eligibility. The Department issues Pell payment schedules that base the award solely on the student's cost of attendance, EFC, and enrollment status. As we'll see, aid from the other FSA programs must be awarded to ensure that the student's need is not exceeded, unless certain types of aid are used to replace the EFC, as permitted.

Traditional financial aid practice suggests that you would also adjust non-federal aid awards, if necessary, to ensure that the student's financial need is not exceeded. But it's possible that the student will receive a scholarship or other aid that you can't adjust and is large enough (in combination with the Pell Grant) to exceed the student's need. In this case, the student is still eligible for a Pell Grant based on the payment schedule. However, you can't award any FSA funds other than the Pell Grant.

For instance, the National Collegiate Athletic Association's rules for athletic aid sometimes permit a school to award athletic aid that exceeds the student's need. You must still pay the full Pell Grant to the student, but you may not pay other FSA funds to the student, because his/her financial need has already been met.

Pell can't be used to pay loan

If the student's aid package includes a loan and the package must be adjusted to prevent an overaward, the Pell funds can't be used to pay back the loan—a loan repayment isn't an educational expense.

PACKAGING RULES FOR ACG/SMART, CAMPUS-BASED AID AND STAFFORD/PLUS LOANS

You should consider a number of things when developing a packaging policy. For instance, some schools give more grant assistance to beginning students, who may have more difficulty adjusting to campus life, increasing the proportion of loans and work-study in subsequent years.

For the Campus-Based programs and other programs where the available funds may not be sufficient to meet every eligible student's need, some schools decide to give a higher proportion of aid to the neediest students. Other schools award funds as an equal proportion of each student's need.

Estimated Financial Assistance

HEA: Sec. 428(a)(2)(C)(ii)
FFEL: 34 CFR 682.200(b)
DL: 34 CFR 685.102(b)

Examples of Estimated Financial Assistance

Estimated Financial Assistance

Includes any educational benefits paid because of enrollment in postsecondary education, such as:

- the student's Pell Grant eligibility;
- unsubsidized and subsidized Stafford and PLUS (Federal Family Education Loans and Direct Loans);
- Chapter 1607/REAP Benefits;
- long-term loans made by the school, including Federal Perkins Loans (short-term emergency loans are not considered to be Estimated Financial Assistance);
- grants, including Federal Supplemental Educational Opportunity Grants (FSEOGs), ACG/SMART grants, state grants, and Reserve Officer Training Corps (ROTC) living allowances;
- scholarships, including athletic scholarships and ROTC scholarships, and scholarships that require future employment but are given in the current year;
- waivers of tuition and fees;
- fellowships or assistantships;
- income from insurance programs that pay for the student's education;
- need-based employment such as FWS
- net income from need-based employment; and
- AmeriCorps funds;

NOTE:

- Veterans' benefits are no longer EFA
- You may exclude from Estimated Financial Assistance, up to the amount of any subsidized DL or FFEL that you award to the student when the student received AmeriCorps or Chapter 30 benefits when awarding ACG/SMART or Campus-Based funds.
- When determining eligibility for subsidized DL or FFEL, you must exclude the entire amount of Americorps benefits or Chapter 30 veterans educational benefits from Estimated Financial Assistance.

Many schools use software, such as the Packaging module in EDExpress, that can be configured to implement the school's packaging philosophy. For instance, in EDExpress, you can specify the order in which aid sources are to be applied to the student's unmet need, and set overall percentage limits on the amount of gift (grants/scholarships) and self-help aid that will be included in the aid package.

Estimated Financial Assistance

In contrast to Pell, you must take other aid into account when awarding ACG/SMART, campus-based aid, Stafford or PLUS loans. As noted earlier, the other aid that must be considered is called "estimated financial assistance" (EFA).

In general, the term *estimated financial assistance, as defined for the Campus-Based programs, and ACG/SMART Grants,* refers to aid from the FSA programs, as well as grants, scholarships, loans, and need-based employment that you can reasonably anticipate at the time you award aid to the student, whether the assistance is awarded by the school or by an individual or organization outside the school.

The term *estimated financial assistance* is used in the same way for Stafford/PLUS purposes as for the Campus-Based programs. However, there are differences in the treatment of Americorps and Chapter 30 GI benefits (discussed later in this chapter).

The regulations specify that "estimated financial assistance" is aid that the student will receive for the same period of enrollment as the Stafford or PLUS loan. As noted in Chapter 1, it's usually best to certify a Stafford or PLUS loan for a period that matches the academic year or other period that you're using to award funds from other FSA programs.

Considering grants and subsidized loans first

The law requires aid administrators to find out whether the student is eligible for certain other FSA programs that would reduce the need for borrowing.

If your school participates in the Federal Pell Grant Program, you must include the student's estimated Pell Grant eligibility as Estimated Financial Assistance when making Campus-Based awards, whether or not the student has received the Pell Grant at the time you make your Campus-Based award.

Similarly, you must determine an undergraduate student's Pell Grant eligibility before certifying a subsidized or unsubsidized Stafford Loan for that student. In addition, you may not certify an unsubsidized Stafford Loan without first determining the student's need for a subsidized Stafford Loan. (The difference between subsidized and unsubsidized Stafford Loans is explained in *Chapter 6* of this Volume.) However, if the amount of the subsidized Stafford is $200 or less and the amount can be included as part of an unsubsidized Stafford Loan, you are not required to certify a separate subsidized loan.

Estimated Financial Assistance
HEA Sec. 480(j)
If the assistance is provided by a State, is not considered FSA assistance such as a LEAP Grant, and is designated by the State to offset a specific component of the student's COA, the amount of that assistance may be excluded from both COA and Estimated Financial Assistance. You may exclude such assistance on a student-by-student basis, but if it is excluded, it must be excluded for both COA and Estimated Financial Assistance. If the amount excluded is less than the allowance provided in the student's COA, you must exclude the lesser amount. See Volume 1, Chapter 7 for determining whether State grants are considered FSA assistance.

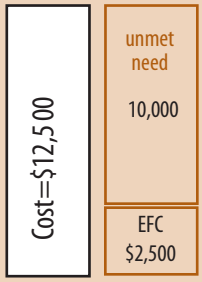
Prepaid tuition plans
GEN-06-05, HEA Sec. 480(f) & (j)
Prepaid tuition plans are no longer considered EFA; instead, they are treated the same as Coverdell education and 529 savings accounts: their value is considered an asset of the owner of the account, unless the owner of the account is a dependent student. When the owner is a dependent student, the value of the account is reported as an asset of the parents.

Prohibition on certifying Stafford for school charges only
Your school cannot engage in a practice of certifying Stafford loans only in the amount needed to cover the school charges, or to limit unsubsidized Stafford borrowing by independent students. See Chapter 6 of this volume for further information on certifying loan amounts.

Requirement to consider grants and sub loans first
34 CFR 682.201(a), 34 CFR 685.200(a)

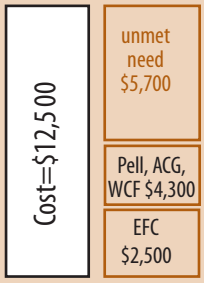
Use net FWS earnings when packaging
To determine the net amount of a student's FWS earnings that will be available to help pay for the student's costs, you must subtract estimated taxes and job-related costs from the student's gross FWS earnings (see Chapter 6 - Campus-Based Awards).

Basic packaging example



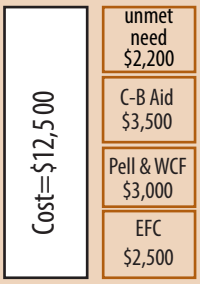
$12,500	Cost
- 2,500	EFC
$10,000	Need

Ricki is a dependent student, returning as a sophomore to Dwight College. For academic purposes, Dwight College considers him to be a 2nd-year student. His cost of attendance is $12,500, and his EFC for the current year is 2,500; therefore, the packaging process begins with $10,000 in unmet need.



$12,500	Cost
- 2,500	EFC
- 1,600	Pell Grant
- 1,300	ACG Grant
- 1,400	Scholarship
$ 5,700	Remaining Need

The aid administrator at Dwight College begins by awarding ACG and Pell Grants and applying the outside scholarship before awarding Campus Based aid. Andrew's Estimated Financial Assistance is a $1,600 Pell, a $1,300 ACG and a $1,400 outside scholarship from the Wildwood Conservation Fund, so he has sufficient need for the maximum awards that the aid administrator can make under Dwight's policy for Campus-Based funds: $800 FSEOG, a $900 Perkins Loan, and $1,800 in FWS employment.

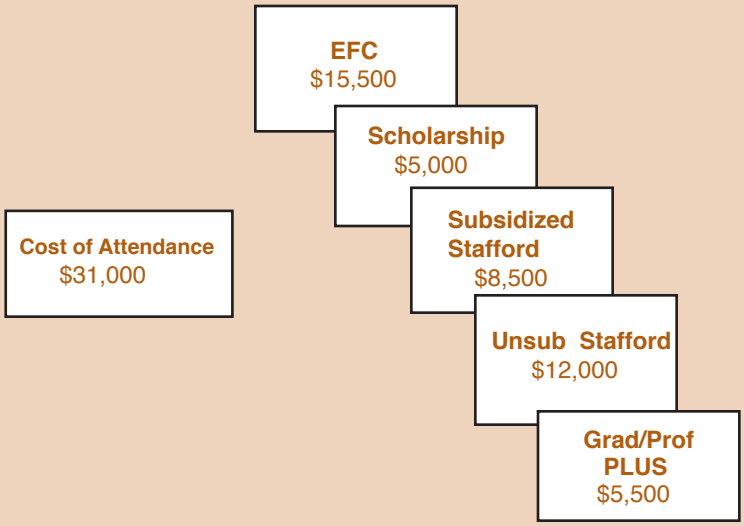


$12,500	Cost
- 2,500	EFC
- 1,600	Pell Grant
- 1,300	ACG Grant
- 1,400	Scholarship
- 800	FSEOG
- 900	Perkins
- 1,800	FWS
$ 2,200	Remaining Need

The aid administrator at Dwight College finishes the packaging process by awarding Title IV loans available to meet Andrew's need. As a 2nd-year student, Andrew's Stafford loan limit is $4,500. Because his remaining need is $2,200, he can receive that amount as a subsidized Stafford Loan. If he chooses, he can borrow up to $2,300 unsubsidized Stafford to partially cover the EFC (the remaining eligibility under his annual loan limit). Since he is a dependent student, his parents can borrow up to the remaining amount of the EFC in the form of a PLUS Loan. As an alternative to Ricki borrowing an additional $2,300 in unsubsidized Stafford, his parents could borrow that full amount in a PLUS.

Graduate/Professional PLUS Packaging Example

Kent enrolls in a graduate-level program at McCausland University with a total Cost of Attendance $31,000. Kent has already been awarded a graduate scholarship of $5,000. Kent is a graduate student, so his annual loan limit is $20,500 (maximum $8,500 subsidized). Kent is eligible to receive a subsidized Stafford loan of $8,500. Kent now has $2,000 in remaining need. Next, he can receive $12,000 in unsubsidized Stafford ($2,000 in need and $10,000 partially covering the EFC) Finally, Kent can receive a PLUS loan for $5,500 to cover the remaining portion of the EFC.



For a dependent student, you may certify a Parent PLUS and disburse Parent PLUS funds without determining the student's Pell Grant and subsidized Stafford Loan eligibility. Determining Pell eligibility is not relevant for Grad PLUS, but (unlike Parent PLUS) your school must determine a grad/professional student's maximum subsidized/unsubsidized Stafford eligibility before the student applies for PLUS.

Substituting unsubsidized loans for the EFC

A school may substitute certain types of loans for the student's expected family contribution (EFC). Generally, loans that may replace the student's EFC include unsubsidized Stafford Loans, PLUS Loans, state loans, private education loans, and any other non-need-based loans. If these loans are used to substitute for EFC, loan amounts that exceed the EFC are counted as estimated financial assistance.

You must package Campus-Based funds and subsidized Stafford loans before unsubsidized loans; as such, treatment of unsubsidized loans only becomes a factor when awarding unsubsidized Stafford and PLUS loans. When awarding Stafford/PLUS loans, unsubsidized loan amounts are only counted in *estimated financial assistance* if they exceed the EFC.

Packaging when choosing not to borrow Stafford

If a graduate PLUS borrower does not request the maximum Stafford loan amount for which he/she is eligible, you must notify the borrower of their maximum Stafford loan eligibility, the loan interest rate for Stafford and PLUS, the grace periods and repayment time-frames of Stafford and PLUS, and give them the opportunity to request the maximum Stafford for which the borrower is eligible.

If the student for whom a parent is borrowing a PLUS Loan chooses not to apply for a Stafford Loan, the Stafford Loan amount that the student would have been eligible to receive is ***not*** counted as estimated financial assistance when determining the amount of the PLUS Loan. The same principle applies when a graduate/professional student is eligible for Stafford, but chooses to borrow only PLUS.

Packaging Graduate/Professional PLUS

A PLUS loan does not count against a graduate/professional student's unsubsidized Stafford annual or aggregate loan limits.

COUNTING NEED-BASED EARNINGS AS ESTIMATED FINANCIAL ASSISTANCE

The treatment of earnings from a job sometimes presents a problem—should the earnings be reported as income in need analysis or should they be counted as a form of student aid in the packaging process?

Net earnings from *need-based employment* are considered to be student aid. "Need-based employment" means employment that is awarded by the school itself or by another organization to a student on the basis of financial need to meet educational expenses for the award year. Only income from *need-based* employment may be considered as student aid. A Federal Work-Study job is clearly a form of need-based student aid. Employment with a state is considered to be student aid if that employment is based on the student's financial need for assistance to pay for educational expenses.

Non-need-based earnings are not to be considered as EFA for the current award year because they will be reported as income on the Free Application for Federal Student Aid (FAFSA) for the subsequent award year and will be used in calculating the future EFC. An example of non-need-based employment would be a job a student locates on her own with a private employer such as a local grocery store. Another example would be a job cleaning the labs in the Chemistry Department on campus, if the Chemistry Department hired the student using non-need-based criteria and funds.

Simultaneous FFEL and DL at the same school

34 CFR 685.300(a)

A school may simultaneously participate in both the FFEL and DL programs, but student or parent borrowers may not receive the same type of loan (i.e. Stafford or PLUS) for the same period of enrollment. For example, a student may not receive Stafford loan from both the FFEL and DL programs at the same school for the same period of enrollment. However, a graduate/professional student may receive a Stafford loan from one program and a PLUS loan from the other program for the same loan period.

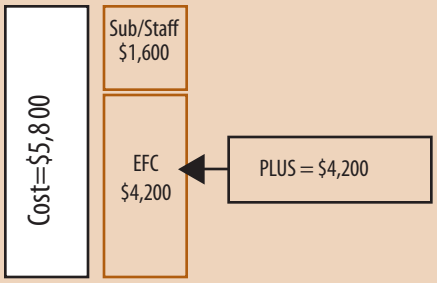
Using Loan Funds to Replace the EFC: Dependent example

Nichelle is a first-year dependent student at Sandberg Community College. His cost of attendance is $5,800 and his ISIR shows that he has an EFC of 4,200, so his financial need is $1,600. Nichelle's EFC makes him ineligible for a Pell Grant, and Sandberg does not participate in the Campus-Based programs. The Stafford annual loan limit for a first-year dependent student is $3,500. Nichelle qualifies for a $1,600 subsidized Stafford loan, and has no remaining need.

Since an unsubsidized Stafford Loan can replace the EFC and Nichelle hasn't reached the Stafford annual loan limit, he can borrow an additional $1,900 in the form of an unsubsidized Stafford Loan to cover part of the EFC. ($3,500 Stafford annual loan limit - $1,600 subsidized Stafford Loan = $1,900 unsubsidized Stafford eligibility.) Nichelle could borrow $1,900 in unsub Stafford to partially cover the EFC. His parents could then borrow $2,300 in PLUS to cover the remaining EFC. Alternately, his parents could borrow up to $4,200 in the form of a PLUS loan.

$ 5,800	Cost
- 4,200	EFC
$ 1,600	Need

	$ 5,800	Cost
	- 1,600	Sub Stafford
Replaces EFC	- 1,900	Unsub Stafford
Replaces EFC	- 2,300	PLUS
	$ 0	Need



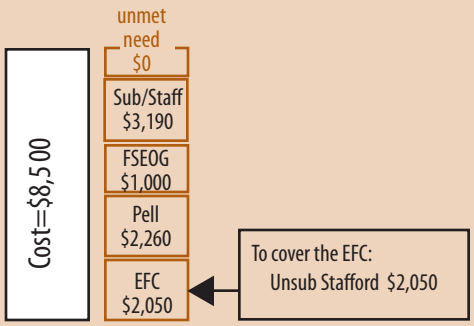
Using Loan Funds to Replace the EFC: Independent example

Jesse enrolls in Trice Technical College as a 1st-year independent student with an $8,500 cost of attendance and TTC has received an ISIR for her with an EFC of 2,050. She is eligible for a $2,260 Pell Grant and TTC also awards her a $1,000 FSEOG. Her remaining need is $3,190, so she can receive that amount in a subsidized Stafford Loan (the maximum subsidized Stafford loan for a 1st-year student is $3,500).

Since Jesse is an independent student, she can take out an additional unsubsidized Stafford loan to replace the EFC, and as "self-help" to meet the EFC. Thus, TTC is able to award Jesse an additional $2,050 in unsubsidized Stafford Loan funds.

$ 8,500	Cost
- 2,050	EFC
$ 6,450	Need

	$ 8,500	Cost
	- 2,260	Pell Grant
	- 1,000	FSEOG
	- 3,190	Sub Stafford
Unmet Need + EFC	- 2,050	Unsub Stafford
	$ 0	Need



CROSSOVER PERIODS

Crossover periods are payment, award, or loan periods that overlap two award years. In general, you may choose which award year EFC to use for a student, with two exceptions: When more than six months of a Pell Grant or ACG/SMART grant recipient's payment period falls into one award year, the payment period must be placed in that year, and when awarding FWS to a student not attending classes, the EFC for the next period of enrollment must be used.

The following chart summarizes the key flexibilities and options in handling crossover payment periods in the major Title IV programs. Note that for the award year selected, the student must have an official EFC calculated by the CPS, and for a Pell Grant the CPS must also have processed a valid SAR or ISIR.

Crossover in Pell

For more detail on calculating Pell awards in crossover, summer, minisession, and transfer situations, see Volume 3, Chapter 3.

EFCs for periods other than 9 months

For detail on how to handle FFEL, Direct Loans, and Campus-Based Programs that are based on an enrollment period of other than 9 months, see Alternate EFCs in Chapter 3 of Volume 1 of the FSA Handbook.

Handling Crossover Periods for FSA Programs

FSA Program	Applicable crossover period	Choice of award year EFC?	Use same award year EFC for all students in crossover period?	Use same award year, EFC, COA, and need to award a student other aid from FSA?	Use funds from the same award year as EFC?	Choice of academic year for annual loan limit regardless of award year EFC used?
Pell Grant	Payment period	Yes, unless more than 6 months of payment period is in one award year	No	Not applicable	Yes	Not applicable
ACG/ SMART	Payment period	Yes	No	Yes, except for Pell Grant	No, disbursement from award year in which Pell Grant was received	Not applicable
Perkins	Payment period	Yes	No	Yes, except for Pell Grant	No	Yes, but it is an award year limit. Choice still applies regardless of the disbursement award year
FWS	Award period	Yes, if student attending classes. (If student not attending, must use EFC for next period of enrollment)	No	Yes, except for Pell Grant	No, disbursement from award year in which hours were worked	Not applicable
FSEOG	Payment period	Yes	No	Yes, except for Pell Grant	No	Not applicable
FFEL/DL	Loan Period	Yes	No	Yes, except for Pell Grant	Not applicable	Yes, for term-based credit-hour programs using SAY. Not relevant for BBAY.

Veterans' benefits no longer EFA
IFAP E-Announcement July 2, 2009.
Veterans' benefits are excluded from the definition of estimated financial assistance as of July 1, 2009.

Veterans and Americorps benefits
The definition of "estimated financial assistance" in the FFEL and DL regulations no longer includes veterans benefits paid under Chapter 30, 31, 32, and 35 of Title 38) and ***national service education awards*** or ***post-service benefits*** under Title I of the National and Community Service Act of 1990 (AmeriCorps).

You may exclude a portion of a subsidized Stafford loan from EFA, not to exceed the amount of Chapter 30 veteran's benefits or Americorps benefits, as described in the General Provisions for the Campus-Based programs.
34 CFR 673.5(c)(4)

Vocational rehabilitation agreements with state agencies
Some state vocational rehabilitation agencies have established agreements with schools that specify how vocational rehabilitation assistance will be coordinated with other forms of financial aid. Check with your school's vocational rehabilitation coordinator to see if it has such an agreement.

Vocational Rehabilitation Packaging
Trevor has $4,000 in vocational rehabilitation aid for the 09-10 academic year. At Friedman University, Trevor has a COA of $5,000. He is eligible for a $4,000 Pell Grant. Friedman must coordinate funding with the vocational rehabilitation agency to ensure that Trevor's total financial aid package, including both Title IV and vocational rehabilitation, does not exceed his need. Trevor has $2,000 of disability costs that are not met by his vocational rehabilitation award, so $2,000 may be added to his COA.

PACKAGING VETERANS BENEFITS, AMERICORPS, VOCATIONAL REHABILITATION FUNDS, & BIA GRANTS

Veterans and Americorps benefits

For FSA purposes, veterans education benefits are no longer treated as estimated financial assistance (EFA). As in the past, they are also not to be counted as income, and therefore are not reported as income on the FAFSA. Americorps benefits are also no longer considered Estimated Financial Assistance.

Note that the income earned from the Veterans Affairs Student Work-Study Allowance Program (VASWSAP) is not treated as a veterans education benefit, and is *not* considered estimated financial assistance. It should be reported as untaxed income (not income earned from work) on the FAFSA.

Noneducational veterans benefits are not counted as estimated financial assistance. Noneducational veterans benefits include Death Pension and Dependency and Indemnity Compensation (DIC) benefits, and income from the Veterans Affairs Student Work-Study Allowance Program (VASWSAP). The student must report these noneducational benefits as nontaxable income on the FAFSA.

Vocational rehabilitation funds

If you have a student who qualifies for both FSA funds and for vocational rehabilitation assistance funds, you should determine the student's package exclusive of both the costs related to the student's disability and anticipated vocational rehabilitation assistance. In this way, the student with disabilities will be offered the same aid package as a student who is in the same financial situation but who doesn't have disabilities; the student with disabilities will also receive the maximum amount of vocational rehabilitation aid to which he or she is entitled. If the vocational rehabilitation agency doesn't fully meet the student's disability costs, you may wish to include the unmet disability expenses in the student's cost of attendance, and increase his or her aid award.

Although the vocational rehabilitation funds shouldn't be considered estimated financial assistance when you initially package aid for the student, you must coordinate funds available from the vocational rehabilitation agency and from institutional, state, and federal student financial assistance programs to prevent an overaward. The amount of assistance from the vocational rehabilitation agency must be documented in the student's file.

Packaging example: Veteran educational benefits exclusion

Tom is a first-year, independent undergraduate student with an EFC of 1800, a Pell Grant of $5,350, and Chapter 30 Montgomery GI Bill benefits of $9,600. He enrolls in a four-year program at Davis College, where his need is $13,100 ($14,900 COA - 1800 EFC). After considering his Pell grant, Tom's remaining need is $7,750.

	$14,900 COA
less	$1,800 EFC
	$13,100 Need
less	$5,350 Pell Grant
	$7,750 remaining need

Tom's need less his Pell Grant without consideration for the Chapter 30 VA benefits produces a need of $7,750. As a 1st-year independent undergraduate student, he can receive the full annual maximum of $3,500. At this point his aid package includes the following:

	$13,100 need
less	$ 5,350 Pell
	$7,750
less	$3,500 Subsidized Stafford
	$4,250 remaining need

Davis can now consider him for Campus-Based aid if they choose to exclude the subsidized loan (up to and not to exceed the amount of the VA active-duty benefits). For example, Tom has $13,100 remaining need, less his $5,350 Pell Grant. Davis awards Tom $960 in FSEOG:

	$13,100 Need
less	$5,350 Pell
	$7,750 Remaining need
less	$940 FSEOG
	$6,810

So, Tom's aid package totals as below:

$5,350 Pell
$940 FSEOG
$3,500 Subsidized Stafford
$9,790

Tom's assistance now totals $9,790 (less than his COA of $13,100). Davis could meet his remaining need with a combination of unsubsidized loans, PLUS loans, or institutional aid.

BIA Grants
34 CFR 673.6

Coordination with Bureau of Indian Affairs grants

When packaging campus-based aid for a student who is or may be eligible for a Bureau of Indian Affairs (BIA) grant, you must first develop a financial aid package without considering any BIA funds. If the total aid package—after BIA funds are added—does not exceed the student's need, no adjustment may be made to the aid package. If the total package plus the BIA grant does exceed need, you must eliminate the excess in the following sequence: loans, work-study awards, and grants other than Pell Grants. (You may *not* reduce a Pell Grant or BIA grant.) You may alter this sequence of reductions upon the student's request if you believe it would benefit the student. We encourage you to consult with area officials in charge of BIA postsecondary financial aid when packaging FSA funds with BIA grants.

Packaging Byrd Scholarships with other FSA funds
You must ensure that the total amount of federal financial aid awarded to the Byrd Scholar does not exceed the scholar's total cost of attendance. If any federal loans are part of the scholar's financial aid package, they must be reduced prior to reducing the Byrd Scholarship. In addition, a Federal Pell Grant must not be reduced on the basis of the receipt of a Byrd Scholarship.

Reserve Educational Assistance Program (REAP or Chapter 1607

A new veterans education benefit program referred to as REAP or Chapter 1607 was signed into law on October 28, 2004. It is for reservists who serve on active duty on or after September 11, 2001, under Title 10 U.S.C. for a contingency operation and who serve at least 90 consecutive days or more. National Guard members also are eligible if their active duty is under section 502(f), Title 32 U.S.C. and they serve for 90 consecutive days when authorized by the President or Secretary of Defense for a national emergency and that active duty is supported by federal funds. Disabled members who are injured or have an illness or disease incurred or aggravated in the line of duty and who are released from active duty before completing 90 consecutive days are also eligible. The U.S. Department of Defense will identify contingency operations that qualify for benefits under Chapter 1607.

Reserve Educational Assistance Program (REAP/Chapter 1607)
DCL GEN-05-16

As with all veterans benefits, Chapter 1607 benefits are not taxable and will not be used in the EFC calculation. In addition, Chapter 1607 benefits are not considered EFA under the Campus-Based regulations (34 CFR 673.5) nor under the FFEL and the Direct Loan Program regulations (34 CFR 682.200 and 34 CFR 685.102).

TREATMENT OF OVERAWARDS

If, **at any time during the award period**, the student receives additional Estimated Financial Assistance that was not considered in calculating the student's eligibility for Campus-Based and/or ACG/SMART aid and if the Estimate Financial Assistance combined with the expected financial aid will exceed the student's need, the amount in excess of the student's need is considered an overaward.

The treatment of overawards in the Stafford/PLUS programs depends on whether the loans have been fully disbursed. See Chapter 1 of *Volume 5* of the *FSA Handbook* for a full discussion of overawards.

There is a $300 overaward tolerance for the Campus-Based programs. If the student's package is overawarded by $300 or less (as a result of a late outside award, not the school's awarding methodology) and Campus Based funds are part of the package, you can consider the student to not be overawarded; however, this overaward tolerance does not apply if the student has a ACG or SMART grant as part of his/her aid package.

Campus-based overaward thresholds

Campus-based aid need not be reduced if the overaward doesn't exceed $300, which is the overaward threshold for all Campus-based programs. Note that the $300 threshold is allowed only if an overaward occurs after Campus-based aid has been packaged and the school was unaware, the student would receive additional funds.

The threshold does not allow a school to deliberately award Campus-based aid that, in combination with other resources, exceeds the student's financial need. (see *Volume 5 - Overawards, Overpayments, & Withdrawal Calculations*.)

ACG/SMART Overaward limitation

HEA 401A(d)(1)(B)(i)
34 CFR 691.62(c)

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)

- 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.

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.

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.

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

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.

TEACH Grant Cancellation
34 CFR 686.31(e)

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.

AUTHORIZATIONS

Authorizations
34 CFR 668.165(b)

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.

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/qaassessments/fiscalmanagement.html

Electronic Disclosures
CFR 34 668.41(b) & (c)

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.

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*.)

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.

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

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.

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.

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 below[1]).

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.

[1] If 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.**

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

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."**

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.

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.

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

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.

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

School responsibility to pay credit balance in timeframe
FR 72-152, August 8, 2007, page 44630

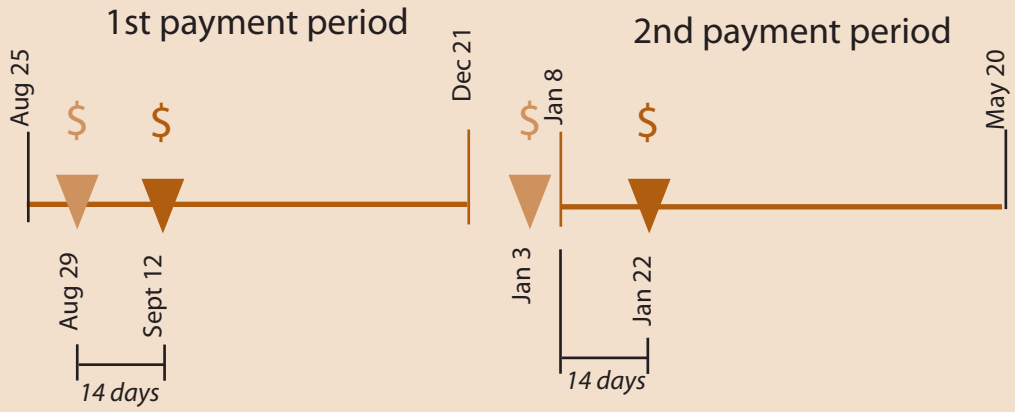
Important

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 a credit balance by issuing a check

Paying credit balance by check
34 CFR 668.164(c)(1)(ii)

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.

Clarification

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.

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.

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

Paying credit balance by EFT
34 CFR 668.164(c)(1)(iii) and (c)(3)

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.

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.

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.

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.

   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.
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.
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.

   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.
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 servicers[1] 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.

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.

Important

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.

School-issued stored-value cards

Reminder

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.**

POWER OF ATTORNEY

Power of attorney in disbursing FWS and Perkins

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)

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.

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 an 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 Disbursements
34 CFR 675.16.

Direct payments
34 CFR 668.164(c)

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.

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 *Timing of Disbursements*.) 2 For a second disbursement, student graduated or completed the period for which the loan was intended.
Direct Loans	
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.

Chapter 2 Highlights

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

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.

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).

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 drawndown. Since there is no longer a need for the JIT program, it is being discontinued with the start of the 2009-2010 Award Year.

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 finan-cially 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.

Maintaining & accounting for funds
34 CFR 668.163

Recordkeeping requirements
34 CFR 668.24

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.

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.

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.

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.

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

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.

- 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.

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.

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 668166

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.

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

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.

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.

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)

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)

Administrative Cost Allowance
34 CFR 690.10(b) and 34 CFR 673.7

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.

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

Reminder

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.

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.

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

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.

Timeframe for returning unclaimed funds
34 CFR 668.164(h)

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.

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 OF FSA FUNDS PROHIBITED

Garnishment/Attachment Prohibited
HEA 488A(d)

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.

RETURNING FUNDS

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.

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

Returning funds by depositing them
34 CFR 668.173(b)

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.

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 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 timeframe. However, such returns would not be offset by reductions in the students' records 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 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 Loans
William D. Ford Federal Direct Loan Program

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 Perkin's 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

Important

This information is for school use only.

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

Address for NELNET Overnight Delivery:

Nelnet School Service Center
121 South 13th Street, Suite 201
Lincoln, NE 68508

Introduction to Volume 5

An overpayment occurs when the student receives more aid than he or she was eligible to receive. One kind of overpayment, traditionally called an overaward, results from changes in the student's aid package; a second occurs when a student withdraws. This volume covers how a school should respond when either of these types of overpayments occurs.

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 — Overpayments and Overawards

- We have added a section on TEACH Grant overpayments.
- From chapter 2, we have reproduced sections on –
  - Recording student payments and reductions in the Pell Grant, ACG, National SMART Grant, and TEACH Grant Programs;
  - Accepting payments on referred overpayments;
  - Referring overpayments to Debt Resolution Services;
  - School responsibility after referral;
  - Responsibilities of Debt Resolution Services;
  - Return of Title IV funds when a school does not maintain a separate federal bank account; and
  - Accepting payments on referred overpayments;

  to explain the processes for returning overpayments to the Department.

Chapter 2 — Withdrawals and the Return of Title IV Funds

- We have clarified that a school may only count as days in attendance excused absences that are followed by some class attendance.
- We remind schools that institutionally scheduled breaks of at least five consecutive days between courses/modules in the same payment period or period of enrollment must be excluded from a Return calculation.
- 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.

Chapter 2 — Case Studies

We made no major changes to the case studies.

Overpayments and Overawards

CHAPTER 1

An overpayment occurs when the student receives more aid than he or she was eligible to receive. One kind of overpayment, traditionally called an overaward, results from changes in the student's aid package. In this chapter we will discuss a student's and a school's responsibility for resolving overpayments and overawards. This chapter does not cover returning funds when a student withdraws. Please see chapter 2 for a discussion of those returns.

OVERAWARDS

An overaward is created when the student's aid package exceeds the student's need. While you must always take care not to overaward the student when packaging aid, circumstances may change after the aid has been awarded and result in an overaward. For instance, the student may receive a scholarship or grant from an outside organization, or the student may want to extend his or her work-study employment. When these circumstances arise, you may be required to adjust the other federal student aid in the package.

Pell Grants

Pell Grants are never adjusted to take into account other forms of aid. If there's a Title IV overaward, you must look at other aid that your school controls, and reduce that aid.

Academic Competitiveness Grant (ACG) and National Science and Mathematics to Retain Talent Grant (National SMART Grant) programs

The law provides that a student's ACG or National SMART Grant, when combined with a student's expected family contribution and estimated financial assistance may not exceed a student's cost of attendance under section 472 of the HEA. Moreover, the law does not provide any overaward tolerance in these programs. Therefore, any overaward or overpayment containing ACG or National SMART Grant funds must be reduced or repaid.

If a school learns that a student received financial assistance that was not included in calculating the student's eligibility for aid, and that assistance would result in the student's total aid exceeding his or her financial need, the school must take steps to resolve the overaward.

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to a school, and the school's "delivery" of the loan proceeds to a student. The Cash Management regulations use the term "disbursement" to refer to the payment of FSA funds to a student or parent, including the payment of loan funds. In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, all payments to a student or borrower.

When there are conflicting regulations

When a student's aid package includes assistance from multiple programs and those programs have different overpayment regulations/requirements, a school must apply the most stringent/restrictive requirements.

Campus-based overawards
34 CFR 673.5

Recovery of fund
Verification 34 CFR 668.61
Ineligible student 34 CFR 668.139

Overpayments
Title IV debts 34 CFR 668.35(e), & (g)
Pell Grants 34 CFR 690.79
FFEL 34 CFR 682.604(h)
DL 34 CFR 685.303(e)

Resolving ACG and National SMART Grant Overawards

If a school discovers that an overaward situation exists –

The school first should attempt to eliminate that overaward by adjusting subsequent Title IV, HEA program (other than Federal Pell Grant, ACG, or National SMART Grant) payments in the same award year;

If the institution cannot eliminate the overaward by those adjustments, the school should attempt to eliminate the overpayment by adjusting subsequent ACG or National SMART Grant payments in that same award year.

Before reducing a student's ACG or National SMART Grant the school should reevaluate the student's need to determine whether he or she has increased need that was not anticipated when the school initially awarded aid to the student. If the student's need has increased and if the total assistance does not exceed the revised need, the school is not required to take further action.

If the school recalculates the student's need and determines that the total assistance still exceeds his or her need, the school must reduce or cancel any future Title IV or institutional disbursements. Beginning with any unsubsidized loans the student is scheduled to receive, the school must first reduce a student's level of borrowing.

If the school failed to follow required procedures, the school must repay any Title IV overpayment. If the school followed the required procedures and the Title IV overpayment is greater than $25.00, the student must repay the overpayment.

Stafford Loans

If you find out that there's going to be an overaward before Stafford or PLUS funds are disbursed to the student, you must eliminate the overaward. If you have certified or originated the loan but haven't received the funds, you can ask the FFEL lender to cancel the loan or reduce the loan proceeds, or make a downward adjustment to a Direct Loan. As an alternative, you can reduce or cancel aid over which you have control.

If your school has already received the funds, you have a number of options:

- If the package includes an unsubsidized Stafford, a PLUS Loan, or a nonfederal loan and the aid package doesn't already apply these loans to finance the EFC, and the school so chooses, the aid package can be adjusted so that all or some part of these loans replaces the EFC, thus reducing or eliminating the overaward.
- The second or subsequent disbursement of a Stafford can be canceled or reduced. For an FFEL loan, you must inform the lender of the reduced award and request cancellation or reduction of subsequent disbursements. For a Direct Loan, you make the adjustments in COD.

Overaward tolerance for Stafford Loans

In general, there is no tolerance when determining an overaward in the FFEL and Direct Loan programs. However, if a student's financial aid package contains a FFEL or Direct Loan and an FWS award a $300 tolerance can be applied to eliminate the overaward.

If an overpayment occurs for a student who has a FFEL or Direct Loan and Campus-Based awards, unless the Stafford loans have been fully disbursed, the FFEL or Direct loan must be reduced before the Campus-Based awards are adjusted or canceled.

- If these adjustments have been made and an overaward still exists for a Stafford Loan borrower, you must withhold and promptly return to the lender or the federal government any funds that have not yet been disbursed to the borrower. If the student is determined to be ineligible for the entire loan disbursement and the overaward cannot be reduced or eliminated, you must return all of the loan proceeds. Note that Stafford Loan overawards must be repaid before adjusting or cancelling campus-based funds.
- If a student becomes ineligible for only a part of a Direct Loan, you can reduce the loan to eliminate the amount for which the student is ineligible.
- If a student becomes ineligible for only a part of an FFEL disbursement, you can return all the funds or only the amount for which the student is ineligible. A school that returns the entire disbursement must request a disbursement for the correct amount. You must provide the lender with a written statement describing why the funds were returned, and the lender must credit to the borrower's account the portion of the insurance premium and origination fee attributable to the amount returned. If you return the entire amount and ask for a new disbursement, the student will pay only for the reduced insurance premium and origination fee (if applicable) attributable to the reduced loan amount. To return only the amount for which the student is ineligible, you must have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer (EFT), obtain the student's authorization to release loan funds. You can then credit the student's account for the amount for which the student is eligible and promptly refund to the lender the portion of the disbursement for which the student is ineligible.

If the overaward situation occurs after Stafford Loan funds have been fully disbursed, there is no Stafford Loan overaward that needs to be addressed. However, you might have to adjust the aid package to prevent an overaward of campus-based funds.

Although a school isn't required to return Stafford Loan funds that were disbursed to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law doesn't prevent your school from returning funds that were applied to the student account if you choose to do so. A borrower who receives a direct payment of loan funds is not required to repay an overawarded amount, unless the overaward was caused by his or her misreporting or withholding information.

Example: Student ineligible for part of an FFEL disbursement

Owen's EFC is "0". Owen's loan disbursement was $1,000. However, Guerrero discovered after it received the loan funds that Owen also received an outside scholarship, which created an overaward. Guerrero determines that the overaward is $800. Guerrero could return just the $800 or could instead return the entire $1,000 and have the lender issue a new check for $200.

If Owen were at a Direct Loan school, the school should reduce the loan amount to $200.

Overaward and unsubsidized loan example

Hector's EFC is 4,000. His cost of attendance is $12,000. He is supposed to receive a subsidized Stafford Loan of $5,000 and an unsubsidized Stafford Loan of $3,000, which completely meets his need. Before he receives his first loan disbursement, Guerrero University also gives him a $2,000 scholarship. If Hector's entire loan amount of $8,000 had been subsidized, Guerrero would have to send some of the loan back. But because part of the loan amount is unsubsidized, Guerrero simply considers that $2,000 of the unsubsidized loan that applied to Hector's financial need is now being used to replace part of his EFC.

Teach Grant Overpayments

Teach Grants Overpayments when a student has no need-based aid

TEACH Grants are not considered to be need-based aid. However, a student's TEACH Grant, in combination with the student's other estimated financial assistance (EFA) may not exceed the student's Cost of Attendance (COA). Therefore, when awarding a TEACH grant to a student who is not receiving any need-based financial assistance, a school must limit the amount of the student's TEACH Grant so that the TEACH Grant in combination with other EFA does not exceed the student's COA. If a student has no need-based aid, the student's EFC is not considered.

Teach Grants Overpayments when a student is receiving need-based aid

For a student who is receiving need-based Title IV aid, a student's EFC, plus a student's TEACH Grant, plus a student's other EFA may not exceed a student's COA. As with unsubsidized Stafford Loans, PLUS Loans, and non-federal loans, TEACH Grants may be used to replace a student's expected family contribution (EFC). If the TEACH Grant exceeds a student's EFC, the excess TEACH Grant is considered financial assistance for other FSA programs.

If a student's EFC, plus a student's TEACH Grant, plus a student's estimated financial assistance exceeds a student's COA, the school should first, adjust the student's package so that the TEACH Grant is applied to finance the EFC. Remember, any TEACH Grant above the EFC is considered financial assistance for the other FSA programs. If the EFC, plus the any remaining TEACH Grant, plus any other EFA exceeds the student's COA, the school must reduce the student's package until the package no longer exceeds the COA.

COA may not be exceeded
34 CFR 686.21(c)
FR / Vol. 73, No 121 / June 23, 2008 / page 35483
34 CFR 668.35 (g)(4)(i) & (ii)

TEACH may replace EFC
34 CFR 686.21(d)

Before reducing a student's need-based aid the school should reevaluate the student's cost of attendance to determine whether the student has increased costs that were not anticipated when the school initially awarded aid to the student. If the student's costs have increased, and if the total package does not exceed the revised COA, the school is not required to take further action. If the school determines that the student's package still exceeds the student's cost of attendance, the school must resolve the overpayment.

Beginning with any unsubsidized loans, the school should first reduce a student's level of borrowing. Once a student's loans have been reduced, or if the student has no loans, it may be necessary for the school to reduce the student's TEACH Grant or other aid.

If the school fails to follow required procedures, it must repay any Title IV overpayment. If the school followed the required procedures and the Title IV overpayment is greater than $25.00, the student must repay the overpayment.

Campus-Based programs

There is a $300 overaward tolerance/threshold for all campus-based programs. The $300 threshold is allowed only if an overaward occurs after campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other, exceeds the student's financial need.

Campus-based overawards
34 CFR 673.5(d)

If a school learns that a student received financial assistance that was not included in calculating the student's eligibility for aid from the campus-based programs and that assistance would result in the student's total financial assistance exceeding his or her financial need by more than $300, the school must take steps to resolve the overpayment.

Before reducing the student's campus-based aid, the school should reevaluate the student's need to determine whether he or she has increased need that was not anticipated when the school initially awarded aid to the student. If the student's need has increased and if the total financial assistance does not exceed the revised need by more than $300, the school is not required to take further action.

If the school recalculates the student's need and determines that the student's need has not increased, or that his or her need has increased but that the total financial assistance still exceed his or her need by more than $300, the amount that exceeds the student's need by more than $300 is an overpayment. The school must eliminate the amount of the overpayment that exceeds the $300 threshold.

The student must repay the full amount of the campus-based loan or grant disbursements that are considered an overpayment.

When a student receiving ACG or National SMART Grant funds and Campus-Based funds has an overpayment

There is no overaward tolerance in either the ACG or National SMART Grant programs. Therefore, if a school discovers that an overpayment was made to a student who is receiving ACG or National SMART Grant funds and Campus-Based funds, the school must resolve the overpayment.

FWS program

Because the student can't be required to repay wages earned, you can only adjust FWS by reducing future payments. You can continue to employ the student, but the student can't be paid from FWS funds. If you've already adjusted all other federal aid and institutional aid, and there's still an overaward, you must reimburse the FWS program from your school's funds. You cannot require the student to repay wages earned.

Clarification

A resolved overaward may become an overpayment

If a school has resolved an overpayment by reducing scheduled future disbursements for a second or subsequent payment period and the student ceases attendance before the end of the current payment period, that portion of the student's award that was an overpayment must be repaid outside of the requirements of 34 CFR 668.22.

If the school is responsible for repaying the overpayment, the school must repay the overpayment before completing any required Return calculation as described in chapter 2 of this volume.

If the student is responsible for repaying the overpayment, and the student withdrew after the 60 percent point in the payment period or period of attendance, as applicable, the school should try to collect the overpayment from the student and if it is unable to do so, should refer the student to ED's Borrower Services.

If the student is responsible for repaying the overpayment, and the student withdrew before the 60 percent point in the payment period or period of attendance, as applicable, the school should not take any action until it has completed the required Return calculation.

However, when performing the Return calculation, the school should not include the amount of the overpayment for which the student is responsible as *Aid that was or could have been disbursed*. Then, when the school has completed the Return calculation, it should document the amount of the overpayment and, as applicable, reduce any Post-withdrawal disbursement or increase any amount the student must return by the amount of the overpayment owed by the student.

TREATMENT OF OVERPAYMENTS

An overpayment exists whenever a student receives aid that exceeds his or her eligibility for a Title IV program. Overpayments can be caused by incorrect reporting of information on the FAFSA, miscalculating cost of attendance, miscalculation of the EFC by a school, paying ineligible students, and paying aid in excess of grant or loan maximums. In general, unless the school is liable, a student is liable for any Pell, ACG, National SMART Grant, Perkins Loan, or FSEOG overpayment made to him or her.

For purposes of FSEOG overpayments, when a school awards FSEOG using the individual recipient or aggregate matching share methods, the FSEOG overpayment amount includes only the federal share. **When a school uses the fund-specific method of matching, there is no distinction between Federal and other funds. As a result, 100% of the funds disbursed are considered part of the overpayment.**

Overpayments and eligibility
HEA Sec. 484(a)(3)
34 CFR 668.22(h), 668.32(g)(4), 668.35(c)&(e)

Overpayment due to interim disbursement
34 CFR 668.61(a)

Recovery of overpayments
34 CFR 668.139

Timeframe for returning funds
34 CFR 668.21(a)(2)(ii)(A)

Timeframe for disbursing funds
34 CFR 668.166(a)(1)

Overpayments for which the school is responsible

Your school is liable for any amount of a Pell Grant, ACG, National SMART Grant, TEACH Grant, Perkins Loan, or FSEOG overpayment (including amounts under $25) that occurred because your school failed to follow the requirements in 34 CFR parts 668, 673, 674, 676, 690, or 691 as applicable. If your school makes a Perkins Loan or FSEOG overpayment in any amount for which it is liable, you must immediately restore (to your Perkins loan fund or FSEOG account, as applicable) an amount equal to the overpayment plus any administrative cost allowance claimed on the overpayment. When returning Pell, ACG, or National SMART Grant overpayments, you must make a downward adjustment to the student's award in COD, and either return the funds through GAPS, or disburse them to another eligible student.

A school may attempt to collect funds it has returned from a student. However, this is not a Title IV debt, because an overpayment for which a school is responsible can never become a Title IV debt for a student. Therefore an overpayment for which a school is responsible can never result in a student's losing Title IV eligibility and should never be reported to NSLDS or referred to ED for collection.

If an overpayment is the result of an interim disbursement (see the *Application and Verification Guide*), and the student does not repay it, the school must repay the overpayment from the school's funds. The school must repay the overpayment within 60 days following the student's last day of attendance or by the last day of the award year, whichever comes first. Because the interim disbursement was made at the school's discretion, the school is ultimately responsible for repaying it. Moreover, because the student does not owe a Title IV overpayment, the student should not be reported to NSLDS or referred to ED for collection.

Examples of overpayments due to school error

Allen received a Pell at Sarven Technical Institute. Although Sarven had the correct EFC on Allen's ISIR, the school looked at the wrong chart and used a different EFC in the Pell calculation. So, Allen received too much money. Because the overpayment is due to a school error, Sarven is liable for the overpayment.

Owen received an outside scholarship to attend Guerrero University. The bursar's office was notified of the scholarship so that it would apply the payments properly, but didn't notify the financial aid office. Owen received a Perkins Loan, but the financial aid office didn't take the scholarship into account when awarding the loan because it didn't know about the scholarship. When the financial aid office later found out about the scholarship, it discovered that Owen received too much aid and had a $600 Perkins overpayment. Because the school had information about the scholarship (even though the financial aid office didn't), the overpayment is due to a school error.

Clarification

A student may not receive Federal Pell Grant funds for concurrent enrollment at more than one institution. The COD system will identify students who have been reported as Pell recipients by multiple institutions as potential overawards (POP files). The schools that awarded the student Pell Grant funds for the period must coordinate their response so that the student is receiving Pell Grant funds for attendance at only one school during the period. If after 30 days the schools have not resolved the overpayment, the COD system will reduce both schools' authorization for this student to zero, and the issue will have to be addressed with ED's involvement.

When a student fails to begin attendance

A student is considered not to have begun attendance if a school is unable to document the student's attendance in any class.

Returning funds for students who do not register or fail to begin attendance
34 CFR 668.21
34 CFR 668.167
34 CFR 690.78(b)(1)&(2)
34 CFR 674.16(f)(1)&(2)
34 CFR 676.16(d)(1)&(2)

On November 1, 2007, the Department published regulations that modified the treatment of Title IV funds disbursed to students who do not begin attendance (FR Vol. 72, No. 211, Part III, November 1, 2007). If your school disburses Pell, ACG, National SMART Grant, TEACH Grant, Perkins or FSEOG funds, but the student never begins attending classes, you must return the disbursed funds to the respective programs even if those funds were disbursed directly to the student. If the student begins attending some but not all of his or her classes, you will have to recalculate the student's Pell Grant award based on the student's actual enrollment status—see *Volume 3, chapter 3*.

Recalculating Pell eligibility when a student fails to begin attendance in all classes
34 CFR 690.80(b)(ii)

If a school disburses FFEL and Direct Loan funds but the student does not begin attendance, the school must return all FFEL and Direct Loan funds that were credited to the student's account at the institution for the payment period or period of enrollment. In addition, a school must return the amount of any payments made directly by or on behalf of the student to the school for the payment period or period of enrollment, up to the total amount of the loan funds disbursed.

In addition, a school must return any FFEL or Direct Loan funds that it disbursed directly to a student if the school knew prior to disbursing the funds directly to the student that the student would not begin attendance. (For example, if a student notified the school that he or she would not be attending or if the school expelled the student prior to directly disbursing the funds.)

For any remaining loan funds disbursed directly to a student, the school must notify the lender or Department, as appropriate, of the loan funds that are outstanding, so that the lender or Department can issue a 30-day demand letter to the student.

When a student withdraws after starting classes but before a school's census date

A student begins earning Title IV funds on his or her first day of attendance. Therefore, even if a student withdraws before a school's census date, the school must perform a Return calculation described in Volume 5, chapter 2.

A school may not ignore information available to any office at the school indicating that a student failed to begin attendance.

All schools must return[1] funds disbursed to a student who failed to begin attendance as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance.

At a school that is not required to take attendance but that has a census date on which it reports its enrollment levels to a state, local jurisdiction or outside agency, it would be reasonable to expect the school to return funds as soon as possible, but no later than 30 days following the census date.

A school that draws down Pell, ACG, National SMART Grant, TEACH Grant, or FSEOG funds under the advanced payment method must disburse those funds no later than three business days following the date the school receives them. If after a school draws down Pell, ACG, National SMART Grant, TEACH Grant, FSEOG, or Direct Loan funds but before the school disburses them, the school discovers that it cannot disburse all the funds because one of the students for whom the funds were intended has not begun classes, the school must return those funds within the three-day period except as described under *Excess Cash* in *Volume 4*.[1]

A school that receives FFEL funds must disburse them within: (a) 3 business days following the date the school receives the funds if the lender provides those funds to the school by EFT or master check; or (b) 30 days after the school receives the funds if a lender provides those funds by a check payable to the borrower or copayable to the borrower and the school. If after the school receives FFEL but before the school disburses them the school discovers that the student has not begun attendance, the school must return the funds promptly but no later than 10 business days after the date the school was required to disburse the funds.

Attendance at a Foreign School or in Study Abroad Programs

Schools are not responsible for returning loan funds disbursed directly to the student by the lender for a student in a study-abroad program or for a student attending a foreign school. However, the school must immediately notify the Department or lender, as appropriate, when it becomes aware that the student will not or has not begun attendance so that a final demand letter to the borrower can be issued.

Returning undisbursed funds for students who do not register or fail to begin attendance

34 CFR 668.166(a)
34 CFR 668.167(b)(1)&(2)

At all schools, after the start of classes, Title IV funds should not be disbursed without schools confirming that students have begun attendance.

Important

1. For Pell, ACG, National SMART Grant, Perkins, TEACH Grant, or FSEOG funds A school may satisfy this requirement either by redepositing the funds in its federal funds account and disbursing them within three days to another eligible student, or by returning them to the appropriate Title IV program using the **refund function in GAPS**.

When Funds are considered to have been returned for a student who fails to begin attendance

The Department considers a school to have returned FSA funds timely if the school–

1. deposits or transfers the funds into its federal funds account no later than 30 days after the date that the school becomes aware that the student will not or has not begun attendance;
2. initiates an electronic funds transfer (EFT) no later than 30 days after the date that the school becomes aware that the student will not or has not begun attendance;
3. initiates an electronic transaction, no later than 30 days after the date that the school becomes aware that the student will not or has not begun attendance, that informs an FFEL lender to adjust the borrower's loan account for the amount returned; or
4. issues a check no later than 30 days after the date that the school becomes aware that the student will not or has not begun attendance. An institution does not satisfy this requirement if –
    - the school's records show that the check was issued more than 30 days after the date that the school becomes aware that the student will not or has not begun attendance; or
    - the date on the cancelled check shows that the bank used by the Secretary or FFEL Program lender endorsed that check more than 45 days after the date that the school becomes aware that the student will not or has not begun attendance.

Overpayments for which the student is responsible

In some instances, a student rather than the school is responsible for repaying the overpayment.

If a student has received more Pell funds than the student was eligible to receive because the student's eligibility for Pell decreased, you can try to eliminate the Pell overpayment by adjusting later Pell disbursements for the award year. **You may not reduce a student's correctly awarded and disbursed Pell Grant to address overpayments in other programs.**

For ACG, National SMART Grant, TEACH Grant, FSEOG, and Perkins overpayments, you can adjust subsequent disbursements.

If that is not possible, you must promptly attempt to recover the overpayment by notifying the student (by paper or electronically) and requesting full payment. The notice must state that if the student fails to repay the overpayment or to make satisfactory arrangements for repayment, he or she will be ineligible for Title IV funds until the overpayment is resolved.

If the student claims that your school made a mistake in determining the overpayment, you must consider any information he or she provides and judge whether the objection is warranted.

If, after notification to the student and consideration of possible objections, an overpayment remains, and the student has not repaid or made satisfactory arrangements to repay the overpayment, you must take further action.

For ACG, National SMART Grant, TEACH Grant, FSEOG, and Pell Grant funds, you must refer the overpayment to the Department with the required information (see Referring overpayment cases to Borrower Service's later in this chapter), and you must report to NSLDS the unresolved overpayment. After that, you are not required to make any further attempt to collect the ACG, National SMART Grant, TEACH Grant, FSEOG or, Pell Grant overpayment.

Examples of overpayments due to student error

When Chavo applied, he didn't have his tax returns, so he estimated his income and said that he wasn't going to file a tax return. After he received his aid from Sarven Technical Institute in June, he told the FAA that he'd underestimated his income, and had to file a tax return. When Chavo submitted the corrections, his EFC increased, and Sarven determined that he'd received a Pell overpayment. Sarven canceled his second Pell disbursement, but he still owed $100. Sarven allowed Chavo to make an agreement to repay $25 a month for four months so that he'd still be eligible for other aid for the rest of the year.

Meurig has to report financial information about his father on the application although he's living with his stepfather. On the 2004-2005 application, he didn't report any assets for his father, and Brust Conservatory used the information from that application to award Title IV aid. However, his 2005-2006 application is selected for verification, and during the verification process Brust discovers that Meurig's father has a business that should have been reported as an asset. Brust asks for tax information for the previous year and determines that Meurig should also have reported the business as an asset on the 2004-2005 application. Meurig's EFC increases when he makes the correction, and he received an overpayment for the 2004-2005 award year. Because he's already received all his aid for the year, he has to either pay the overpayment or negotiate a satisfactory repayment agreement.

For Perkins Loans, you are not required to refer overpayments to Borrower Service's, but you must report them to NSLDS, because the student is required to repay the overpayment to your school's revolving loan fund.

A student is not liable for an overpayment when the original amount of the overpayment is less than $25. A student is liable for an overpayment of less than $25 when that $25 is a remaining balance. That is, when the overpayment amount was originally $25 or more, but is now less than $25 because the student has made payments.

A student is also liable for overpayments of less than $25 when that amount is the result of applying the $300 campus-based overaward threshold/tolerance. For example, if a school discovers that after a student's campus-based aid was disbursed, the student received additional aid that resulted in the aid the student received exceeding his or her need by $314, the $314 is an overaward. When the school applies the $300 overaward tolerance, the student only has a campus-based overpayment of $14. The student is responsible for repaying the $14 because the initial amount of the overpayment (before the $300 tolerance was applied) was $314 (which is in excess of the less than $25 *de minimus* amount).

Your school may decide to pay a student's obligation by returning to the appropriate Title IV program account the amount overpaid to the student. Once your school makes the appropriate return, the student will no longer be considered to owe a Title IV debt, but rather a debt to your school that you can collect according to your procedures. The student's eligibility for Title IV funds is restored as long as the student meets other Title IV eligibility criteria.

A student who receives an overpayment of a Title IV program loan, or a Title IV program grant may reestablish eligibility for Title IV program assistance by repaying the excess amount, or by making arrangements satisfactory to the holder of the overpayment debt to pay the excess amount.

Exceptions to student liability

There are some exceptions to holding a student liable for a Pell Grant, ACG, National SMART Grant, TEACH Grant, Perkins Loan or FSEOG overpayment.

Though HERA increased the *de minimus* threshold for overpayments due to withdrawal, the *de minimus* amount for all other overpayments remains less than $25.

Generally a student is liable for any Pell Grant, ACG, National SMART Grant, FSEOG, or Perkins overpayment he or she receives unless the school is liable for it. However, as noted previously, the student is not liable for the overpayment if it is less than $25 and is not a remaining balance nor, in the case of a Perkins Loan or FSEOG, is the result of the application of the $300 overaward threshold.

Such overpayments do not affect the student's Title IV eligibility. Therefore, your school need not –

- attempt recovery of such overpayments,
- report such overpayments to NSLDS, or
- refer such overpayments to the Department for collection.

Overpayments created by inadvertent overborrowing

Another kind of overpayment occurs when a student inadvertently has received Title IV loan funds in excess of annual or aggregate loan limits and is no longer eligible for Title IV funds. A student who is not in default on a Title IV program loan, but who has inadvertently obtained Title IV program loan funds in an amount that exceeds the annual or aggregate loan limits is ineligible for any further Title IV program assistance until the student (1) repays in full the excess loan amount; or (2) makes arrangements, satisfactory to the holder of the loan, to repay that excess loan amount.

Satisfactory repayment arrangements

We require a borrower who does not repay the excess loan amount in full to make satisfactory repayment arrangements in order to ensure that the borrower acknowledges a debt in excess of the regulatory maximum.

For defaulted loans, the law and regulations specify what a satisfactory repayment agreement is. For students who have exceeded loan limits or owe an overpayment of a Title IV grant, the law and regulations do not specify what makes a repayment agreement satisfactory. The loan holder or school determines whether the repayment arrangement is satisfactory.

Satisfactory repayment arrangements are determined by the loan holder, but may involve having the borrower sign an agreement acknowledging the debt and affirming the borrower's intention to repay the excess amount as part of the normal repayment process.

If a student has inadvertently exceeded the subsidized annual or aggregate loan limit, it may be possible in some cases to eliminate the excess subsidized amount by changing it to an unsubsidized loan. The loan holder will determine whether this is an option.

If a student has consolidated the loan(s) that exceeded the annual or aggregate loan limit, he or she is considered to have made satisfactory arrangements to repay the debt, and no additional action on the part of the student is required. This is true regardless of the type of loan (FFEL or Direct) consolidated and no matter the type of consolidated loan the student obtained.

Clarification

Resolving an overpayment

Through the process of a borrower replacing an excess subsidized loan with an unsubsidized loan, or consolidating the excess loan amount, the borrower has either eliminated the overpayment or reaffirmed his or her debt and intent to repay the funds. Therefore the borrower is eligible to receive additional Title IV aid.

Once you have documented that the inadvertent overborrowing has been resolved (through repayment in full, making satisfactory arrangements to repay the debt, replacement of an excess subsidized loan with an unsubsidized loan, or consolidation of the excess loan amount), you may award additional Title IV funds to the student. Keep in mind, however, that the student may have no remaining loan eligibility, or may be eligible only for unsubsidized loans.

Because you're responsible for knowing about the student's prior Title IV loans before disbursing additional loan funds to the student, inadvertent overborrowing shouldn't occur often. Excess borrowing might occur if a school is unaware of loans a student received at another school. This might happen if the student received the loans under a different name or SSN. (See Volume 1, chapter 3 for a description of how the NSLDS postscreening and transfer monitoring processes can help prevent these kinds of overpayments.)

Reporting overpayments to NSLDS

Reporting overpayments to NSLDS

DCL GEN-98-14, July 1998

All new ACG, National SMART Grant, and FSEOG overpayments and previously reported FSEOG overpayments for which a data element has changed must be reported.

Data providers must meet all NSLDS reporting requirements as detailed in the operating manual "National Student Loan Data System" at:

http://ifap.ed.gov/nsldsmaterials/attachments/2000PerkinsDPIVer2.pdf

You must report overpayments or changes to previously submitted information to NSLDS within 30 days of the date you learn of the overpayment or change.

If the grant overpayment is the result of the student's withdrawal and a return to Title IV calculation, you must contact the student within 30 days of determining that the student withdrew (see chapter 2).

You only report unresolved overpayments if they're due to student error; don't report overpayments that are a result of school error. Instead, as discussed previously, you must use school funds to repay the overpayment.

You must use the online NSLDS screens to report overpayments, which means that your school must have Internet access to NSLDS. (DCL GEN-04-08 gives the most recent technical specifications.)

Once the overpayment is reported to NSLDS, the student's future output documents will show that she has an overpayment (see "NSLDS Match"). The Financial Aid History section of the SAR and ISIR will have information on the overpayment, including whether the student has made satisfactory repayment arrangements.

Recording student payments and reductions in the Pell Grant, ACG, National SMART Grant, and TEACH Grant Programs

For reductions and payments to awards in award years after 2005-2006, schools should record reductions and payments by entering a replacement value.

First, reduce the student's award/disbursements by entering a replacement value in the COD system. **The replacement value will be the original values less only the amount the school has returned** (the sum of: (a) that amount the school is responsible for returning + (b) any portion of the grant overpayment, that otherwise would be the responsibility of the student, but which the school has chosen to return for the student + (c) any portion of the grant overpayment the school has collected from the student.). **Do not reduce the award/disbursement by the amount the student must return (unless the student has made a payment).**

Note: If a school receives a payment for a current-year overpayment that has not been referred to Debt Resolution Services, the school should NOT send the payment to Debt Resolution.

After you have reduced the student's disbursement in COD, return the unearned funds as follows:

- If your school has made repayment arrangements with a student and received a payment on a current year overpayment, the school should deposit the funds in its Pell, ACG, National SMART, or TEACH Grant account and make the appropriate entry in the COD system.
- If a student makes a payment on any previous year's Pell, ACG, National SMART, or TEACH Grant overpayment, a school makes the aforementioned COD system entry using the same software the school used to create the award. The school then returns the funds to the Department using the Electronic Refund function in GAPS following the same procedures the school follows when making other GAPS refunds/returns.

If through its Return calculation a school determines that a student has received an overpayment of FSEOG funds, the school must adjust its institutional ledgers, financial aid records, and the student's account by subtracting the amount the school must return (the FISAP filed for the year will reflect the net award to the student). If a student makes a payment on an FSEOG overpayment made in the current award year, the school should deposit the payment in its *federal funds account*, and award the funds to other needy students.

Reminder

Returning funds to the Department

Using the electronic refund function in G5 is the preferred method whenever a school must return Pell, ACG, National SMART, TEACH or FSEOG funds.

Only in exceptional circumstances (and **never for a current Pell , ACG, National SMART, TEACH, or FSEOG award**) should a school return funds from a Return calculation by sending a check instead of using the electronic refund function in G5.

Contact the e-payments Help Desk at:
888-336-8930
(M–F 8 a.m. to 6 p.m. ET) for assistance

If because of extraordinary circumstances you must send a check, the G5 lockbox address for Pell, ACG, National SMART, TEACH Grant and campus-based funds is:

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

The school must note the student's name, SSN, the school's DUNS number, and the complete 11-digit Document/Program Award Number and award year on the check. A school must use a separate check for each award year.

If the school collects an overpayment of an FSEOG for an award made in a **prior award year**, the funds recovered should be returned to the Department using the Electronic Refund function in GAPS. Payments should be applied to the award year in which the recovered funds were awarded.

Accepting payments on referred overpayments

A school may continue to accept payment on a Title IV grant overpayment after the overpayment has been referred to the Department. A school that accepts a check made out to the Department on an overpayment that has been referred to Borrower Service's must –

1. note the student's name and SSN on the check;
2. indicate that the payment is for an overpayment of a Title IV grant; and
3. forward the payment to Debt Resolution Services at:
   U.S. Department of Education
   National Payment Center
   P.O. Box 4169
   Greenville, Texas 75403-4169

If a school accepts a cash payment from one or more students who owe overpayments and who have been referred to Debt Resolution Services, the school should write its own check to the Department and attach a letter indicating that the check is for a Title IV grant overpayment. The school must include in its letter a roster that includes, for each student who made a payment, the student's name, social security number, and amount paid.

Payment in full

Anytime a school receives a payment (including the application of a Title IV credit balance) that will repay an overpayment in full, the school must also update its original submission to NSLDS by changing the entry on the "Overpayment Update Screen" for the Indicator Field to "Repaid."

If a school receives a payment for an overpayment **previously referred to** Debt Resolution **Services** and if –

- the overpayment was made in the current award year, and
- the payment will retire the student's debt in full,

the institution must:

1. deposit the payment in its appropriate institutionally maintained federal funds account;
2. for a Federal Pell Grant overpayment, make the appropriate entry in the COD system (for a phase-in participant — a negative disbursement, for a full participant — the replacement value); and
3. send a letter or fax to Debt Resolution Services identifying the student and indicating that the student's overpayment has been completely repaid. This will allow the Department to properly update its records in both the Debt Resolution Services system and NSLDS.

The fax number for this purpose and school use only is –

(319) 665-7646

Note: This process cannot be performed via email.

In the fax or letter, a school must include the:

1. award year of the overpayment (current award year only);
2. student's social security number;
3. student's last name, first name, and middle initial;
4. student's date of birth;
5. type of overpayment — Federal Pell Grant, FSEOG; ACG, National SMART Grant, or TEACH Grant; and
6. the disbursement date the institution used to create the overpayment record in NSLDS.

For information on handling student payments after you have referred an overpayment to Debt Resolution Services, see the discussion under ***Accepting payments on referred overpayments*** later in this chapter.

Referring overpayments to Debt Resolution Services

Schools must resolve student concerns

If a student claims that a school's ACG, National SMART Grant, or FSEOG overpayment determination is erroneous, the school must consider any information the student provides and determine whether the objection is warranted before referring the case to Collections.

If you have tried but not succeeded in collecting a Pell Grant, ACG, National SMART Grant, **TEACH Grant**, or FSEOG overpayment for which the student is liable, you must refer the overpayment to FSA's Debt Resolution Services. To be referred, the **initial amount** of the overpayment must be at least $25.

Note: For an FSEOG overpayment, when a school uses the individual recipient or aggregate matching methods, the overpayment includes only the federal share. When the school uses the fund-specific method of matching, the overpayment includes both the federal and nonfederal shares. See *Volume 6 – Campus-Based Programs* for more information.

You would still refer a student debt of less than $25 to Debt Resolution Services when the amount due is a remaining balance or, when the amount is the result of the application of the campus-based overaward threshold/tolerance. You must make this referral in addition to reporting the overpayment to NSLDS. If your school elects not to refer an overpayment to Debt Resolution Services, then your school is liable for the overpayment. In that case, the school must repay the overpayment from its own funds.

To refer student overpayments for collection, schools should use a format similar to the one found at the end of this chapter and send the form to the address at the bottom of that page. Each referral must be typed or printed and must be submitted on school letterhead.

Important

In order to avoid creating a double record for a single overpayment, the school must populate its Overpayment Referral Form, Dates of Disbursements, with the exact same dates the school used when it created the NSLDS record. In addition, a school must ensure that it enters for award year the year the disbursement was made.

In addition, when you refer the overpayment, you should update the overpayment information previously reported to NSLDS by changing the Source field from SCH-SCHOOL to TRF-TRANSFER. Once Debt Resolution Services has accepted a referred student overpayment, Debt Resolution Services will transmit the information to NSLDS and "ED Region" will replace "School" as the appropriate contact source for information about the overpayment.

Important

During the 2008-2009 award year, on its Overpayment Referral, schools must continue to provide their School's Pell Identification Number. During the 2008-2009 award year, schools should NOT enter their Routing Identifier.

School responsibility after referral

Once you have referred the account to Debt Resolution Services, you have no further responsibility in the collection of the debt unless the student contacts your school to make a payment or Debt Resolution Services sends the referral back because it is incomplete. If Debt Resolution Services sends the referral back to you because it is incomplete, you'll need to supply additional information and resend the referral. If the student tells you that he or she wishes to make a payment, you may accept it on behalf of the Department and forward it to Debt Resolution Services.

Tip

Accepting payments on referred current-year overpayments

If a student wants to make a payment on an overpayment from the current award year, and that payment will pay that overpayment in full, follow the procedures described in chapter 2 under "Accepting payments on referred overpayments."

You must return to ED any funds accepted from a student who owes an overpayment. Before forwarding the check to Debt Resolution Services, make sure the student's name and SSN are on the check. If the check covers more than one student, list each student's name and SSN and each payment amount. Send the check to:

U.S. Department of Education National Payment Center
P.O. Box 4169
Greenville, Texas 75403-4169

Important

If you want a payment to be applied to a specific overpayment (by program and award year) you must include a memorandum on school letterhead. The memorandum must include the award year and program award number of the award you want credited, and your DUNS number.

If the student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, the student should contact Debt Resolution Services by calling:

1-800-621-3115

or by E-mailing:

dcshelp@vangent.com

Responsibilities of Debt Resolution Services

Upon receipt of an overpayment referral, the Department will determine if enough information has been provided to start collection activity; any referral lacking information will be returned to your school to be completed.

Debt Resolution Services will then try via letters and telephone to establish a repayment schedule or to secure payment in full. Debt Resolution Services will also update the NSLDS information that you've already reported to show that the Department now holds the overpayment. Any future SARs or ISIRs for the student will show that he or she owes an overpayment and will direct the student to contact Debt Resolution Services instead of the school. Finally, Debt Resolution Services also communicates Pell overpayment referrals to the COD system. COD will then alert a school of a student's overpayment status if the student submits a future FAFSA.

Return of Title IV funds when a school does not maintain a separate federal bank account

The Department considers a school that maintains Title IV funds and general operating funds in the same bank account (commingles) to satisfy the requirement that it return unearned funds on a timely basis if:

- the school maintains subsidiary ledgers for each type of funds commingled in that account that clearly show how and when those funds were used and reconciled to its general ledger,
- the subsidiary ledger for each Title IV program provides a detailed audit trail on a student-by-student basis that reconciles to the amount of Title IV program funds received and disbursed by the school, and
- the school updates the relevant subsidiary ledger accounts in its general ledger no later than 30 days after it determines that the student withdrew.

More specifically, the return of an unearned funds transaction should be recorded as a debit to a Title IV program fund subsidiary ledger account and a credit to the school's operating fund subsidiary ledger account. The date of the return is the date this transaction is posted to the school's general ledger.

Returning Funds on FFEL Loans Purchased/Serviced by the Department and Direct Loans

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.

Important

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.

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.

Important

This information is for school use only.

Important

This information is for school use only.

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

Important

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

Address for NELNET Overnight Delivery:

Nelnet School Service Center
121 South 13th Street, Suite 201
Lincoln, NE 68508

Information Required when Referring Student Overpayments to Debt Resolution Services

Student Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____ _____

Social Security Number: _____ Date of Birth: _____

If the overpayment includes an Academic Competitiveness, National Smart Grant, or TEACH Grant, enter the Award Identifier (**ID**) used when the award was created in COD.

ACG Award ID: _____ National Smart Grant Award ID: _____

TEACH Award ID: _____

Parent/Spouse Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____ _____

School Information

If your Pell Reporting ID is different than your Pell Attended ID, please provide both. Otherwise, just report the Pell Attended ID.

Reporting School's Pell ID Number: _____ Attending School's Pell ID Number: _____

If your school does not have a Pell ID, Enter your OPE ID: _____

Name of Contact: _____ Telephone Number: _____

Disbursements and Repayments

	Pell Grant	Academic Competitiveness Grant	National Smart Grant	FSEOG [1]	TEACH Grant
Award year in which overpayment was disbursed:					
Total grant disbursed:					
Dates of disbursement: **(Must match NSLDS overpayment record)**					
Overpayment amount owed by student *					
Total grant repaid by student to school, if any:					
Date of last payment to school, if any:					
Total being referred for collection:				[1]	

[1] If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG.

* If the overpayment is the result of a withdrawal, provide the date of the withdrawal / /

If the overpayment is **not** the result of a withdrawal, please provide a brief explanation of the reason for the overpayment.

_____

_____

SEND INFORMATION TO ⇛ Student Loan Processing Center – Overpayments
P.O. Box 4157
Greenville, Texas 75403

(903) 454-5398 ⇚ FAX

Withdrawals and the Return of Title IV Funds

CHAPTER 2

This chapter will discuss the general requirements for the treatment of Federal Student Aid funds when a student withdraws and will then discuss the principles applicable to the worksheets.

WITHDRAWALS

Important

This chapter explains how Federal Student Aid (Title IV) funds are handled when a recipient of those funds ceases to be enrolled prior to the end of a payment period or period of enrollment. These requirements do not apply to a student who does not actually cease attendance at the school. For example, when a student reduces his or her course load from 12 credits to 9 credits, the reduction represents a change in enrollment status not a withdrawal. Therefore, no Return calculation is required.

The Return of Title IV Funds (Return) regulations do not dictate an institutional refund policy. Instead, a school is required to determine the earned and unearned portions of Title IV aid as of the date the student ceased attendance based on the amount of time the student spent in attendance or, in the case of a clock-hour program, was scheduled to be in attendance. The calculation of Title IV funds earned by the student has no relationship to the student's incurred institutional charges.

Up **through the 60% point** in each payment period or period of enrollment, a prorata schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal. **After the 60% point** in the payment period or period of enrollment, a student has earned 100% of the Title IV funds he or she was scheduled to receive during the period.

For a student who withdraws after the 60% point-in-time, there are no unearned funds. However, a school must still determine whether the student is eligible for a Post-withdrawal disbursement.

The Return regulations do not prohibit a school from developing its own refund policy, however it must comply with refund policies required by a state or other outside agencies. Although an institutional, state, or agency refund policy will determine the charges a student will owe after withdrawing, those policies will not affect the amount of Title IV Aid the student has earned under the Return calculation.

Return of Funds
HEA, Section 484B
34 CFR 668.22

When a student withdraws before a school's census date

A student begins earning Title IV funds on his or her first day of attendance. Therefore, even if a student withdraws before a school's census date, the school must perform a Return calculation using the number of days the student attended, or the number of scheduled clock hours the student attended class as the numerator in STEP 2, Part H.

Technical questions

Technical questions on the Return of Title IV funds software are handled by the CPS at:

800-330-5947

or via email at:

cpssaig@ed.gov

The FSA Assessment module that can assist you in understanding and assessing your compliance with the provisions of this chapter is "Return of Title IV Funds," at:

http://ifap.ed.gov/qahome/qaassessments/returntivfunds.html

Access to R2T4 Web Product via CPS Online

Individual staff members must be enrolled in the SAIG in order to have access to the Return software.

Your school's SAIG Destination Point Administrator (DPA) can enroll the selected staff members via the SAIG Enrollment Website at:

http://www.fsawebenroll.ed.gov

General requirements

Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive.

If a recipient of Title IV grant or loan funds withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. If the amount disbursed to the student is less than the amount the student earned, and for which the student is otherwise eligible, he or she is eligible to receive a Post-withdrawal disbursement of the earned aid that was not received.

Worksheets and software

The Department has developed worksheets and software to assist schools in implementing the Return regulations (you can find blank worksheets at the end of this chapter). There is one worksheet for students who withdraw from credit-hour programs and one for students who withdraw from clock-hour programs. These worksheets are also in portable document file (PDF) format on the Department's Information for Financial Aid Professionals Website at:

http://ifap.ed.gov

The Department has developed a Return of Title IV Aid Web product. It is accessible via the main menu of the FAA Access at the CPS Online Website:

http://www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp

The use of the Department's worksheets and the Web Product is optional.

Consumer information

In the consumer information a school must make available upon request to prospective and enrolled students, the school must include a statement of –

- any refund policy with which the school must comply;
- the requirements for the treatment of Title IV funds when a student withdraws; and
- the requirements and procedures for officially withdrawing from the school.

An institution should provide sufficient information for a student or prospective student to be able to determine the financial consequences of withdrawing, and how to officially withdraw. A student should be able to estimate how much federal student aid he or she will earn if the student withdraws, and how much he or she may have to return. In addition, because the Return provisions do not affect institutional refund policies, the school must provide the student with information on both the federal student aid requirements and the school's refund requirements and explain the interaction between the two. A school should include some discussion of how it might adjust a student's charges to take into account any Return of Title IV funds that the school may be required to make. Finally, a student or prospective student should be informed that Federal Student Aid may not cover all unpaid institutional charges due to the institution upon the student's withdrawal.

As a part of the institution's disclosure of the procedures for officially withdrawing, the school must identify the office or offices that it has designated to accept notification of official withdrawals.

Consumer information
Section 485(a)(1)(F), 34 CFR 668.43

For more information see chart on "Institutional and Financial Assistance Information for Students" in "***Volume 1 – Student Eligibility***."

Sample summary provided

A sample summary of the requirements of 34 CFR 668.22 is provided at the end of this chapter.

GENERAL TITLE IV PRINCIPLES WITH SPECIAL APPLICABILITY IN THE RETURN OF TITLE IV AID

Definition of a Title IV recipient

Title IV Recipient

In determining whether the requirements of 34 CFR 668.22 apply, a school must first determine whether a student was eligible to receive any Title IV funds.

The requirements for the treatment of Title IV funds when a student withdraws apply to any recipient of Title IV grant or loan funds who ceases all attendance. For purposes of these requirements, a recipient of grant or loan assistance is a student who has actually received Title IV funds or has met the conditions that entitled the student to a late disbursement. These conditions are listed in a chart on Late Disbursements in Volume 4 – Processing Aid and Managing Federal Student Aid Funds.

If a student withdraws before Title IV funds are disbursed

Even if a student paid all institutional charges and ceased enrollment prior to Title IV funds being disbursed, if Title IV funds could have been disbursed, the institution must determine the Title IV funds earned by the student and follow the procedures for making a Post-withdrawal disbursement.

The return requirements apply only to the receipt of or qualification for aid that can be included in the calculation. For example, the requirements of 34 CFR 668.22 do not apply to Federal Work-Study funds. Therefore, the Return requirements do not apply to a student if the only Title IV program assistance that the student has received or could have received was FWS funds.

If a student never begins attendance
34 CFR 668.21,
34 CFR 682.604(d)(3) and (4), and
34 CFR 685.303(b)(3).

Please note that if the student never actually began attendance for the payment period or period of enrollment, 34 CFR 668.22 does not apply. Likewise, if a student began attendance, but was not and could not have been disbursed Title IV grant or loan funds prior to withdrawal, the student is not considered to have been a Title IV recipient and the requirements of 34 CFR 668.22 do not apply. In these cases, Title IV funds would be handled in accordance with other Title IV regulations (see margin).

Verification

Withdrawals and verification
DCL-GEN-04-03

The Return calculations impose no additional liability for interim disbursements made to students selected for verification. However, the Return requirements do place limits on interim disbursements that can be made to students selected for verification who have ceased attendance. **A school may not make an interim disbursement to a student after the student has ceased attendance.**

The Department establishes deadlines for the submission of required verification documents that apply to all Title IV programs.

For campus-based program funds and subsidized FFEL and Direct Loan program funds, an institution may establish an institutional verification deadline that may be earlier than the date established by ED. The institution must include its verification deadlines in the consumer materials it provides to students.

The following rules apply when a school is completing a Return calculation for a student subject to verification.

1. A school must always return any unearned Title IV funds it is responsible for returning within 45 days of the date the school determined the student withdrew, and offer any Post-withdrawal disbursement of loan funds within 30 days of that date.
2. A school must disburse any Title IV grant funds a student is due as part of a Post-withdrawal disbursement within 45 days of the date the school determined the student withdrew, and disburse any loan funds a student accepts within 180 days of that date.
3. Unless a student subject to verification has provided all required verification documents in time for the school to meet the Return deadlines, the school includes as Aid Disbursed or Aid That Could Have Been Disbursed in the Return calculation only those Title IV funds not subject to verification.
4. If a student who failed to provide all required verification documents in time for the school to meet the Return deadline later provides those documents prior to the applicable verification deadline, the school must perform a new Return calculation on all of the aid the student qualified for based on the completed verification documents and make the appropriate adjustments.

When verification is completed before the Return deadlines

A school must offer any Post-withdrawal disbursement of loan funds within 30 days of the date of the school's determination that the student withdrew, and return any unearned funds and make a Post-withdrawal of grant funds within 45 days of that date. If a student provides all documents required for verification after withdrawing but before the verification submission deadline and in time for the institution to meet the 30-day Return deadline, the institution performs the Return calculation including all Title IV aid for which the student has established eligibility as a result of verification and for which the conditions of a late disbursement had been met prior to the student's loss of eligibility due to withdrawal. (See *Volume 4 –Processing Aid and Managing Federal Student Aid Funds,* and 34 CFR 668.164(g)(2).)

When verification is not completed before the Return deadlines

If a student who has withdrawn does not provide the required documents in time for the school to complete the verification process and meet the Return deadlines noted above, the institution includes in the Return calculation only the Title IV aid that was not subject to the verification process. For a student who failed to provide all required

verification documents, the only aid that may be included in a Return calculation are PLUS loan funds and unsubsidized Stafford loan funds (verification is not required for receipt of these funds) for which the conditions of a late disbursement (as discussed under Title IV aid that could have been disbursed) were met prior to the student's loss of eligibility due to withdrawal.

If a school has made an interim disbursement to a student who has failed to provide all the documents required for verification in time for the institution to meet the 45-day Return deadline, at that point in time the student has failed to establish eligibility for those Title IV funds affected by verification. Therefore, the institution must return any Title IV funds subject to verification that were disbursed to the student on an interim basis, and may not include any of those funds as aid that was or could have been disbursed in the Return calculation.

When verification is completed after the Return deadline

If, before the verification deadline but after the institution has completed the Return calculation, a student provides all the documentation required for verification, the institution must perform a new Return calculation including as *Aid that could have been disbursed* all Federal Student Aid for which the student has established eligibility based upon verification and for which the conditions of a late disbursement have been met prior to the student's loss of eligibility due to withdrawal. If, as a result of verification, the student's eligibility for Federal Pell Grant, FSEOG, TEACH Grant, and Federal Perkins funds has been reduced, only the reduced amount is included in the new Return calculation.

For additional information on Verification, please consult *The Application and Verification Guide*.

Verification and the 30-day deadline

If an institution is unable to meet the requirement to offer any amount of a Post-withdrawal disbursement that is not credited to a student's account to the student (or parent for a PLUS loan) within 30 days from the date of the institution's determination that the student withdrew, once verification is complete the institution must offer the funds as soon as possible and should provide the student or parent with the minimum 14-day (or longer as a result of HERA) response period whenever possible.

An institution must make any Post-withdrawal disbursement that results from the subsequent Return calculation as soon as possible but no later than the applicable 180-day late disbursement deadline.

Approved leave of absence

A leave of absence (LOA) is a temporary interruption in a student's program of study. LOA refers to the specific time period during a program when a student is not in attendance. An LOA is not required if a student is not in attendance only for an institutionally scheduled break. However, a scheduled break may occur during an LOA.

An LOA must meet certain conditions to be counted as a temporary interruption in a student's education instead of being counted as a withdrawal requiring a school to perform a Return calculation. If an LOA does not meet the conditions in 34 CFR 668.22(d), the student is considered to have ceased attendance and to have withdrawn from the school, and the school is required to perform a Return calculation.

Disbursement rules for students on leave of absence (LOA)

You may NOT make a disbursement of the proceeds of a FFEL or Direct Loan to a student on an LOA (34 CFR 682.604(c)(4)).

You may disburse Pell Grant, FSEOG, and Perkins funds to a student on an LOA.

You may pay any funds that are part of a Title IV credit balance (and therefore are funds that have already been disbursed) to a student on an LOA.

In order for an LOA to qualify as an approved LOA –

1. the school must have a formal written policy regarding leaves of absence requiring that all requests for leaves of absence be submitted in writing and include the reason for the student's request;
2. the student must follow the school's policy in requesting the LOA;
3. there must be a reasonable expectation that the student will return from the LOA;
4. the school must approve the student's request for an LOA in accordance with the school's policy;
5. the institution may not assess the student any additional institutional charges, the student's need may not increase, and therefore, the student is not eligible for any additional Federal Student Aid;
6. the LOA together with any additional leaves of absence must not exceed a total of 180 days in any 12-month period;
7. except in a clock-hour or nonterm credit-hour program, a student returning from an LOA must resume training at the same point in the academic program that he or she began the LOA; and
8. if the student is a Title IV loan recipient, the school must explain to the student, prior to granting the LOA, the effects that the student's failure to return from an LOA may have on the student's loan repayment terms, including the expiration of the student's grace period.

A student granted an LOA that meets the criteria in this section is not considered to have withdrawn, and no Return calculation is required. Upon the student's return from the leave, he or she continues to earn the Federal Student Aid previously awarded for the period.

Maximum Timeframe or LOA

When calculating the maximum timeframe for a student's approved LOA, the school must ensure that it accounts for all periods of nonattendance (including weekends and scheduled breaks).

Thus, since an approved LOA may not be more than 180 days, a school might have to reduce the length of a students LOA if the 180th day is scheduled to fall on a day the school would be closed.

Reminder

Full tuition credit

An institution may grant a full tuition credit toward the course the student chooses to reenter as a way to comply with the requirement that the institution not assess the student any additional charges upon return from an approved leave of absence.

Written formal policy required

Among the policies and procedures a school must maintain is one that discusses the procedures a student must follow in applying for a leave of absence, and the criteria the institution will apply in determining whether to approve the application. An institution's LOA policy must specify that all requests for an LOA must be submitted in writing, must be signed, and must be dated.

As mentioned previously, the regulations provide that an institution must determine, before it grants an LOA, that there is a reasonable expectation that the student will return from the leave. In order for the institution to make such a determination, and in order for it to ensure that the student meets the criteria in the institution's LOA policy, the institution must know the student's reason for requesting the leave. **Therefore, an institution's LOA policy must specify that the reason for a student's leave request be included on a student's application for an LOA.**

An institution's policy must require a student to apply in advance for an LOA unless unforeseen circumstances prevent the student from doing so. For example, if a student were injured in a car accident and needed a few weeks to recover before returning to school, the student would not have been able to request the LOA in advance. A school may grant an LOA to a student who did not provide the request prior to the LOA due to unforeseen circumstances if the school documents the reason for its decision and collects the request from the student at a later date. In this example, the beginning date of the approved LOA would be determined by the institution to be the date the student was unable to attend school because of the accident.

A school must publicize its LOA policy. The school may do this by including that policy in the consumer information the school makes available to students (see *Volume 2 – School Eligibility and Operations*).

Reasonable expectation of return

This condition is specified to make clear that a school may not grant a student an LOA merely to delay the return of unearned Title IV funds.

Completion of coursework upon return in term-based credit-hour programs

Approved leaves of absence are viewed as temporary interruptions in a student's attendance. **For term-based programs, a student returning from an LOA must complete the term in order to be eligible to receive a second or subsequent disbursement.**

Therefore, for students enrolled in credit-hour term programs, in order for an LOA to be an LOA, a school must allow a student returning from an LOA to complete the coursework that he or she began prior to the LOA. In addition, the institution may not impose additional charges and may not award the student additional Title IV assistance.

Completion of coursework upon return in clock-hour and credit-hour nonterm programs

For nonterm-based programs, the regulations provide that the payment period is the period of time it takes a student to complete both half the number of credits **and** half the number of weeks of the academic year, program, or remainder of the program. For clock-hour programs, the payment period is the period of time it takes a student to complete half the number of clock hours in the academic year. Therefore, for clock-hour and nonterm programs it doesn't matter whether the student returns to the same course and point when the LOA began, or the student starts in a new course within the program (so long as there are no additional charges).

For clock-hour programs and nonterm credit-hour programs upon returning from an LOA a student need not complete the same coursework he or she began prior to the leave. For a nonterm program, once the student has earned half the required credits, and completed half the number of weeks in the period, the student has earned the Title IV funds he or she was previously paid. For a clock-hour program, once the student has completed half the number of clock hours, the student has earned the Title IV funds he or she was previously paid. At that point, if otherwise eligible, the student may receive a second or subsequent disbursement of Title IV program funds.

A student may return early

A school may permit a student to return to class before the expiration of the student's LOA in order to review material previously covered. However, until the student has resumed the academic program at the point he or she began the LOA, the student is considered to still be on the approved LOA.

If a student returns early, the days the student spends in class before the course reaches the point at which the student began his or her LOA must be counted in the 180 days maximum for an approved leave of absence. That is, a student repeating coursework while on LOA must reach the point at which he or she interrupted training within the 180 days of the start of the student's LOA.

The requirement that an institution not impose additional charges when an approved LOA ends and the student resumes his or her program of study applies when a student returns to repeat prior coursework. Moreover, even if the student enters at the beginning of the module or course from which he or she took the leave of absence, a student is not eligible for any additional Title IV program assistance for this preparatory phase.

Since a student is still considered to be on an LOA while repeating prior coursework, if the student fails to resume attendance at the point in the academic program where he or she interrupted training at the beginning of the LOA, the student must be treated as a withdrawal. In that case, at an institution that is not required to take attendance, the date of the student's withdrawal that must be used in the Return calculation is the date the student began the LOA.

At an institution that is required to take attendance, the Last Date of Attendance (LDA) is used as the withdrawal date for a student that does not return from a LOA.

Leaves of absence versus the grade of incomplete

At term-based schools, students who are unable to complete the requirements of an individual course are often assigned the grade of incomplete (I). Students are usually expected to complete the required work within a reasonable time in order to receive credit and a passing grade.

If a student is assigned an incomplete status for one or several courses but continues to attend other courses, the student is not considered to have withdrawn. A student who is awarded the grade of incomplete in all of his or her classes is not considered a student on an approved LOA unless the LOA meets the criteria in this section.

Because of the criteria that must be met in order for a LOA to be an approved LOA, term-based schools can grant LOAs that meet the Department's criteria for an approved LOA in a very limited number of cases. A term-based credit-hour institution that wishes to explore the possibility of granting an LOA that meets the criteria specified in 34 CFR 668.22(d), should call its Case Management Team for additional information.

No additional charges

An LOA is a temporary break in the student's attendance during which, for purposes of determining whether a Return calculation is required, the student is considered to be enrolled. Since students who are continuously enrolled are not assessed additional charges, any additional charges to a student, even minimal reentry charges, indicate that the institution does not truly consider the student to be on an approved LOA.

No additional Title IV assistance

Since an institution may not assess any additional charges to a student returning from LOA, the institution may not award any additional Title IV aid until the student has completed the coursework in which the student was enrolled when the leave was granted.

Leave of absence not to exceed 180 days in any 12-month period

Institutions, at their discretion, may grant a student multiple leaves of absence as long as the total number of days for all leaves does not exceed 180 days within a 12-month period. **This 12-month period begins on the first day of the student's initial LOA**.

When a student fails to return from a leave of absence

At an institution not required to take attendance, if a student does not return to the school at the expiration of an approved LOA (or a student takes an unapproved LOA), the student's withdrawal date is the date the student began the LOA. At an institution required to take attendance, the withdrawal date for the same student would always be the student's last day of attendance.

Explanation of consequences of withdrawal to loan recipients

A student who is granted an approved LOA is considered to remain in an in-school status for Title IV loan repayment purposes. If a student on an approved LOA fails to return, the school must report to the loan holder the student's change in enrollment status as of the withdrawal date.

One possible consequence of not returning from an LOA is that a student's grace period for a Title IV program loan might be exhausted. Therefore, in order for a LOA to be an approved LOA, prior to granting a leave of absence, a school must inform a student who is a Title IV loan recipient of the possible consequences a withdrawal may have on the student's loan repayment terms, including the exhaustion of the student's grace period.

Deferment or Forbearance

A student who has exhausted his or her grace period and is unable to begin repayment of a loan may apply for a deferment or forbearance of payment

Unapproved leaves of absence

A school may grant a student an LOA that does not meet the conditions to be an approved LOA for Title IV purposes (for example, for academic reasons). However, any LOA that does not meet all of the conditions for an approved LOA is considered a withdrawal for Title IV purposes. The student's withdrawal date at an institution not required to take attendance is the date the student begins the LOA. At an institution required to take attendance, the student's withdrawal date is the student's last day of attendance.

An unapproved LOA may not be treated as an unofficial withdrawal. An unofficial withdrawal is one where the school has not received notice from the student that the student has ceased or will cease attending the school. If a school has granted a student an unapproved LOA, the school would know immediately that the student had ceased attendance for Title IV purposes, and must use the specified withdrawal date in the Return calculation.

Institutional charges

Institutional charges are used to determine the portion of unearned Title IV aid that the school is responsible for returning. Schools must ensure that all appropriate fees as well as applicable charges for books, supplies, materials and equipment are included in Step 5, Part G of the Return calculation (see *Example of Determining Institutional Charges*). Institutional charges do not affect the amount of Title IV aid that a student earns when he or she withdraws.

Use of institutional charges in determining the school's responsibility for return

Institutional charges
34 CFR 668.22(g)(1)(ii)
34 CFR 668.22(g)(2)
DCL-GEN-00-24

Fees as noninstitutional charges
Application fees are excluded from institutional charges because they are not an educational cost. (Federal Register, Vol. 59, No. 82, April 29, 1994, page 22356).

The institutional charges used in the calculation usually are the charges that were initially assessed the student for the entire payment period or period of enrollment as applicable. Initial charges may only be adjusted by those changes the institution made prior to the student's withdrawal (for example, for a change in enrollment status unrelated to the withdrawal). If, after a student withdraws, the institution changes the amount of institutional charges it is assessing a student, or decides to eliminate all institutional charges, those changes affect neither the charges nor aid earned in the calculation. (Please see Step 3 — Amount of Title IV aid earned by the student, for a further discussion of aid earned and institutional charges.)

The return regulations presume that Title IV program funds are used to pay institutional charges ahead of all other sources of aid. **Institutional charges may not be reduced even if other sources of aid are used to pay those charges**. For example, a school may not reduce institutional charges when an outside agency supplying aid requires that aid to be used for tuition.

When to prorate charges

Prorating charges
34 CFR 668.22(g)(3)

When a school chooses to calculate the treatment of Title IV, HEA program assistance on a payment period basis for a nonterm credit-hour or clock-hour program, but the school charges for a period longer than the payment period (most likely the period of enrollment) there may not be a specific amount that reflects the actual institutional charges incurred by the student for the payment period. (Again, institutional charges incurred by the student are charges for which the student was responsible that were initially assessed by the institution for the payment period or period of enrollment.

The institutional charges incurred by the student for the payment period when a student is charged for a period that is longer than the payment period, in general, are a pro-rated amount of institutional charges for the longer period. However, if a school has retained Federal Student Aid funds in excess of the pro-rated amount to cover institutional charges, then **the institutional charges for the payment period are the amount retained.**

A school that charges by the period of enrollment but performs its Return calculation on a payment period basis before entering data in STEP 5, Part L, of the Return calculation, must determine whether it must enter: (a) the prorated amount of all institutional charges, or (b) the amount the school retained. To do this, first, the school prorates **all institutional charges.** Then, the school determines the amount actually retained. The school compares the two results and enters in STEP 5, Part L the greater of the two amounts.

For example, institutional charges are $8,000 for a nonterm based program that spans two payment periods of 450 clock hours each. The school chooses to calculate the treatment of Federal Student Aid funds on a payment period basis. A student withdraws in the first payment period. The pro-rated amount of institutional charges for each payment period is $4,000. However, the school has retained $5,000 of the Federal Student Aid funds for institutional charges [$4,000 for the prorated portion of the tuition and $1,000 for books and supplies for the entire period of enrollment] for the payment period. Therefore, the institutional charges the school must use in the Return calculation for the payment period are $5,000.

Waiver Example

An institution charges state residents $900 per semester. Out-of-state students are charged an additional $2,000 for a total of $2,900. However, the institution grants waivers of the out-of-state charges to out-of-state athletes. The waiver is considered a payment to those charges (estimated financial assistance) and the full $2,900 would need to be included in any Return calculation.

Reminder

Effects of waivers on institutional charges

If your school treats a waiver as a payment of tuition and fees that have actually been charged to a student, then the waiver is considered estimated financial assistance, and the full amount of the tuition and fees must be included in Step 5, Part L of the Return calculation. On the other hand, if the student is never assessed the full charges, the waiver is not considered to be financial aid, and only the actual charges would be included in the Return calculation (see DCL GEN 00-24, January 2000 for a further discussion of waivers and the Return calculation).

Institutional versus noninstitutional charges

Institutional charges generally are defined as the charges for tuition and fees, room and board, and other educational expenses that are paid to the school directly. If a fee (like a registration or technology fee) is required for all students in a program, then the fee should be considered an institutional charge. A charge does not have to appear on a student's account to be considered an institutional charge.

The following educational expenses must be considered institutional charges –

- all charges for tuition, fees, and room and board (if contracted with the school); (**If an institution enters into a contract with a third party to provide institutional housing, the institution has to include the cost of housing as an institutional charge in a Return calculation**.) and
- expenses for required course materials, if the student does not have a real and reasonable opportunity to purchase the required course materials from any place but the school.

  Exceptions: Excludable costs are costs a school may exclude from the total amount of institutional costs, such as the documented cost of unreturnable equipment, and documented cost of returnable equipment if not returned in good condition within 20 days of withdrawal.

Noninstitutional charges (not included in a Return calculation) include –

- charges for any required course materials that a school can document a student had a real and reasonable opportunity to purchase elsewhere (see the discussion that follows);
- charges to a student's account for group health insurance fees, if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal; and
- charges to a student's account for discretionary educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.).

Demonstrating a real and reasonable opportunity

A school may treat charges for books, supplies, equipment, and materials as noninstitutional charges if the school can substantiate that its students have the option of obtaining the required course materials from an alternative source. The school must be able to document that: (1) the required course materials were available for purchase at a relatively convenient location unaffiliated with the school; and (2) the school provided financial aid funds in a way and at a time that made it possible for the student to purchase the materials in a timely manner. A signed statement by a student that he or she had the option to purchase the materials from an alternative source is not sufficient documentation.

Book vouchers and institutional charges in the return of Title IV funds calculations

If a book voucher issued by a school cannot be used to purchase course materials from a **convenient unaffiliated source,** the student does not have a **real and reasonable opportunity** to purchase his or her course materials elsewhere. In that case the school must include the cost of books and materials purchased with the voucher as institutional charges in Step 5, Part L of the Return calculation.

Returning equipment

If a school can substantiate that its return policies are reasonable, consistent, and fair to all students, and students are notified in writing of those policies when they enroll, the school may exclude documented costs for nonreturnable equipment, and returnable equipment, if not returned in good condition within 20 days of withdrawal. A policy that classifies all used books or equipment as nonreturnable is not reasonable or fair. An acceptable policy must specify the specific circumstances that would prevent the school from selling the books or equipment to other students.

Three principles associated with institutional charges

Published in a January 7, 1999 policy bulletin, these principles are applicable to determining institutional charges.

Principle 1: Most costs charged by the school are institutional charges

The most important principle to keep in mind is that all tuition, fees, room and board, and other educationally related charges a school assesses a student are institutional charges, unless demonstrated otherwise. If you want to exclude specific charges or costs from a calculation, you must document that the charges are not institutional charges.

Principle 2: An institutional charge does not need to be assessed to all students

A charge assessed to all students enrolled in a course or program is an institutional charge whether or not it is assessed to all students at the school. Moreover, a charge does not have to be specified in a student's enrollment agreement to be considered an institutional charge.

Principle 3: Charges on a student's account are not always school charges; school charges do not always appear on a student's account

With the student's authorization, a school may credit a student's account with Title IV funds to pay for noninstitutional charges. If a student withdraws from the school with debits for noninstitutional charges on his or her account, the school should exclude those charges from the Return calculation.

Conversely, there may be institutional charges that do not appear on a student's account. If a school disburses Title IV funds to a student to buy required books, equipment, supplies, or materials and the student does not have a real and reasonable opportunity to purchase them from another source, those costs must be classified as institutional charges.

Example of school charges versus non-school charges

Aerospace Tech requires its students to purchase a titanium-plated tool set by the first day of class. Aerospace's enrollment agreement does not contain a charge for the tools, and it does not say that the student is required to purchase the tools from Aerospace or a vendor affiliated with Aerospace. As it happens, the required tools are available for purchase from Aerospace and from a retailer across the street. As a routine practice, Aerospace gets written authorization from its students to credit all financial aid to their school accounts, hold any credit balances, and establish a line of credit for students at the campus store so they can purchase the required tools by the first day of class. Most students buy the tools at the campus store and charge the purchase to their school accounts.

Although the cost of the tools is not listed as a charge in the student's enrollment agreement, Aerospace requires that the tools be purchased by everyone in the program of study. Therefore, as a general rule, the tool charges would be considered school charges. However, under the exceptions rule, the tool charges do not have to be considered school charges if Aerospace can demonstrate that – (1) the tools were available for purchase elsewhere; (2) Aerospace made financial aid available to students in time to purchase the tools from another vendor before the first day of class; and (3) Aerospace's practices provide students with an equal opportunity to purchase tools from the campus bookstore or the retailer across the street.

In this case, the school meets the first criterion, the tools are available at the store across the street, so an opportunity could exist. However, the school fails to satisfy the second and third criteria because the school's routine practice of crediting students' accounts with all financial aid, and extending lines of credit for purchases at the campus bookstore, discourages students from purchasing the required tools from another vendor. Unless a student specifically requests that Aerospace not hold his or her credit balance, a student whose education is funded primarily through financial assistance has to purchase the tools at the campus store. As a result, the cost of the tools must be classified as school charges.

Treatment of Title IV credit balances when a student withdraws

Treatment of Credit balance when a student withdraws
DCL GEN 04-03, February 2004

This treatment applies only to the handling of Title IV credit balances when a student withdraws. For a discussion of credit balances in other circumstances, please see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds.*

When a student withdraws during a period, a Title IV credit balance created during the period is handled as described below:

1. Do not release any portion of a Title IV credit balance to the student and do not return any portion to the Title IV programs prior to performing the Return calculation. The institution must hold these funds even if, consistent with the 14-day credit balance payment requirement of 34 CFR 668.164(e), it would otherwise be required to release them.

2. Perform the Return calculation including any existing Title IV credit balance for the period in the calculation as disbursed aid.
3. Apply any applicable refund policy (state, accrediting agency, institutional, etc.) to determine if doing so creates a new or larger Title IV credit balance.
4. Allocate any Title IV credit balance as follows –

   a) Any Title IV credit balance must be allocated first to repay any grant overpayment owed by the student as a result of the current withdrawal. The institution must return such funds to the Title IV grant account within 14 days of the date that the institution performs the Return calculation.

      Although not included in a Return calculation, any Title IV credit balance from **a prior period** that remains on a student's account when the student withdraws is included as Title IV funds when you determine the amount of any final Title IV credit balance when a student withdraws. Remember, the school must use the final credit balance first to satisfy any current student grant overpayment.

   b) Within 14 days of the date that the institution performs the Return calculation, an institution must pay any remaining Title IV credit balance funds in one or more of the following ways —

      - in accordance with the cash management regulations to pay authorized charges at the institution (including previously paid charges that now are unpaid due to a return of Title IV funds by the institution);

        A school may not use a Title IV credit balance to return funds for which it is responsible as a result of a Return calculation (Step 5, item O).
      - **with the student's authorization**, to reduce the student's Title IV loan debt (not limited to loan debt for the period of withdrawal); or
      - to the student (or parent for a PLUS loan).

   c) If the institution cannot locate the student (or parent) to whom a Title IV credit balance must be paid, it must return the credit balance to the Title IV programs. The Department does not specify the order of return to the Title IV programs for a credit balance. We encourage institutions to make determinations that are in the best interest of the individual student.

New 14-day deadline

In most cases, the cash management regulations require a school to refund a Title IV credit balance to a student within 14 days. However, when a student withdraws, a school is required to perform a Return calculation to determine, among other things, whether adjustments to the credit balance will occur.

For this reason, the existing 14-day payment requirement is placed on hold in order to determine the final amount of any Title IV credit balance. Your school does not need to obtain a student's or parent's authorization to hold a Title IV credit balance that existed prior to the Return calculation (beyond the original 14-day deadline) while you determine the final amount of the credit balance.

In order to allow an institution time to appropriately apply any credit balance after it has been recalculated, a new 14-day deadline is triggered when a school performs a Return calculation. The new 14-day deadline begins on the date the school performs the Return calculation, not the date the school performs any calculations required by its institutional refund policy.

Of course, in order to determine the correct Title IV credit balance, the school must take into account both the results of the Return calculation and any applicable refund policy.

You must apply your school refund policy before allocating a Title IV credit balance. However, you are not required to actually complete the refund process (for example, by making a refund to a student) before completing the steps for allocating the Title IV credit balance.

In order to accommodate differences in institutional accounting and administrative processes, you are not required to actually apply the Title IV credit balance to the student's grant overpayment before applying the Title IV credit balance to other debts, as long as the grant overpayment is satisfied by the 14-day deadline. You may use school funds instead of the actual Title IV credit balance to satisfy any student grant overpayment.

For the treatment of credit balances when a student dies, see the discussion under *Death of a student* later in this chapter.

Timeframe for returning an unclaimed Title IV credit balance

On November 1, 2007, the Department published regulations that modified the treatment of unclaimed credit balances (FR Vol. 72, No. 211, Part III). If a school attempts to disburse the credit balance by check and the check is not cashed, the school must return the funds no later than 240 days after the date the school issued the check.

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. When a check is returned or EFT is rejected and the school does not make another attempt to disburse the funds, 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.

Example of a school performing a Return calculation for a student on whose account there is a Title IV credit balance

Legolas, a first-time student at Northern Mirkwood Community College (NMCC) began classes on September 1. His account was credited with a Pell Grant of $2,000 and debited with institutional charges of $500, creating a Title IV credit balance of $1,500. Because NMCC has several mini semesters in which Legolas had expressed an interest, the school obtained the student's permission to hold the Title IV credit balance while Legolas considered his options.

On September 30, when he has completed 25% of the semester, Legolas informs the school that he has decided to withdraw in order to pursue his dream of winning a gold medal as an Olympic archer. NMCC places a hold on Legolas's account while it performs the required Return calculation and applies its institutional refund policy.

The school performs the required Return calculation on October 20, and determines that the Amount of unearned funds due from the school is $375, and that the Initial amount of unearned funds due from the student is $1,125. Since the $1,125 is composed entirely of grant funds, after applying the 50% grant protection, the Amount for the student to return is a grant overpayment of $125.00.

Before Legolas withdrew, the Title IV funds on his account totaled $2,000, and $500 of that $2,000 was used to cover the existing charges. There were no charges due the school, and the Title IV credit balance was $1,500. After the school returned the $375 it is required to return, the new total of Title IV funds on the student's account was $1,625 ($2,000 – $375), and the new Title IV credit balance was $1,125.

Then, the school applies its institutional refund policy. Under NMCC's refund policy, a first-time student who withdraws before the 50% point in the semester is entitled to an 80% refund of institutional charges. Since Legolas withdrew at the 25% point of the semester, he is entitled to a refund of 80% of the amount he was charged or $400 ($500 X .80). So, the new institutional charges on the student's account are $100, and the new (final) Title IV credit balance is $1,525 ($1,625 – $100). Note that this new credit balance is larger than the credit balance that existed before the student withdrew.

Because Legolas has a Title IV credit balance on his account, NMCC has 14 days from October 20 (the date they performed the Return calculation) to return the student's grant overpayment (it can use its own funds or Title IV funds) from the student. After the school returns the $125.00 grant overpayment, the Title IV credit balance of the student's account is $1,400 ($1,525.00 – $125.00). The school must pay those funds to the student within 14 days of October 20.

Note: *With a never before achieved "perfect score," Legolas won a gold medal in the Olympic archery competition.*

PRINCIPLES WITH UNIQUE APPLICATIONS IN THE RETURN OF TITLE IV AID

Institutions required to take attendance

Verifying an agency's position

Unless an outside entity has determined that an institution is required to take attendance, the institution would be considered to be one that is not required to take attendance. If a school is unsure whether an outside entity requires a school to take attendance, the school should inquire of the outside entity, and document the agency's response.

Only a school that is required to take attendance by an outside entity is considered a school that is required to take attendance for purposes of calculating the amount of Title IV program assistance earned when a student withdraws.

A school that elects to take attendance, including a school that voluntarily complies with an optional attendance requirement of an outside entity, is not considered a school that is required to take attendance.

If an outside entity determines that an institution is required to take continuous attendance for a limited period, including for census purposes, then the institution is considered to be one that is required to take attendance for that period of time only. However, if an outside entity requires attendance taking only for a single day of census activity, ED would not consider the institution to meet the definition of an institution required to take attendance for that one day.

Example of taking attendance

For example, ten students at Peabody University receive assistance from the state. The state requires the school to take attendance for the recipients of the state's education benefits. Peabody University is not required by any other outside entity to take attendance for any of its other students. Seven of the ten students who receive state benefits are also Title IV program recipients. If any of those seven students withdraw from the school, the school must use the state required attendance records for them to determine the withdrawal date as required for institutions required to take attendance. For all other Title IV program recipients at Peabody University who withdraw, the school must determine the withdrawal date in accordance with the requirements for students who withdraw from a school that is not required to take attendance.

Institutions that are required to take attendance for a limited period must document a student's attendance through that period. If an institution determines that a student was not in attendance at the end of that period, the student's withdrawal date would be determined according to the institution's attendance records.

If the institution demonstrates that the student attended past the end of the limited period, the student's withdrawal date is determined in accordance with the requirements for an institution that is not required to take attendance.

If a school is required by an outside entity (for example, a state Workforce Development Agency), to take attendance for only some students, the school is required to use those attendance records for only the cohort of students under the outside agency's jurisdiction to determine the student's withdrawal date (the last date of academic attendance). The school would not be required to take attendance for any of its other students, or to use attendance records to determine any of its other students' withdrawal dates, unless the school is required to take attendance for those students by another outside entity.

Date of the institution's determination that the student withdrew

Date of determination that a student has withdrawn
34 CFR 668.22(l)(3)

The date of the institution's determination that the student withdrew varies depending on the type of withdrawal. For example, if a student begins the official withdrawal process or provides official notification to the school of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date the student

began the official withdrawal process, or the date of the student's notification, whichever is later. If a student did not begin the official withdrawal process or provide notification of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date that the school becomes aware that the student ceased attendance. The types of withdrawal and the corresponding definition of the date of the institution's determination that the student withdrew are listed in the chart on Withdrawal Dates at the end of this chapter.

For a student who withdraws without providing notification from a school that is not required to take attendance the school must determine the withdrawal date **no later than 30 days after the end of the earlier of** (1) the payment period or the period of enrollment (as applicable), (2) the academic year, or (3) the student's educational program.

Date of determination at institutions that are required to take attendance

Institutions that are required to take attendance are expected to have a procedure in place for routinely monitoring attendance records to determine in a timely manner when a student withdraws. Except in unusual instances, the date of the institution's determination that the student withdrew should be no later than 14 days after the student's last date of attendance as determined by the institution from its attendance records. The institution is NOT required to administratively withdraw a student who has been absent for 14 days. However, after 14 days, it is expected to have determined whether the student intends to return to classes or to withdraw. In addition, if the students eventually determined to be a withdrawal, the end of the 14-day period begins the timeframe for completing a Return calculation.

Date of determination at an institution required to take attendance
34 CFR 668.22(b)(1)
DCL GEN 04-03, February 2004
DCL GEN 04-12, November 2004

This requirement does not affect a student's withdrawal date. At an institution that is required to take attendance, a student's withdrawal date is always the last date of attendance as determined by the institution from its attendance records.

A student who ceases attendance during a payment period or period of enrollment is a withdrawal for Title IV purposes unless the student is on an approved LOA. Therefore, for a student who has ceased attendance, the institution must either –

- place the student on an approved LOA (provided that the conditions for an approved LOA are met); or
- withdraw the student and, if the student returns, treat the student as a reentry if permitted under the regulations.

Example of making a determination at a school required to take attendance

Consider a school that makes a determination on September 10 that a student has not been in attendance since September 1. The school contacts the student who tells the school he or she's been ill but plans on coming back during the next week (and this falls within the time period for excused absences and absences allowed by state, accrediting agency, and other applicable policies). For the moment, the school may delay taking any action. However, if the student does not return, the school must complete a Return calculation using September 1 as the student's last day of attendance, and September 15 as the date of the institution's determination that the student withdrew. The school must return any unearned funds by October 30.

If an institution has a policy that states the maximum number of excused absences that can occur after which a student will be administratively withdrawn, it may delay contacting the student until that date. However if the student eventually is determined to be withdrawn, the date of determination of the student's withdrawal remains 14 days from the student's last day of attendance. If the number of days in the school's policy is less than 14 days, then the 45-day timeframe for completing a Return calculation and returning Title IV funds starts on the date the school's policy indicates that the student will be administratively withdrawn. An institution must return the amount of Title IV funds for which it is responsible as soon as possible, but no later than 45 days after it determines or should have determined that the student withdrew. In addition, if a student is due a Post-withdrawal disbursement, then the date of the school's determination must allow for the school to meet the 30-day PWD notification requirement.

As noted above, the date of the institution's determination that the student withdrew is not necessarily the same as a student's withdrawal date. A student's withdrawal date is used to determine the percentage of the payment period or period of enrollment completed and, therefore, the amount of aid a student has earned. The date of the institution's determination that the student withdrew is used in the following circumstances:

- A school must offer any amount of a Post-withdrawal disbursement that is not credited to the student's account within 30 days of the date of determination.
- If the student or parent submits a timely response that instructs the school to make all or a portion of the Post-withdrawal disbursement, the school must normally disburse the funds within 180 days of the date of determination.
- A school must document a student's withdrawal date and maintain the documentation as of the date of determination.
- Within 30 days of the date of determination, a school must notify a student if a grant overpayment is due.
- A school that is collecting an overpayment must require repayment of the full amount of the overpayment within two years of the date of determination.

Date by which funds must be returned
34 CFR 668.22(j)

- The school must return the amount of Title IV funds for which it is responsible no later than 45 days after the date of determination.
- The amount of aid disbursed as of the date of determination is used to determine the amount of unearned aid that must be returned.

Use of payment period or period of enrollment

The worksheets require that a school indicate whether the calculation is being done on the basis of a payment period or a period of enrollment. For students who withdraw from semester, trimester, or quarter programs, a school must perform the Return calculation on a payment period basis. For students who withdraw from a nonstandard term-based or nonterm-based educational program, the school has the choice of performing the Return calculation on either basis. The institution must use the same basis (payment period or period of enrollment) in its calculations for all students within a program who cease attendance.

An exception is allowed for students who transfer to or reenter a school that offers nonterm-based or nonstandard term-based educational programs. For students who transfer to or reenter a nonterm-based or nonstandard term-based educational program a school may make a separate selection of payment period or period of enrollment to use in calculating their Return of Title IV funds for everyone within the group that transfers or reenters.

The periods used for transfer and reentry students do not have to be the same. A school may choose to use payment period for transfer students and period of enrollment for reentry students.

Changing the basis of the calculation

A school may change the basis for its Return calculations for new students as they begin classes. However, for continuing students, since the institution's Return policy must be included in the published materials the school provides to students as part of the consumer information requirement, the school would have to change its catalogue, its written policies and procedures, and its enrollment agreements (if any), and allow sufficient time for those continuing students who would be governed by the new policy to receive and review the materials.

Payment period

The definition of a payment period is the same definition used for other Title IV program purposes. This definition is found in 34 CFR 668.4 (see *Volume 3 – Calculating Awards and Packaging*). Schools that use payment periods as the basis for their Return calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period.

Period of enrollment

A period of enrollment is the academic period established by the school for which institutional charges are generally assessed (i.e., the length of the student's program or the academic year, but consistent with the period for which loans generally are certified.

Period of enrollment
34 CFR 668.22(l)(2)

Applicability

The use of payment period or period of enrollment is important for many aspects of the Return calculation. For example, if a school is determining the treatment of Title IV funds on a payment period basis, the student's Title IV program assistance to be used in the calculation is the aid that is disbursed or that could have been disbursed for the payment period. Also, the institutional charges used in the calculation generally have to reflect the charges for the payment period.

Generally, the higher the institutional charges, the greater the amount of unearned aid that is to be returned by the school (see Step 4). In some cases this mitigates against a school using the period of enrollment as the basis for the Return to Title IV funds calculation. An institution must prorate the charges for the period of enrollment to correspond to a payment period if the institution has elected to use the payment period rather than period of enrollment basis for the Return calculations.

If, for a nonterm or nonstandard term program, a school chooses to calculate Returns on a payment period basis, but the school charges for a period longer than a payment period (e.g., period of enrollment), total institutional charges for the period will be the greater of the –

- prorated institutional charges for the period, or
- the amount of Title IV assistance retained for institutional charges as of the student's date of withdrawal.

Rounding

Enter dollars and cents using standard rounding rules to round to the nearest penny. Final repayment amounts that the school and student are each responsible for returning may be rounded to the nearest dollar.

Percentages are calculated to four decimal places, and rounded to three decimal places. The third decimal place is rounded up if the fourth decimal place is 5 or above. For example, .4486 would be rounded to .449, or 44.9%.

The **one exception** to the rounding rule occurs in determining the percentage of Title IV program assistance earned. Students who withdraw at any point **after the 60% point** in the payment period or period of enrollment have earned 100% of their Title IV funds. If the standard rounding rules were used in this situation, a quotient of .6001 through .6004, which is greater than 60%, would be rounded down to .600 (60%), and the student would not have earned 100% of his or her Federal Student Aid. Therefore, for the purpose of determining whether a student has earned 100% of the Title IV funds for the term, in order to recognize that students completing more than 60% of the period (by any amount) earn 100% of their Federal Student Aid, **amounts of .6001 through .6004 are not rounded**.

Funds to include in a Return calculation

Funds to include in a Return calculation
34 CFR 668.22(a)(2)

The calculation of earned Title IV funds includes certain Title IV grant and loan funds if they were disbursed or could have been disbursed to a student for the period of time for which the calculation is being performed (payment period or period of enrollment).

The regulations have been revised to reflect the more limited applicability of the Return of Title IV Funds rules as provided in the Higher Education Reconciliation Act of 2005 (HERA). For students whose withdrawal date is on or after July 1, 2006, schools should only include funds from the following programs in their Return calculations:

- Pell Grant,
- ACG,
- National SMART Grant,
- TEACH Grant,
- FSEOG,
- FFEL,
- Direct Loan, and
- Perkins Loan.

The Return of Title IV Funds requirements no longer apply to funds from the GEAR UP, SSS, or LEAP programs.

Also, Federal Supplemental Educational Opportunity Grant (FSEOG) Program funds continue to be excluded under certain circumstances. As in the past, Federal Work-Study (FWS) funds and Byrd Scholarship program funds are **not** included in the calculation.

FSEOG Program funds

The nonfederal share of FSEOG Program funds is excluded when a school meets its FSEOG matching share by either the individual recipient method or the aggregate method. If a school meets its matching share requirement through the use of a fund-specific match, 100% of the FSEOG award (both the federal and nonfederal shares) must be included in the Return calculation. Otherwise, the nonfederal share of FSEOG awards is excluded from the calculation. For more information on types of FSEOG matching funds see *Volume 6 – Campus-Based Programs*.

Reentry within 180 days
34 CFR 668.4(e)

Consistent with leave of absence

This arrangement is similar to an LOA , and the 180-day timeframe is consistent with the maximum 180 days allowed for an approved LOA in the Return regulations. The difference, of course, is that with an unauthorized LOA the institution would not know that the student would be returning and would have treated the student as a withdrawal. Based upon that withdrawal, the institution would have completed the Return calculation, which may have required both the institution and the student to return funds to the Title IV programs.

If the student returns within 180 days to his or her original program, while an official leave was not granted, and the provisions of the Return regulations were applied, upon the student's return, the student can be treated as though he or she had been on an approved LOA.

Costs upon reentry

The cost of attendance would be the costs associated with the original period before the student withdrew. Once the student has withdrawn and then returned to the same program within a 180-day period, the regulation states that the student remains in the same payment period. The cost of attendance for such a student returning to the same program within 180 days must reflect the original educational costs associated with the payment period from which the student withdrew.

Deferment status for loan funds

If a student re-enrolls in school on at least a half-time basis before his or her initial grace period expires, the student regains his or her in-school status and is entitled to have his or her grace period made whole again. The student will have a full initial grace period when he or she ceases half-time enrollment.

New Maximum Loan Period
34 CFR 682.603(g)(2)(i) and
34 CFR 685.301(a)(10)(ii)(A)

SPECIAL TREATMENT OF STUDENTS WHO WITHDRAW AND THEN TRANSFER OR REENTER A CREDIT-HOUR NONTERM-BASED PROGRAM OR A PROGRAM THAT MEASURES PROGRESS IN CLOCK HOURS

Reentry within 180 days

A student who reenters within 180 days is treated as if he or she did not cease attendance for purposes of determining the student's aid awards for the period.

For credit-hour nonterm-based programs or programs that measure progress in clock hours, a student who withdraws and then reenters the same program at the same school within 180 days is considered to be in the same payment period he or she was in at the time of the withdrawal. The student retains his or her original eligibility for that payment period, and is treated as though he or she did not cease attendance.

A student who reenters a credit-hour nonterm-based program or a program that measures progress in clock hours within 180 days of his or her withdrawal is immediately eligible to receive all Title IV funds that were returned when the student ceased attendance. Thus, upon the student's return, the school must restore the types and amount of aid that the student was eligible for before the student ceased attendance, and schedule the appropriate disbursements. Actions to be taken by the school would include:

- re-disbursing aid that had been disbursed and then returned under the Return of Title IV Aid provisions;
- disbursing aid the student was otherwise eligible for that had not yet been disbursed at the time the student withdrew; and
- canceling any overpayments assessed the student as a result of the prior withdrawal that were disbursed upon reentry.

Once the student completes the payment period for which he or she has been paid, he or she becomes eligible for subsequent Title IV student aid payments.

There are limitations on redisbursing and making second disbursements of FFEL and Direct Loan funds when a student reenters. If the date of a student's return is outside of the period for which the loan was certified/originated, the school and lender (FFEL only) must agree to extend the loan period. (The school may certify/originate a new loan as explained later.) Likewise, if the date scheduled for a second disbursement is outside of the period for which the loan was certified, the school and lender (FFEL) must extend the loan period and the date(s) for the second and any subsequent disbursement. For more information on this topic please see the chart Loan Principles Applicable to Transfer and Reentry at Nonterm Schools later in this chapter.

Note: For a student who completed more than 60% of his or her training before ceasing attendance, the school would not have returned any Title IV aid. If that student were to reenter training within 180 days, because the student had received 100% of his or her aid for the period, the student would not be eligible to receive additional Title IV aid until he or she has completed the weeks of instructional time and hours or credits (as applicable) in the academic year.

What to do when a student whose overpayment has been referred to Borrower Services reenters within 180 days

If a student whose overpayment has previously been referred to Borrower Services returns to school within 180 days, the school must send Borrower Services a fax identifying the student overpayment, and stating that it should be made void. This will allow the Department to properly update its records in both the Borrower Services system and NSLDS.

This fax number is for **school use only** and only for this purpose:

Fax Number: (319) 665-7646

Note: This process cannot be performed via email.

In the fax, the school must include the –

- award year of the overpayment;
- student's social security number;
- student's last name, first name, and middle initial;
- student's date of birth;
- type of overpayment — Federal Pell Grant or FSEOG;
- the disbursement date the institution used to create the overpayment record in NSLDS;
- a letter that includes the following:

This student has returned to school. The regulations (34 CFR 668.4(e)) require that the overpayment referenced herein be voided.

When a student reenters within 180 days

The return regulations require a school to return unearned funds for which it is responsible as soon as possible, but no later than 45 days after the date of the institution's determination that the student withdrew. If a student returns to the institution before the Title IV funds are returned, the institution is not required to return the funds.

An institution may not delay its Return of Title IV funds

An institution is expected to begin the Return of funds process immediately upon its determination that a student has withdrawn. The institution may not delay returning Title IV funds because it believes a student might return.

Change in maximum loan period

On November 1, 2007, (effective July 1, 2008, unless a school elects to implement the changes earlier) the Department published regulations that eliminated the maximum 12-month loan period for loans in the FFEL and Direct Loan programs. (FR Vol. 72, No. 211, Part III). The regulations now also allow schools to certify a loan for students in nonterm and nonstandard term programs that are less than an academic year in length, and give schools greater flexibility in rescheduling disbursements to students who cease attendance and then return to school.

Subsequently, for a student who withdraws and returns within 180 days, a school may extend the original loan period and schedule new disbursement dates for second or subsequent disbursements. Note that this does not mean an increase in the loan amount the student may receive for the period. Cites: 34 CFR 682.603(g)(2)(i); 682.603(f)(1)(i); 685.301(a)(10)(ii)(A); and 685.301((a)(9)(i).

Reentry within 180 days, example

Consider a student who began attendance in a clock-hour program that was 1,500 hours in length with a defined academic year of 900 hours. For the first 450 hour payment period the student was awarded and disbursed $1500 in Pell Grant funds, $500 in FSEOG funds, and $500 in Title IV loan funds, for a total of $2500 in Title IV aid.

Assume that this student withdrew from school after completing 200 of the 225 hours he or she was scheduled to complete by that point in the payment period (50%), and the school uses payment periods to calculate the Return of Title IV Aid. Under the Return regulations, the school used scheduled hours (225) to determine that the student earned 50% of his or her Title IV aid. The school returned $500 to the loan program. The $750 the student was initially scheduled to return (Step "S") was eliminated by the application of grant protection in Step "U."

If the student returns to the same program at the same school within 180 days of the withdrawal, the student would be considered to be in the same payment period, and the student's eligibility for Title IV aid should be the same as if the student had not left. If the student is returning within the original loan period, the school should request that the lender redisburse the $500 the school had returned. If the date of a student's return is outside of the period for which the loan was certified/originated, the funds the school and lender (FFEL) must extend the loan period and set new dates for any second disbursement or additional disbursements. In addition, the institution would schedule additional Title IV disbursements for the day after the student is expected to complete the remainder of the payment period.

If the student withdraws again before completing the payment period, the institution would apply the provisions of the Return regulations using the total number of hours the student completed in the numerator, the full 450 hours in the payment period in the denominator, and then applying that fraction to the total Title IV aid disbursed for the period.

When a student reenters in a new award year

A student who was originally enrolled in a payment period that began, and was scheduled to end in one award year could return after the end of that award year (June 30). However, the intent of the new regulations is that such a student is to be considered, upon his or her return, to be in the same period. Therefore, any Title IV program funds that will be disbursed to the student should be paid from the original award year regardless of whether the resumption of the payment period is in a new award year.

Consider a student who received Pell Grant funds and ceased attendance in one award year who then reenters training within 180 days, but in a new award year. If the school returned funds after a Return calculation, the student might be due Pell funds from an award year that is over.

In order to request these funds, the school will have to go to the COD Website at:

https://cod.ed.gov/cod

log in under the School tab using the school's user name and password (available from the school's system administrator), select "**Post Deadline System Processing**" on the left side, and request administrative relief with "**Reentry within 180 days**" as the reason.

For the campus-based programs, if funds are not available from the year in which the awards were originally made, the school may award funds from the current year. Note that doing this does not increase the annual maximum awards that may be made to an individual student.

Requesting Administrative Relief by Email

A school can also request administrative relief by sending an email directly to:

fsa.administrative.relief@ed.gov

The request must include the

- reason (reentry within 180 days);
- school's Pell ID number;
- name of the person to contact;
- the contact's phone number; and
- the contact's email address.

Limits on requesting administrative relief

Generally, a school may request administrative relief for a student who reenters training during the award year following the award year in which the funds were originally awarded.

Reentry after 180 days, transfer into a new program at the same institution, or transfer to a new institution

Reentry after 180 days
34 CFR 668.4(f)

If a student withdraws from a credit-hour nonterm program or a clock-hour program without completing the period and –

- reenters the same program at the same institution more than 180 days after withdrawal, receiving credit for hours previously earned; or
- transfers into another credit-hour nonterm or clock-hour program at any time (either at the same institution or at a new institution) and the institution accepts all or some of the hours earned in the prior program; then

the student starts a new payment period when he or she reenters or transfers.

In calculating awards for a student who reenters the same program after 180 days, reenters in a new program, or transfers to a new institution, the institution treats the hours remaining in the program as if they are the student's entire program. The number of payment periods and length of each payment period are determined by applying the rules in the appropriate part of the definition of a payment period to the hours remaining in the program upon transfer or reentry.

On November 1, 2007, the Department published regulations that modified the treatment of students who change programs at credit-hour nonterm and clock-hour programs (FR Vol. 72, No. 211, Part III). A school may consider a student who transfers into another program at the same institution to remain in the same payment period if five conditions are met:

1. the student is continuously enrolled at the institution;
2. the coursework in the payment period the student is transferring out of is substantially similar to the coursework the student will be taking when he or she first transfers into the new program;
3. the payment periods are substantially equal in length in weeks of instructional time and credit hours or clock hours, as applicable;
4. there are little or no changes to the institutional charges to the student for the period; and
5. the credits from the payment period the student is transferring out of are accepted toward the new program.

This change was made to address situations where a student's transfer to a new program at the same institution results in very little change to the student's academic circumstance, e.g., a change that is really nothing more than a change in majors. The Department believes that when this occurs it is appropriate to spare the school the burden of withdrawing a student, performing a Return calculation, and returning Title IV grant or loan funds, and only to award them again for the new payment period(s).

If a school treats the student as one who is not withdrawing from the institution, no Return calculation is performed, and the student continues in the same payment period he started in with his original program.

If a student for whom this approach is taken later withdraws from the institution, the start and end dates used in Step 2 of the Return calculation will be the start of the first program and the end of the second. The charges used in Step 5 will be the total charged the student for the two programs.

Eligibility of transfer students for additional Title IV funds

Generally, at a clock-hour or nonterm credit-hour school, a student can be paid again for clock hours or credit hours that he or she has already completed at that school only if he or she has completed a program and re-enrolls to take that program again or to take another program. In addition, when a student reenters a clock-hour or credit-hour nonterm-based program after 180 days, the student may be paid for repeated courses.

For example, a student who withdraws after completing 302 clock hours of a 900 clock-hour program has 148 hours remaining in the 450-hour payment period. The student reenrolls after 180 days in the same program and receives credit for 100 hours. The program length for purposes of determining the new payment periods is 800 clock hours (the remainder of the student's program), so the new payment periods are 400 hours and 400 hours (the 302 hours completed and the 148 hours that remained do not apply). Any reduction in the payment would be based on whether the student's scheduled award or annual loan limits are exceeded. (If the student in this example received no credit for previously completed hours, the student's program length for purposes of determining the payment periods would be 900 clock hours.)

However, a transfer student's eligibility for additional Title IV funds may be subject to a variety of limitations associated with the aid the student received during the student's most recent period of attendance. For example, in the Pell Grant Program, a student may never receive more than his or her Pell scheduled award for an award year. In the Federal Family Education Loan Program and the Federal Direct Loan program, application of the annual loan limits imposes additional limitations on a borrower's eligibility for FFEL funds when the borrower transfers (see chart).

Pell Grant scheduled award

When paying Pell funds to a student who has received Pell disbursements for the current award year at another institution, the receiving institution, if necessary, must adjust the student's grant to ensure that the Pell funds received by the student for the award year do not exceed the student's scheduled award. (For more information, see *Calculating a Pell award when a student who owes an overpayment returns*, in "*Volume 5 – Overawards, Overpayments and Withdrawal Calculations*" and "*Volume 3 – Calculating Awards and Packaging*.")

Guarantee agency cooperation

Since the period of attendance for which School 1 previously certified the transfer student's loan might have included the dates for which School 2 is attempting to certify a loan, some guarantee agencies might require clarification from one or both schools before they will certify a new loan.

LOAN PRINCIPLES
APPLICABLE TO TRANSFER AND REENTRY AT NONTERM SCHOOLS

1. For nonterm programs, a Borrower–Based Academic Year (BBAY) must be used to monitor annual loan limits. For a student who transfers or reenters a program, the loan period certified must be the lesser of the —
   - academic year,
   - program, or
   - remaining balance of a program of study.
2. A school may certify or originate a loan for a period that exceeds 12 months.
3. When we say balance, we mean the borrower's annual loan limit, less any amount previously borrowed for the same academic year, plus any amount returned per 34 CFR 668.22.

   For a transfer student, when an overlap exists between the borrower's original loan period and the borrower's new period of attendance, or the academic years of the two schools, the borrower is eligible to receive a loan for an amount that does not exceed the remaining balance of the student's annual loan limit . The new school may certify or originate the loan for the remaining portion of the program or academic year. **The borrower is not eligible for a new loan until the original loan period and original academic year have ended.**

   Note that if the original academic year is unknown, a school must assume the previous school had an academic year of 30 weeks.

   A receiving school that accepts fewer credits or clock hours than the student successfully completed at his or her prior school may, if it can document that the student successfully completed additional credits or clock hours, count those hours as completed hours in the student's loan period.

   Note that when we say ***successfully completes***, we mean that the student earns a passing grade or otherwise receives credit for the course.

   If there is no overlap, the borrower is immediately eligible for a new annual loan limit. The receiving school can certify the borrower for a loan period that corresponds to its academic year, or the entire balance of the program. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

5. When certifying a loan for returning student for a new BBAY, the Cost of Education may include only those costs associated with the period for which the loan is certified. It may not include any costs used in certifying the previous loan unless those costs represent charges for which funds were returned to ED or refunded to the student, subsequent to the previous withdrawal.

Loan Principles, continued

6. When a student reenters the same program within 180 days and before the end of the student's initial loan period, a school can ask the lender/GA to establish a new end date for the loan period and reschedule any second or subsequent disbursements. Similarly, a Direct Loan school could change the original loan period end date and reschedule the second disbursement. In this case the student is held to the same disbursement requirements that applied initially (e.g., for one additional disbursement, they must successfully complete one-half the coursework and one-half the weeks of instructional in the loan period before they can receive the second disbursement).

7. When a student reenters the same program within 180 days and before the end of the student's initial loan period, if the lender or GA declines to adjust the loan period and reschedule the second disbursement, the school can ask the GA to approve a loan with a new loan period that begins on the date the borrower returns to school and extends to either the balance of the original loan period or balance of the program, whichever is shorter. The student is eligible to receive only the balance of the loan, and it must be made in multiple disbursements.

   The borrower is not eligible for a new loan until the original loan period and original academic year have ended. If some portion of the program remains after the completion of the new loan period, the school could certify a new loan for that portion of the program. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

8. If a student reenters a program after the end date of the initial loan period or BBAY, a school may certify a new loan for either the balance of the program, an academic year, whichever is shorter. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

Transfer Students

Example 1

Consider an academic program that consists of 1,500 clock hours that students are expected to complete over 50 weeks of instructional time. The program has a defined academic year of 900 hours and 30 weeks of instructional time. For students who enter at the beginning of the program, initially there would be four payment periods as follows:

1. the first 450 hours of the first academic year and 15 weeks of instructional time;
2. the next 450 hours of the first academic year and 15 weeks additional weeks of instructional time;
3. the first 300 hours of the 600 hours remaining in the program and 10 weeks of instructional time; and
4. the final 300 hours of the 600 hours remaining in the program and 10 weeks of instructional time;

If the school accepts a transfer student and grants the student 300 hours of credit toward the completion of its 1,500 hour program, the school would subtract the 300 hours and 10 weeks of instructional time from the 1,500 hours and 50 weeks of instructional time in the student's program, and determine that the student needs to complete 1,200 hours and 40 weeks of instructional time at the new institution in order to complete the program.

Then, consistent with the regulations in 34 CFR 668.4(b), the school determines the payment periods in the 1,200 hours that constitute the student's program. Since the number of remaining hours and weeks in the program is greater than an academic year, the payment periods for the rest of the program are:

1. the first 450 hours after the student transfers, and 15 weeks of instructional time;
2. the next 450 hours in the academic year following the student's transfer; and 15 weeks additional weeks of instructional time;
3. the 300 hours remaining in the program and 10 weeks of instructional time (since this balance is less than one-half of an academic year). However, the school must make two disbursements of any FSA loan awarded for this period – the second when the student has completed 150 hours and 5 weeks of instructional time.

The institution would then award and disburse Title IV aid based upon the length of the payment period(s) consistent with the awarding rules under each of the Title IV programs and the Cash Management rules contained in Subpart K of Part 668 of the regulations.

Transfer Student, Example 2

On August 1, 2003, David Allen enrolled at Penny's Hair Academy (PHA). After completing 400 of the 900 clock hours in his program, David had to relocate, and he withdrew from school.

On February 1, 2004, having settled into his new home, David enrolled at Marion's Esthetics Institute (MEI) as a transfer student. David was awarded 400 clock hours of transfer credit in MEI's 1000 clock-hour program (the program definition of an academic year is 900 clock hours and 30 weeks of instructional time). David's program is 600 clock hours and 20 weeks of instructional time.

When the financial aid officer (FAO) at MEI examined David's 2008-2009 ISIR, he found the following entry:

%Sch. Used: 50.0 As Of: 01/28/2004 Pell Verification EFC: 0

The FAO subtracted the 50% used previously from 100% and found that the percentage of David's scheduled award that remained unused was 50%. Therefore, David was eligible to receive 50% of his scheduled Pell award of $4731 during the balance of the award year. In addition, the FAO used the 600 hours and 20 weeks of instructional time remaining in David's program to establish the appropriate two payment periods (per 34 CFR 668.4(b)) each of 300 clock hours and 10 weeks of instructional time.

The aid officer performed the required multiplication and determined that David could receive as much as $2,365 (.50 X $ 4,731 = $2365) if he remained enrolled at MEI for the balance of the year.

During the first payment period, David received $1577 ($4731 X 300 hours in the period ÷ 900 hours in the academic year) = $1577 in Pell funds.

However, in the second payment period, David could only receive funds until his total Pell at EIA reached $2365 (his total for the year reached $4731). Therefore, for the second payment period at MEI, David could only receive $788 ($2365 – $1577 = $788).

On February 5, 2004, David came to the FAO at MEI and inquired about a loan like the one he had at PHA. The FAO examined David's ISIR and his record in NSLDS and determined that David had received $1750 in loan funds (from his first-year loan of $3500) while attending PHA.

The FAO tells David that because there is an overlap of the two school's academic years, David is only eligible to receive a loan for the balance of his eligibility as a first-year student — $1750. In addition, the FAO tells David that the one-half of his loan will be disbursed within a few days, and the balance when David has successfully completed 300 clock hours (half of the hours in the remainder of his program) and half the weeks of instructional time in the loan period.

Clarification

BREAKS IN ATTENDANCE FOR STUDENTS ENROLLED IN PROGRAMS MEASURED IN CREDIT HOURS WITHOUT ACADEMIC TERMS

In order to receive Title IV aid, a student must be enrolled in an eligible program. That program has required courses, some of which must be taken in sequence. If no specific academic plan exists for a particular student, we consider the program requirements to be the student's academic plan.

A student who completes a course is expected to begin attending the next available course in the program, until the student completes the credits for which he or she has received Title IV aid. **If before a student completes the credits for which he or she has received Title IV aid, the student fails to enroll in the next (appropriate in sequence) course in the program, the student must be put on an approved LOA or considered withdrawn.**

A student who has completed the credits for which aid was awarded does not have to be considered a withdrawal or placed on LOA if he or she takes a break before enrolling in additional courses.

In the next section, we will discuss the data elements in the order in which they occur on the worksheets. The discussion that follows is ***not*** *a set of instructions. It is an explanation of the criteria a school must consider as it enters data in the steps of the calculation.*

STEP 1: STUDENT'S TITLE IV AID INFORMATION

Title IV aid disbursed

A school must calculate the amount of earned Title IV funds by applying a percentage to the total amount of Title IV program assistance that was disbursed and that could have been disbursed. Under Step 1 of the worksheet, a school fills in the amount of each type of Title IV aid that was disbursed and that could have been disbursed. When entering the amount of loan funds, a school should enter the net amount disbursed and that could have been disbursed.

Generally, a student's Title IV funds are disbursed when a school credits a student's account with the funds or pays a student or parent directly with:

- Title IV funds received from the Department, or
- FFEL funds received from a lender, or institutional funds used in advance of receiving Title IV program funds.

There are a couple of exceptions to this definition. For a complete discussion of the definition of disbursed Title IV funds, see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds*.

A student's aid is counted as aid disbursed in the calculation if it is disbursed as of the date of the institution's determination that the student withdrew (see the discussion under Date of the institution's determination that the student withdrew). Inadvertent overpayments are an exception to this general rule, and they are discussed later in this chapter.

A school may not alter the amounts of Title IV grant and loan funds that were disbursed prior to the school's determination that the student withdrew. For example, a school may not replace a withdrawn student's loan funds with grant funds that the student was otherwise eligible to receive before performing the Return calculation.

Title IV aid that could have been disbursed

In addition to aid disbursed, aid that could have been disbursed is also used in the calculation. There are two principles that govern the treatment of disbursements of Title IV funds in Return calculations. The first principle provides that, for purposes of determining earned Title IV aid, generally, so long as the conditions for late disbursements in 34 CFR 668.164(g)(2) (described below) **were met prior to the date the student became ineligible,** any undisbursed Title IV aid for the period for which the return calculation is performed is counted as aid that could have been disbursed (regardless of whether the institution was prohibited from making the disbursement on or before the day the student withdrew because of the limitations in 34 CFR 668.164(g)(4) or elsewhere).

PLUS loan denied

If a PLUS loan is included in a Return calculation and later the loan is denied by the lender, the school should revise its Return calculation. If there has been a change in the amount the student or school must return, the school must make the appropriate adjustments to its records and the COD systems. If the denied PLUS loan was the only Title IV assistance for which the student was eligible, no Return calculation would have been required.

Conditions for late disbursement
34 CFR 668.164(g)(2)

Limitations on making a late disbursement
34 CFR 668.164(g)(4)

Any undisbursed Title IV aid for the period that the school uses as the basis for the Return calculation is counted as aid that could have been disbursed as long as the following conditions were met before the date the student became ineligible –

1. for all programs except PLUS, the Department processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official Expected Family Contribution (EFC) for the student (except in the case of a PLUS loan);
2. for a FSEOG award, the institution made the award to the student;
3. for an FFEL loan or a Direct Loan, the institution certified or originated the loan, as applicable;
4. for a Federal Perkins Loan, the institution made the award to the student; and
5. for ACG and National SMART Grants, the student was enrolled full time.

Official EFC

An "*official EFC*" is an EFC calculated by the Department and provided on a SAR or ISIR. It may or may not be a valid EFC (defined as an EFC based on information that is correct and complete).

As described in DCL GEN-05-16, and effective with its publication on October 27, 2005, a promissory note must be signed for a loan to be included as Aid that could have been disbursed in a Return calculation. The signature may be obtained after the student withdraws. However in order for the loan to be included as aid that could have been disbursed the promissory note must be signed before the school performs the Return calculation.

Similarly, both the ACG and National SMART Grant programs require that students fulfill academic year and GPA requirements in order to continue receiving these grants (See *Volume 1 – Student Eligibility*.). A student who had completed the required number of credits for the previous academic year, but for whom no GPA had been calculated at the beginning of the first semester of the subsequent year is eligible to receive an ACG or National SMART grant if the required GPA becomes available during the semester. In order for an ACG or National SMART grant to be included as aid that could have been disbursed, the eligible GPA must be available before the school performs the Return calculation. If a school has made an interim disbursement of an ACG or National SMART Grant and the grades, when they become available indicate that the student does not have the required GPA, the disbursement becomes an overpayment, must be returned by the school, and is not included in the Return calculation.

Of course, a school can only include aid (e.g., the loan funds) for the period for which the institution does the Return calculation. If the calculation is performed on a payment period basis, the loan funds counted

are those for the payment period; if the calculation is performed on the period of enrollment basis (e.g., the academic year basis), the loan funds counted are those for the entire period of enrollment.

The second principle provides that a student can never receive as a Post-withdrawal disbursement any funds from a disbursement that the institution was prohibited from making on or before the date the student withdrew. Therefore, although the following potential disbursements can be counted as *Aid that could have been disbursed* (if intended for the period for which the Return calculation is being performed) an institution is prohibited from disbursing –

1. for nonstandard term credit-hour programs where the terms are not substantially equal in length, credit-hour nonterm programs, and clock-hour programs, a second disbursement of FFEL or Direct Loan funds where the student has not reached the later of the calendar midpoint of the loan period, or the date that the student completes half of the academic coursework or clock hours (as applicable) in the loan period (34 CFR 682.604(c)(7) or (8), or 34 CFR 685.301(b)(5), or (6));
2. a second or subsequent disbursement of FFEL or Direct Loan funds unless the student has graduated or successfully completed the loan period (34 CFR 668.164(g)(4)(ii));
3. a disbursement of FFEL, Direct, or Perkins loan funds for which the borrower has not signed a promissory note;
4. for clock-hour or credit-hour nonterm programs, a disbursement of a Federal Pell Grant, TEACH Grant, ACG, or National SMART Grant for a subsequent payment period when the student has not completed the earlier payment period for which the student has already been paid (34 CFR 690.75(a)(3) and 34 CFR 691.75(a)(3)&(4));
5. a disbursement of an FFEL or Direct Loan to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study (34 CFR 668.164(g)(4)(iii)) (except when this delay does not apply because of low default rates); and
6. a disbursement of a Federal Pell Grant, TEACH Grant, ACG or National SMART Grant to a student for whom the institution did not have a valid SAR/ISIR by the deadline established by ED (34 CFR 668.164(g)(4)(iv)) annually in the public deadline notice.

Some schools can use the 50% point as the withdrawal date for a student who unofficially withdraws in determining earned Title IV aid. **However, in order to determine whether the funds can be disbursed as a Post-withdrawal disbursement, the school must make a separate determination of the date the student lost eligibility.**

When a student drops below half time before withdrawing

If a student who is otherwise eligible for a late first disbursement drops below half-time enrollment and then withdraws, the institution would include any undisbursed Stafford loan funds in the Return calculation as "aid that could have been disbursed." However, an institution may never make a Post-withdrawal disbursement of Stafford funds a student could not have received if he or she had remained in school.

Making a separate determination of eligibility for a Post-withdrawal disbursement

Consider a student enrolled at a school that is not required to take attendance by an outside entity. The student registers for, and on September 1, begins attendance in 12 credits. On September 15 the student drops classes worth 7 credits and his enrollment status changes to less than half time. On December 1, the school receives $2,000 in Stafford loan funds for the student.

In reviewing it's records the school determines that the student is an unofficial withdrawal. Though the school can use the 50% point (November 1) as the withdrawal date, it must make a separate determination of the student's eligibility for a Post-withdrawal disbursement. In this case, because the student lost eligibility for Stafford funds on September 15 (the day the student ceased to be enrolled at least half time), the student may not receive a Post-withdrawal disbursement of Stafford loan funds

Important

Discussion of inadvertent overpayments
Federal Register Volume 64, Number 151, August 6, 1999, Proposed Rules, page 43026
Federal Register Volume 64, Number 210, November 1, 1999, Rules and Regulations, page 59018
DCL GEN 04-03, February 2004

Treatment of inadvertent overpayments

An inadvertent overpayment occurs when an institution disburses funds to a student who is no longer in attendance, for example, when an institution makes a scheduled disbursement on Monday to a student who dropped out on the previous Friday. Inadvertent overpayments are included in Return calculations as *Aid that could have been disbursed rather than Aid that was disbursed*.

A school is allowed to hold an inadvertent overpayment while determining if the student is owed a Post-withdrawal disbursement. However, this is not intended to affect the amount of aid a student would receive under a Return calculation. Rather, it is permitted only to avoid a school having to return funds only to have to later request and disburse them if a student is eligible for a Post-withdrawal disbursement.

An inadvertent overpayment does not create a separate basis for permitting funds to be paid to a student's account. So, if an inadvertent overpayment does not meet the criteria for a late disbursement, the second principle above under Title IV aid that could have been disbursed applies, and neither the institution nor the student may retain any portion of the overpayment. However, the funds are included as Aid that could have been disbursed and may result in a student being able to retain more grant funds.

In order to be consistent with the aforementioned second principle, an institution must now treat inadvertent overpayments as aid that could have been disbursed, rather than aid that was disbursed. If the inadvertent overpayment could not have been made as a late disbursement under the regulations, the institution must return the entire amount of the overpayment. If the overpayment could have been made as a late disbursement, the institution must return only the unearned portion of the inadvertent overpayment.

An institution is not required to return the inadvertent overpayment immediately, but must return it within 45 days of the date of the institution's determination that the student withdrew (the timeframe for an institution's return of Title IV funds under 34 CFR 668.22(j)(1)). An institution must return an inadvertent overpayment in accordance with the applicable regulations for returning overpayments.

For example, if a late disbursement would have been prohibited because the student had withdrawn and the disbursement would have been a late second or subsequent disbursement of an FFEL or Direct Loan, the inadvertent overpayment must be returned because the student had not successfully completed the period of enrollment for which the loan was intended (34 CFR 668.164(g)(4)(ii)).

Important

Institutions are expected to have the administrative capability to prevent inadvertent overpayments on a routine basis. Specifically, an institution is expected to have in place a mechanism for making the necessary eligibility determinations prior to the disbursement of any Title IV, HEA program funds — for example, a process by which withdrawals are reported immediately to those individuals at the institution who are responsible for making Title IV, HEA program disbursements. During a program review we would question a pattern or practice of making these inadvertent overpayments.

Examples of second or subsequent FFEL/DL disbursements and an example of a second payment period Pell disbursement

Example 1

Consider a student who withdrew after completing 400 clock hours in a 900 clock-hour program and before passing the midpoint in calendar time of the loan period. The loan period is the 900 clock-hour academic year. The payment periods are 450 hours each. The Return calculation is done on a period of enrollment basis. Half of the FFEL or Direct Stafford loan and half of a Federal Pell Grant were disbursed at the beginning of the first payment period and the student was scheduled to receive the other half in the second payment period. Because the student had not completed half of the clock hours and, for the loan, half of the time in the loan period, the student was not eligible to receive the second installment of the loan and the Federal Pell Grant. Therefore, the second disbursements were not made before the student withdrew.

Under current guidance, the second disbursements of both the Pell Grant and the loan are included as aid that could have been disbursed in the calculation of earned Title IV aid so that the amount of Title IV aid used in the calculation (and earned by the student) will be larger.

Please note, however, the institution still may not make a Post-withdrawal disbursement from the second scheduled disbursements of the FFEL or Pell funds because of the prohibition on making these disbursements.

Example 2

Consider a student who completed 500 clock hours in a 900 clock-hour program and passed the midpoint in calendar time of the loan period at an institution that uses the period of enrollment as the basis for its Return calculations. The loan period is the 900 clock-hour academic year. The payment periods are 450 hours each. Half of the Stafford loan was disbursed at the beginning of the first payment period and the student was scheduled to receive the second half in the second payment period. Although the student completed half of the clock hours and passed the midpoint in calendar time of the loan period, and was otherwise eligible to receive the second installment of the loan, the second disbursement of the loan was not disbursed before the student withdrew. Because the Department had processed a SAR/ISIR, and the institution previously had certified or originated the loan before the student lost eligibility, the second disbursement of the loan is included as aid that could have been disbursed in the calculation of earned Title IV aid.

However, the late disbursement regulations prohibit an institution from making a second or subsequent disbursement of a FFEL or Direct Stafford Loan unless the student has graduated or successfully completed the period of enrollment for which the loan was intended. The Return requirements, including the Post-withdrawal disbursement requirements, do not supersede this provision. **Therefore, although in this case, a second or subsequent FFEL or Direct Loan disbursement is counted as aid that could have been disbursed for purposes of determining earned Title IV aid, the funds may not be disbursed as part of a Post-withdrawal disbursement.**

Example 3

Consider a student who withdraws after completing 350 clock hours in a 900 clock-hour program at an institution that uses the period of enrollment as the basis for its Return calculations. The loan period is the 900 clock-hour academic year. The payment periods are 450 hours each. The institution chooses to disburse the loan in four disbursements. The first quarter of the Stafford loan for the first quarter (225 hours) of the period of enrollment has been disbursed. The student is scheduled to receive the second quarter of the loan in the second half of the first 450-hour payment period. The student withdraws during the first payment period after receiving only the first disbursement of the loan. The second, third, and fourth scheduled disbursements of the loan are included in the calculation as Aid That Could Have Been Disbursed, because the school has chosen to perform the Return calculation on the period of enrollment basis for all students in this program. However, the institution may not make a Post-withdrawal disbursement from the second (or subsequent) scheduled disbursement of the loan because of the prohibition on making second or subsequent disbursements of FFEL or Direct Stafford loans when a student has not completed the period for which the loan was intended.

Late arriving aid

If a school is determining the treatment of Title IV funds on a payment period basis, the student's Title IV program assistance used in the calculation is the aid that is disbursed or that could have been disbursed for the payment period during which the student withdrew. (Also, the institutional charges used in the calculation generally have to reflect the charges for the payment period.)

If aid that could have been disbursed during a previous payment period (completed by the student) is received in a subsequent period during which the student withdrew, the aid is not considered *Aid Disbursed* or *Aid That Could Have Been Disbursed* in the period during which the student withdrew. This late-arriving assistance, while it can be disbursed in the current term, is disbursed for attendance in the previous term. Therefore, it is not included in the Return calculation for the period in which the student withdrew.

For a student who has withdrawn, a school cannot disburse aid received for a previous semester unless the student qualifies for a late disbursement.

STEP 2: PERCENTAGE OF TITLE IV AID EARNED

The percentage of Title IV aid earned is determined differently for credit-hour program withdrawals and clock-hour program withdrawals. The requirements for determining a student's withdrawal date, however, differ based on whether a school is required to take attendance or not. The withdrawal date is used to determine the point in time that the student is considered to have withdrawn so the percentage of the payment period or period of enrollment completed by the student can be determined. The percentage of Title IV aid earned is equal to the percentage of the payment period or period of enrollment completed.

If the day the student withdrew occurs when or before the student completed 60% of the payment period or period of enrollment, the percentage earned is equal to the percentage of the payment period or period of enrollment that was completed. If the day the student withdrew occurs after the student has completed more than 60% of the payment period or period of enrollment, the percentage earned is 100%.

Part 1 — Withdrawal date

The definition of a ***withdrawal date*** as outlined here is required for Title IV program purposes only—including the withdrawal date that a school must report to a lender if FFEL Program funds were received or to the Department if Direct Loan Program funds were received. A school may, but is not required to, use these withdrawal dates for its own institutional refund policies.

The definition of a withdrawal date is used in determining the amount of aid a student has earned. Do not confuse it with the ***date of the institution's determination that the student withdrew***, discussed previously and used for other purposes in the Return of funds process.

Withdrawal date for a student who withdraws from a school that is required to take attendance

Withdrawal date at schools required to take attendance
34 CFR 668.22(b)

The goal of the Return provisions is to identify the date that most accurately reflects the point when a student ceases academic attendance, not the date that will maximize Federal Student Aid to the institution or to the student. Generally, the most precise determination of a student's withdrawal date is one that is made from institutional attendance records.

If a school is **required** to take attendance, a student's withdrawal date is **always** the last date of academic attendance as determined by the school from its attendance records. This date is used for all students who cease attendance, including those who do not return from an approved LOA, those who take an unapproved LOA, and those who officially withdraw.

Documentation

A school must document a student's withdrawal date and maintain that documentation as of the date of the institution's determination that the student withdrew. If a school is required to take attendance, it is up to the school to ensure that accurate attendance records are kept for purposes of identifying a student's last date of academic attendance. A school must also determine the attendance records that most accurately support its determination of a student's withdrawal date and the school's use of one date over another if the school has conflicting information.

Documenting a student's withdrawal date
34 CFR 668.22(b)(2)
34 CFR 668.22(c)(4)

Determining a student's withdrawal date at a school that is not required to take attendance

If a school is not required to take attendance, the determination of a withdrawal date varies with the type of withdrawal. The chart on Withdrawal Dates at the end of this chapter lists the withdrawal date for the various types of withdrawals, as well as the date of the institution's determination that the student withdrew for each type of withdrawal.

Determining a student's withdrawal date at a school that is not required to take attendance
34 CFR 668.22(c)

Official notification

A student may provide official notification of his or her intent to withdraw by following the school's withdrawal process. In this case, the withdrawal date is the date the student begins the school's withdrawal process. A student may also provide official notification in other ways. If a student otherwise provides official notification (as explained below), the withdrawal date is the date notification was provided.

Official notification
34 CFR 668.22(c)(1)(i) and (ii)

Official notification defined
A notice of intent to withdraw that a student provides to an office designated by the institution.
34 CFR 668.22(c)(5)(i)

These withdrawal dates apply even if a student begins the school's withdrawal process or otherwise notifies the school of his or her intent to withdraw and projects a future last date of attendance. However, **a school that is not required to take attendance may always use a last date of attendance at an academically related activity as a student's withdrawal date** (this is discussed in detail below). Therefore, a school could use a later last documented date of attendance at an academically related activity if this date more accurately reflects the student's withdrawal date than the date the student begins the school's withdrawal process or notifies the school of his or her intent to withdraw.

Notification example
For example, if on May 5, a student provided notification of his or her intent to cease attending the school beginning on May 10, the withdrawal date is May 5. However, the school may use May 10 as the student's withdrawal date if the institution documents May 10 as the student's last date of attendance at an academically related activity.

School's withdrawal process

The beginning of the school's withdrawal process must be defined. The individual definition is left up to the school. **Schools are required to make available to students a statement specifying the requirements for officially withdrawing from the school.**

Consumer Information on Withdrawing

A school is expected to identify the beginning of its process as a part of the school's consumer information regarding withdrawal (see *Volume 2 – School Eligibility and Operations*). A school should be able to demonstrate consistent application of its withdrawal process, including its determination of the beginning of that process.

While the institution's officially defined withdrawal process might include a number of required steps, and though the institution might not recognize the student's withdrawal (for purposes of determining an institutional refund) until the student has completed all the required steps, for the purpose of calculating the Return of Title IV funds, the date the student began the institution's withdrawal process is the withdrawal date for Title IV purposes.

Otherwise provides official notification

Otherwise provides official notification
34 CFR 668.22(c)(5)

Official notification to the school occurs when a student notifies an office designated by the school of his or her intent to withdraw. In its written description of its withdrawal procedures a school must designate at least one office for this purpose. For example, a school could designate a dean's, registrar's, or financial aid office. If a student provides notification to an employee of that office while that person is acting in his or her official capacity, the student has provided official notification.

Informal contact with a school employee

If the student provides notification to an employee of a designated office while that person is not acting in his or her official capacity (for example, the student runs into her financial aid officer at the grocery store) we would expect the employee to inform the student of the appropriate means for providing official notification of his or her intent to withdraw.

Official notification from the student is any official notification that is provided in writing or orally to a designated campus official acting in his or her official capacity in the withdrawal process. Acceptable official notification includes notification by a student via telephone, through a designated Website, or orally in person. The responsibility for documenting oral notifications is the school's; however, the school may request, but not require, the student to confirm his or her oral notification in writing. **If a student provides official notification of withdrawal to the institution by sending a letter to the designated office stating his or her intent to withdraw, the withdrawal date is the date that the institution receives the letter.** Notification is not provided to an institution until the institution receives the notification. Note that an institution always has the option of using the date of a student's last participation in an academically related activity as long as that participation is documented by a campus official.

Intent to withdraw means that the student indicates he or she has either ceased to attend the school and does not plan to resume academic attendance, or believes at the time he or she provides notification that he or she will cease to attend the school. A student who contacts a school and only requests information on aspects of the withdrawal process, such as the potential consequences of withdrawal, would not be considered a student who is indicating that he or she plans to withdraw. However, if the student indicates that he or she is requesting the information because he or she plans to cease attendance, the student would be considered to have provided official notification of his or her intent to withdraw.

When a student triggers both dates

When a student triggers both dates
34 CFR 668.22(c)(2)(ii)

A student might both begin the school's withdrawal process and otherwise provide official notification to the school of his or her intent to withdraw. For example, on November 1, a student calls the school's designated office and states his or her intent to withdraw. Later, on December 1, the student begins the school's withdrawal process by submitting a withdrawal form. **If both dates are triggered, the earlier date, November 1 in this case, is the student's withdrawal date.**

Remember that a **school that is not required to take attendance is always permitted to use** ***the last date of an academically related activity that the student participated in*** **as the student's withdrawal date**. So, if a student continues to attend class past the date the student provides notification, and the school chooses to do so, the school may document and use the student's last day of attendance at an academically related activity as the student's withdrawal date in the Return calculation.

Official notification not provided by the student

A student who leaves a school does not always notify the school of his or her withdrawal. There are two categories of these unofficial withdrawals for purposes of this calculation. First, if the school determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss, or other circumstances beyond the student's control, the withdrawal date is the date the school determines that the student ceased attendance because of the aforementioned applicable event.

Attendance Records

Only an institution that is required to take attendance by an outside entity is required to use its attendance records to determine a student's withdrawal date. However, an institution that is not required to take attendance by an outside entity but does take attendance **may**, in order to use the most accurate date of last attendance, use its attendance records to determine a student's withdrawal date.

The second category of unofficial withdrawals encompasses all other withdrawals where official notification is not provided to the school. This rule applies only to schools that are not required to take attendance. For these withdrawals, commonly known as dropouts, the withdrawal date is the midpoint of the payment period or period of enrollment, as applicable, or the last date of an academically related activity that the student participated in.

Withdrawal due to circumstances beyond the student's control
34 CFR 668.22(c)(1)(iv)

Withdrawal date for administrative withdrawals

A school may not artificially create a withdrawal date for a student that is beyond the "trigger point" that causes the school to administratively withdraw the student.

If for example, a school can document that it has a uniform policy of withdrawing of students after a specified (and reasonable) number of absences that applies throughout the payment period/period of enrollment, then the date that a student exceeded that number of absences would be the date that the school would normally use as the withdrawal date.

In a slightly different scenario, if a school administratively withdraws a student because all of the student's instructors report that the student has ceased attendance as of a certain date (e.g. a census date) then the last possible date of the withdrawal for that student is that (census) date.

If a school administratively withdraws a student for some reason other than excessive absences, it similarly will have to determine the date of the event that caused the school to make that decision to withdraw the student.

If a school can show that a student participated in an academically related activity after the date of the event that caused the school to terminate his/her enrollment (but still before the school withdrew the student), the school could use the date of the academically related activity as the last date of attendance.

Timeframe for the determination
34 CFR 668.22(j)(2)

All other withdrawals
34 CFR 668.22(c)(1)(iii)

Withdrawal without student notification due to circumstances beyond the student's control

There are two circumstances in which a special rule applies that defines a withdrawal date for a student who withdraws due to circumstances beyond the student's control. They apply when (1) a student who would have provided official notification to the school was prevented from doing so due to those circumstances; and (2) a student withdrew due to circumstances beyond the student's control and a second party provided notification of the student's withdrawal on the student's behalf.

A school may determine the withdrawal date that most accurately reflects when the student ceased academic attendance due to the circumstances beyond the student's control. This date would not necessarily have to be the date of the occurrence of the circumstance. For example, if a student is assaulted, he or she may continue to attend school, but ultimately not be able to complete the period because of the trauma experienced. Because the student's withdrawal was the result of the assault, the withdrawal date would be the date the student actually left the school, not the date of the assault. A school should document that the student left at the later date because of issues related to the assault.

If a school administratively withdraws a student (e.g., expels, suspends, or cancels the student's registration) who has not notified the school of his or her intent to withdraw, the last possible date of withdrawal for the student is the date the school terminates the student's enrollment. However, an institution may not artificially create a withdrawal date for such a student that is beyond the midpoint of the period by simply choosing to withdraw the student after the midpoint. Of course, if the school can document that the student continued his or her attendance past the midpoint, the school may use a later date.

All other withdrawals without student notification

For all other withdrawals without notification, the withdrawal date is the midpoint of the payment period or the period of enrollment, as applicable at an institution not required to take attendance by an outside entity.

Timeframe for the determination of a withdrawal date for an unofficial withdrawal

A school may not know that a student has dropped out (unofficially withdrawn) until the school checks its records at the end of an academic period. However, to ensure that Title IV funds are returned within a reasonable period of time, a school must determine the withdrawal date (for a student who withdrew without providing notification) within 30 calendar days from the earlier of (1) the end of the payment period or period of enrollment, as applicable, (2) the end of the academic year, or (3) the end of the student's educational program.

A school must develop a mechanism for determining whether a student who began attendance and received or could have received an initial disbursement of Title IV funds unofficially withdrew (ceased attendance without providing official notification or expressed intent to withdraw) during a payment period or period of enrollment, as applicable. Section 34 CFR 668.22(j)(2) requires that a school have a mechanism in place for identifying and resolving instances where a student's attendance through the end of the period cannot be confirmed. That is, institutions are expected to have procedures for determining when a student's absence is a withdrawal. The school must make that determination as soon as possible, but no later than 30 days after the end of the earlier of –

1. the payment period or period of enrollment, as applicable;
2. the academic year; or
3. the program.

When students fail to earn a passing grade in any of their classes

When a student fails to earn a passing grade
DCL GEN-04-03, February 2004

An institution must have a procedure for determining whether a Title IV recipient who began attendance during a period completed the period or should be treated as a withdrawal. We do not require that an institution use a specific procedure for making this determination.

If a student earns a passing grade in one or more of his or her classes offered over an entire period, for that class, an institution may presume that the student completed the course and thus completed the period. If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

Testing the use of a grading policy

If a school uses its grading policy to determine whether students with failing grades have unofficially withdrawn, during compliance audits and program reviews student records might be examined to determine whether the grades assigned accurately represent the students' attendance.

In some cases, a school may use its policy for awarding or reporting final grades to determine whether a student who failed to earn a passing grade in any of his or her classes completed the period. For example, a school might have an official grading policy that provides instructors with the ability to differentiate between those students who complete the course but failed to achieve the course objectives, and those students who did not complete the course. If so, the institution may use its academic policy for awarding final grades to determine that a student who did not receive at least one passing grade nevertheless completed the period. Another school might require instructors to report, for all students awarded a non-passing grade, the student's last day of attendance (LDA). The school may use this information to determine whether a student who received all "F" grades withdrew. If one instructor reports that the student attended through the end of the period, then the student is not a withdrawal.

Example of a grading policy that could be used to determine whether a student unofficially withdrew

F (Failing) Awarded to students who complete the course but fail to achieve the course objectives.

U (Unauthorized Incomplete) Awarded to students who did not officially withdraw from the course, but who failed to participate in course activities through the end of the period. It is used when, in the opinion of the instructor, completed assignments or course activities or both were insufficient to make normal evaluation of academic performance possible.

To serve as documentation that a student who received all "F" grades had not withdrawn, such a grading policy would have to require instructors to award the "F"' (or equivalent grade) only to students who completed the course (but who failed to achieve the course objectives). In addition, the policy would have to require that instructors award an alternative grade, such as the "U" grade (in the example above), to students who failed to complete the course. If the system allows an instructor to indicate the date the student last participated in course activities, this date would be helpful if an institution chose to use attendance at an academically related activity as a student's withdrawal date.

At a school using such a grading policy, if a student received at least one grade of "F" the student would be considered to have completed the course and, like a student who received at least one passing grade, would not be treated as a withdrawal. A student who did not officially withdraw and did not receive either a passing grade or an "F" in at least one course must be considered to have unofficially withdrawn. As noted above, when a student unofficially withdraws from an institution that is not required to take attendance, the institution may use either the student's last date of attendance at an academically related activity or the midpoint of the period as the student's withdrawal date.

Last date of attendance at an academically related activity

Last date of attendance at an academically related activity
34 CFR 668.22(c)(3)

A school that is not required to take attendance may always use a student's last date of attendance at an academically related activity, as documented by the school, as the student's withdrawal date, in lieu of the withdrawal dates listed above. So, if a student begins the school's withdrawal process or otherwise provides official notification of his or her intent to withdraw and then attends an academically related activity after that date, the school would have the option of using that last actual attendance date as the student's withdrawal date, provided the school documents the student's attendance at the activity. Similarly, a school could choose to use an earlier date if it believes the last documented date of attendance at an academically related activity more accurately reflects the student's withdrawal date than the date the student began the school's withdrawal process or otherwise provided official notification of his or her intent to withdraw.

The school (not the student) must document –

- that the activity is academically related, and
- the student's attendance at the activity.

Please note that a school is not required to take class attendance in order to demonstrate academic attendance for this purpose.

Examples of academically related activities are –

1. examinations or quizzes,
2. tutorials,
3. computer-assisted instruction,
4. academic advising or counseling,
5. academic conferences,
6. completing an academic assignment, paper, or project, and
7. attending a study group required by the institution where attendance is taken.

The determination of a student's withdrawal date is the responsibility of the school. Therefore, if a school is using a last date of attendance at an academically related activity as the withdrawal date, (see the discussion under *When students fail to earn a passing grade in any of their classes*) the school, not the student, must document the student's attendance. **A student's certification of attendance that is not supported by school documentation would not be acceptable documentation of the student's last date of attendance at an academically related activity.**

In the absence of evidence of a last day of attendance at an academically related activity, a school must consider a student who failed to earn a passing grade to be an unofficial withdrawal.

Documentation

Documentation of a student's attendance at an academically related activity must always be provided by an official of the institution. A student's self-certification of attendance at an academically related activity is never sufficient documentation. However a school is not required to take class attendance in order to demonstrate academic attendance for this purpose.

Activities that are not academically related

Examples of activities that are not academically related include living in institutional housing and participating in the school's meal plan.

Clarification

Counting excused absences as days in attendance

A school may only count as days in attendance excused absences that are followed by some class attendance. That is, a school may not include as days attended any excused absences that occur after a student's last day of actual attendance.

Withdrawals after rescission of official notification
34 CFR 668.22(c)(2)(i)

Withdrawals after rescission of official notification

A student may provide official notification to the school of the intent to withdraw and then change his or her mind. To allow a student to rescind his or her intent to withdraw for purposes of this calculation, the school must obtain a written statement from the student stating his or her intent to remain in academic attendance through the end of the payment period or period of enrollment. If the student subsequently withdraws after rescinding an intent to withdraw, the withdrawal date is the date the student first provided notification to the school or began the school's withdrawal process, unless the school chooses to document a last date of attendance at an academically related activity.

For example, Dave notifies his school of his intent to withdraw on January 5. On January 6, Dave notifies the school that he has changed his mind and has decided to continue to attend the school, and provides the required written statement to that effect. On February 15, Dave notifies the school that he is withdrawing and actually does. The school has a record of an exam that Dave took on February 9. The school may use February 9 as Dave's withdrawal date.

If the school could not or did not choose to document a last date of attendance at an academically related activity for Dave (in this case, the record of the exam), his withdrawal date would be January 5, the date of Dave's original notification of his intent to withdraw, not February 15.

Withdrawal from program offered in modules
DCL-GEN-00-24

Withdrawals from standard term-based programs using modules

When a student withdraws from a standard term-based program comprised of a series of modules, the school must determine whether a Return of Title IV Funds calculation is required and if so, the length of the period of enrollment or payment period, as applicable. Among the variables a school must consider are whether the student has completed at least one course and if not, whether the student intends to return for another module within the term. The principles for determining the appropriate values to use in a Return of Title IV Funds calculation are applicable only when the courses and modules have the following characteristics:

- Some or all of the courses in the program are offered in modules that are scheduled sequentially rather than concurrently. (The modules may overlap.)
- The institution has chosen to have two or more modules make up the standard term (semester, trimester, or quarter). For example, in each 15-week semester, courses are offered in three 5-week modules.

- Students can begin attending at the beginning of any one of the modules in a term. For example, a student enrolling in a three module per semester program can start in module two or three as well as in module one.
- Students may skip one or more modules within the term. For example, a student enrolling in a three module per semester program can attend module one, skip module two, and return for module three.
- Students enroll up-front for courses in all of the modules they plan to attend for the entire term; however, some students may subsequently add or drop a course in a later module.

Regarding those determinations, the following principles apply to the application of the Return provisions:

1. If a student withdraws from an institution after completing at least one course in one module within the term, the student is not considered to have withdrawn and the requirements of 34 CFR 668.22 for the Return of Title IV aid do not apply. Note, however, other regulatory provisions concerning recalculation may apply (e.g., 34 CFR 690.80, 682.604, and 685.303).
2. If a student withdraws from the institution before completing at least one course in one module, the student is considered to have withdrawn and the requirements for the Return of Title IV aid apply unless the institution has obtained a confirmation from the student that the student intends to continue in the program by attending a module later in the term.

   For confirmation, a school may not rely upon the student's previous registration. Rather, the confirmation from the student **must be obtained at the time of or after the student's withdrawal**. If a student indicates an intention to continue in a subsequent module in the term but does not return for that module, the student would be considered to have withdrawn and withdrawal date would be the withdrawal date that would have applied if the student had not indicated an intention to attend a module later in the term.
3. When a student withdraws without completing at least one course in one module, the number of completed days used in the ***numerator*** in Step 2 of the Return calculation **begins on the first day of the first module the student attended in the term, ends on the last day the student was in attendance, and includes only the period during which the student was in attendance**. The payment period (the denominator in Step 2 of the Return calculation) includes all of the modules the student was scheduled to attend in the term.

Recalculation required

If a student withdraws after completing one module the student is not considered to have withdrawn. However, because the student failed to begin attendance in the number of credit hours for which the Federal Pell Grant was awarded, **the institution must recalculate the student's eligibility for Pell and Campus-based funds based on a revised cost of education and enrollment status** (34 CFR 690.80(b)(2)(ii)).

For such a student, a change in enrollment status to less than half time as a result of the failure to begin attendance in all subsequent modules would not affect a student's eligibility for any federal education loan funds previously received because at the time the previous disbursements were made, the student was still scheduled to attend on at least a half-time basis. (Of course, a student may not receive as a late disbursement any second or subsequent disbursement of the loan.)

If a student withdraws without completing at least one module, the student is considered to have withdrawn. Because the student failed to begin attendance in the number of credit hours for which the Federal Pell Grant was awarded, before performing the required Return calculation, the institution must recalculate the student's eligibility for Pell and Campus-based funds based on a revised cost of education and enrollment status. The institution then performs a Return calculation using the student's revised award.

An institution may not disburse the proceeds of an FFEL or Direct Loan to an ineligible borrower. Therefore, **if a student who was enrolled in a series of modules withdraws before beginning attendance as a half-time student, and the student had not received the first disbursement of an education loan before withdrawing, the institution may not make the first disbursement because the institution knows the student was never enrolled on at least a half-time basis.**

34 CFR 668.164(g)(3)(iii), which permits an institution to make a late disbursement of an FFEL or Direct Loan for costs incurred to a student who did not withdraw, but ceased to be enrolled as at least a half-time student, does not apply because the student never really was a half-time student.

4. A student who has not completed at least one course in the payment period does not have to be considered to have withdrawn if the institution has obtained a confirmation from the student that the student intends to continue in the program and attend a module later in the term.

For further treatment of withdrawals from standard term-based programs using modules, please see DCL-GEN-00-24, December 2000.

Withdrawal date when a student dies

If an institution that is not required to take attendance is informed that a student has died, it must determine the withdrawal date for the student under 34 CFR 668.22(c)(1)(iv). This section provides that, if the institution determines that a student did not begin its withdrawal process or otherwise provide official notification of his or her intent to withdraw because of illness, accident, grievous personal loss, or other such circumstances beyond the student's control, the withdrawal date is the date that the institution determines is related to that circumstance.

The withdrawal date can be no later than the date of the student's death. For an institution that is required to take attendance, the withdrawal date for a student who has died is the last date of attendance as determined from the institution's attendance records. In all cases, the **institution should maintain the documentation it received that the student has died** and determine an appropriate withdrawal date. (For more information on how the death of a student affects the Return process, see the discussion under *Death of a student* later in this chapter.)

Part 2 – Percentage of Aid Earned

Percentage of payment period or period of enrollment completed

Percentage of payment period or period of enrollment completed
34 CFR (f)

Once a student's withdrawal date is determined, a school needs to calculate the percentage of the payment period or period of enrollment completed. The percentage of the payment period or period of enrollment completed represents the percentage of aid earned by the student. This percentage is determined differently for students who withdraw from credit-hour programs and students who withdraw from clock-hour programs.

Scheduled breaks
34 CFR 668.22(f)(2)(i)

Scheduled breaks

Institutionally scheduled breaks of five or more consecutive days are excluded from the Return calculation as periods of nonattendance and therefore do not affect the calculation of the amount of Federal Student Aid earned. This provides for more equitable treatment of students who officially withdraw near either end of a scheduled break. In those instances, at institutions not required to take attendance, a student who withdrew after the break would not be given credit for earning an additional week of funds during the scheduled break, but would instead earn funds only for the day or two of training the student completed after the break. If a scheduled break occurs prior to a student's withdrawal, all days between the last scheduled day of classes before a scheduled break and the first day classes resume are excluded from both the numerator and denominator in calculating the percentage of the term completed. If a student officially withdraws while on a scheduled break of less than five days, the actual date of the student's notification to the institution is the student's withdrawal date. (Note that if the withdrawal occurs prior to a scheduled break, the days in the break are excluded only from the denominator.)

Determining the length of a scheduled break

1. Determine the last day that class is held before a scheduled break – the next day is the first day of the scheduled break.
2. The last day of the scheduled break is the day before the next class is held.

Where classes end on a Friday and do not resume until Monday following a one-week break, both weekends (four days) and the five weekdays would be excluded from the Return calculation. (The first Saturday, the day after the last class, is the first day of the break. The following Sunday, the day before classes resume, is the last day of the break.) If classes were taught on either weekend for the programs that were subject to the scheduled break, those days would be included rather than excluded.

Please note that the beginning date of a scheduled break is defined by the school's calendar for the student's program. In a program where classes only meet on Saturday and/or Sunday, if a scheduled break starts on Monday and ends on Friday, the five weekdays between the weekend classes do not count as a scheduled break because the break does not include any days on which classes are scheduled. Therefore, the five days would not be excluded from the numerator or denominator in Step 2 of a Return calculation.

Weekend classes and scheduled breaks

If a community college offers regular classes on Saturday and Sunday and its academic calendar says that a scheduled break starts on a Monday and resumes with classes the following Monday, that break is seven days long.

Unscheduled breaks due to circumstances beyond the control of a school

If, due to a natural disaster or other circumstances beyond the control of a school, a school is unable to operate normally for five or more consecutive days, but then resumes normal operations and will complete the interrupted academic period, the school must adjust

Return calculations for any student who returns after the school resumes operations, but subsequently withdraws during that payment period/period of enrollment.

The school must exclude the days it was non-operational from both the numerator and denominator of the Return calculation. In addition, if because of the aforementioned circumstances, the school extends the length of the academic period, the school should use the new ending date in any required Return calculation, and treat the days it was not operating (five or more) as a scheduled break.

Example of Withdrawal Date When a Student Withdraws during a Scheduled Break of Five or More Days

If a student officially withdraws while on a scheduled break of five consecutive days or more, the withdrawal date is the last date of scheduled class attendance prior to the start of the scheduled break. For example, the institution's last date of scheduled class attendance prior to spring break is Friday, March 7. Spring break at the institution runs from Saturday, March 8 to Sunday, March 16. If the student contacts the institution's designated office on Wednesday, March 12 to inform the institution that he will not be returning from the institution's Spring break, the student's withdrawal date is Friday, March 7, which was the institution's last day of scheduled class attendance.

However, the date of the institution's determination that the student withdrew is March 12, the date the student actually informed the institution that he would not be returning. The date of the institution's determination that the student withdrew is used as the starting date for institutional action, such as the requirement that an institution Return Title IV funds for which it is responsible no later than 45 days after this date.

Credit-hour programs

Credit-hour programs
34 CFR 668.22(f)(1)(i)

For a credit-hour program, the percentage of the period completed is determined by dividing the number of calendar days completed in the payment period or period of enrollment, as of the day the student withdrew, by the total number of calendar days in the same period.

The number of calendar days in the numerator or denominator includes all days within the period, **except for institutionally scheduled breaks of five or more consecutive days**. Days in which the student was on an approved leave of absence would also be excluded. The day the student withdrew is counted as a completed day.

Percentage of Title IV aid earned for withdrawal from a credit-hour nonterm program

Percentage of Title IV aid earned for withdrawal from a credit-hour nonterm program
DCL GEN-04-03, February 2004

The regulations provide that the percentage of Title IV aid earned by a student is equal to the percentage of the period completed by the student (except if that percentage is more than 60%, the student is considered to have earned 100% of the Title IV aid). For any credit-hour program, term-based or nonterm-based, the percentage of the period completed is calculated as follows:

$$\frac{\textbf{number of calendar days completed in the period}}{\textbf{total number of calendar days in the period}}$$

Scheduled breaks of at least five consecutive days and days in which the student was on an approved LOA are excluded from this calculation (34 CFR 668.22(f)(1)(i) and (2)).

In a credit-hour nonterm program, the ending date for a period and, therefore, the total number of calendar days in the period, may be dependent on the pace at which an individual student progresses through the program. Therefore, for a student who withdraws from a credit-hour nonterm program in which the completion date of the period is dependent on an individual student's progress, an institution must project the completion date based on the student's progress as of his or her withdrawal date to determine the total number of calendar days in the period. (See the example that follows.)

If a student withdraws from a self-paced nonterm credit-hour program before earning any credits, the institution must have a reasonable procedure for projecting the completion date of the period. To the extent that any measure of progress is available, the institution should base its determination on that progress (see examples 2 and 3).

For a school that offers credit-hour nonterm programs in which the student does not earn credits or complete lessons as he or she progresses through the program, the institution must have a reasonable procedure for projecting the completion date of the period based on the student's progress before withdrawal. If the total number of calendar days in the period is not dependent on the pace at which a student progresses through a program (the completion date is the same for all students) and the student has not failed any courses for which he or she was paid in the payment period, the total number of calendar days in the period will be the same for all students.

Reminders

Institutionally scheduled breaks of at least five consecutive days between courses/modules in the same payment period or period of enrollment are excluded from a Return calculation.

If a student takes an "unscheduled break in attendance" thereby deviating from the student's original attendance plan, the school either must treat the student as a withdrawal or place the student on an "approved leave of absence" as described earlier under Breaks in attendance for students enrolled in programs measured in credit hours without academic terms.

The length of a payment period can never be less than the original scheduled length. If a student is progressing more rapidly than originally planned and the required projection calculation results in an end date that creates a shorter payment period, the school must use the original "end date" in the Return calculation.

Consider a nonterm credit-hour program offered in modules where some or all courses are offered sequentially and all students begin and end the modules at the same time. For a student who successfully completed all modules attempted up to the time the student withdrew, the completion date (and the corresponding number of days in the Return calculation) will be the number of days between the start of the first module and the originally scheduled end of the last module.

However, an institution must take into consideration any credits that a student has attempted, but not successfully completed before withdrawing. (Those credits must be successfully completed before the student is considered to have completed the period.) To do this, the school must modify the denominator used in the Return calculation. The school must add to the number of days between the start of the first module and the scheduled end of the last module, the number of days the student spent in the failed courses/module(s) the student did not successfully complete.

Calculating a completion date for a student who withdraws from a credit-hour nonterm program

Example 1, lessons completed

David enrolled in a program offered in a credit-hour nonterm format and withdrew before earning any credits, but has completed two lessons. The institution uses David's completed assignments as an interim measure of his progress and compares it to information from its records about other students who have completed the same program to determine an end date.

Looking at the records of students who have completed the same program, the institution identifies other students who complete the two lessons in approximately the same amount of time as David. The school determines the number of days it took those students to complete the period. The institution uses the same number of days in the denominator of the Return calculation for David.

Example 2, nothing completed

Danny enrolls in a program offered in a credit-hour nonterm format. Danny withdraws before earning any credits, completing any lessons, or providing any other measure of progress toward the course or program goals at the time he withdrew. The institution uses its records to identify the student who took the longest to complete the period to determine the number of days it took that student to complete the period. The institution uses the same number of days in the denominator of the Return calculation for Danny.

Continued on next page

Calculating a completion date for a student who withdraws from a credit-hour nonterm program

Example 3, percentage completed

Barbara is enrolled in a 24 credit-hour nonterm program at an institution that calculates Returns on a payment period basis. Students in the program are expected to complete 12 credit hours each payment period, in 15 weeks (105 days).

When Barbara began classes she received a Federal Pell Grant and a Stafford Loan. She completed the 12 credit hours in the first payment period (the first half of the program) in 120 days (past the calendar midpoint of the original program length of 210 days). When Barbara completed the first half of her program she became eligible for the second disbursements of both her Federal Pell Grant and Stafford Loan.

Barbara withdrew from school on day 53 of the second payment period. At the time she withdrew Barbara had completed only one-third of the work (4 credits) in the payment period. If Barbara had continued to progress at her current pace of 4 credits earned every 53 days, Barbara would not complete the additional 8 credit hours for another 106 days. She would not complete the 12 credit hours in the second payment period until day 159.

For this student, therefore, the total number of days in the payment period (and the number used in the denominator of the Return calculation) is 159. The percentage of the payment period Barbara completed before withdrawing is 33.3% (53 days completed divided by 159 total days in the payment period).

In general, to calculate the number of days in the period do the following:

Determine the percentage of credits earned

$$\frac{\text{Number of credits completed (4)}}{\text{Number of credits in payment period (12)}} = \text{Percentage of credits earned (.333)}$$

Determine the number of days in the period

$$\frac{\text{Number of days attended (53)}}{\text{Percentage of credits earned (.333)}} = \text{Number of days in the period (159)}$$

The school enters "159" as the number of "Total Days" in STEP 2, Box H of the Return calculation.

Example 4, projecting a completion date for a withdrawal from a self-paced nonterm program

Pixie is enrolled in a self-paced 30 credit-hour nonterm program in pet grooming offered over 30 weeks at an institution that calculates Returns on a payment period basis. Students in the program are expected to complete 3 modules of 5 credits hours each over the 15 weeks (105 days) in a payment period. (A student is expected to complete each 5 credit module in five weeks (35 days) time.)

It takes Pixie 7 weeks (49 days) to complete 100% of the lessons in the first module and she did not earn a passing grade (the lack of opposable thumbs was a disadvantage she could not overcome). Pixie decides to withdraw from school in order to accept a position as a cohost of the annual AKC show at Madison Square Garden.

Because Pixie did not satisfactorily complete at least one module, the school must perform a Return calculation. In addition, because Pixie was progressing more slowly than the rate expected, the school must project a new an end date and a new number of "Total days" to be used in the Return calculation.

Important: Because Pixie was progressing at a slower rate (it took her 49 days (instead of 35) to complete 100% of the lessons in the first module, the school can not simply add the length of a scheduled (make up) module (35 days) to arrive at the projected number of days in the payment period. The school must project the number of says in the period as follows.

Project the time it would have taken Pixie to complete the first module by dividing the number of days attended (28) by the percentage of the lessons completed

$$\frac{\text{Number of days attended (49)}}{\text{Percentage of payment period completed (1.00)}} = \text{Number of days required for one module (49)}$$

Project the number of days in the payment period by multiplying the number of days required for one module (49) by the number of modules in the payment period (3) and adding a module (1) for the student to make up the module failed.

Number of days it takes a student to complete a module (49) X {Number of modules in payment period (3) + a makeup module (1)} = 4 = Number of projected days in payment period (196)

The school enters "196" as the number of "Total Days" in STEP 2, Box H of the Return calculation.

Clock-hour programs

Under HERA, only scheduled hours are now used to determine the percentage of the period completed by a student withdrawing from a clock-hour program.

Clock-hour programs
34 CFR. 668.22(f)(ii)

For a clock-hour program, the percentage of the period completed is determined by dividing the number of hours the student was scheduled to complete in the payment period or period of enrollment, as of the day the student withdrew, by the total number of clock hours in the same period as follows:

$$\frac{\text{number of clock hours the student was scheduled to complete in the period}}{\text{total number of clock hours in the period}}$$

Using portions of a clock hour

If an institution tracks the completion of clock hours in portions of an hour, it might be able to use portions of an hour to determine the percentage of Title IV aid earned when a student withdraws.

An institution that tracks the completion of clock hours in portions of an hour (for example, in 15-minute intervals) may use those portions of an hour to determine the percentage of Title IV aid earned when a student withdraws **if the institution counts attended portions of an hour toward completion of the program for all students in the program**. If an institution counts only whole hours with no credit for partially completed hours toward completion of the program, only whole hours may be used in the Return calculation.

A student withdrawing from a clock-hour program earns 100 percent of his or her aid if the student's withdrawal date occurs after the point that he or she was scheduled to complete 60 percent of the scheduled hours in the payment period or period of enrollment.

The scheduled clock hours used for a student must be those established by the school prior to the student's beginning class date for the payment period or period of enrollment, and must have been established in accordance with any requirements of the state or the institution's accrediting agency. These hours must be consistent with the published materials describing the institution's programs. However, if an institution modified the scheduled hours in a student's program prior to and unrelated to his or her withdrawal in accordance with any State or accrediting agency requirements, the new scheduled hours may be used.

When a school disburses Title IV aid to a student using different payment periods

Nonstandard term credit hour programs with terms that are not substantially equal in length have two defined payment periods: one for Title IV grant and Perkins Loan funds, and one for FFEL and Direct Loan funds. On November 1, 2007, the Department published regulations that modified how a school must calculate the Return of Title IV Aid when the school has used one payment period for disbursing Title IV grant funds and another payment period for disbursing FFEL and Direct Loan funds (FR Vol. 72, No. 211, Part III). Because only one payment period may be used in determining earned Title IV grant and loan funds for a student who withdraws and was disbursed or could have been disbursed aid under both payment definitions, the regulations now specify the payment period a school must use in the Return calculation, that is, the payment period that ends later.

Any aid disbursed for payment periods that overlap the payment period used in the calculation must be attributed to the payment period that ends later.

No attribution necessary

If a student who withdraws from a non-standard term credit-hour program with terms that are not substantially equal in length is disbursed aid or could have been disbursed aid using only one of the two payment period definitions, that is the payment period that is used for the calculation of earned aid, and no attribution of funds is necessary.

Example of performing a Return calculation for a student receiving aid under two payment period definitions

The Ted Animal Institute (TAI) offers programs in nonstandard credit hour terms that are not substantially equal in length.

Pixie Marley enrolls for TAI's varmit retrieval program offered over 30 weeks in three terms of 10 weeks, 6 weeks, and 14 weeks respectively. After attending classes for 50 days, Pixie decides that she could make a greater contribution if she studied home health care. Subsequently she withdraws from TAI.

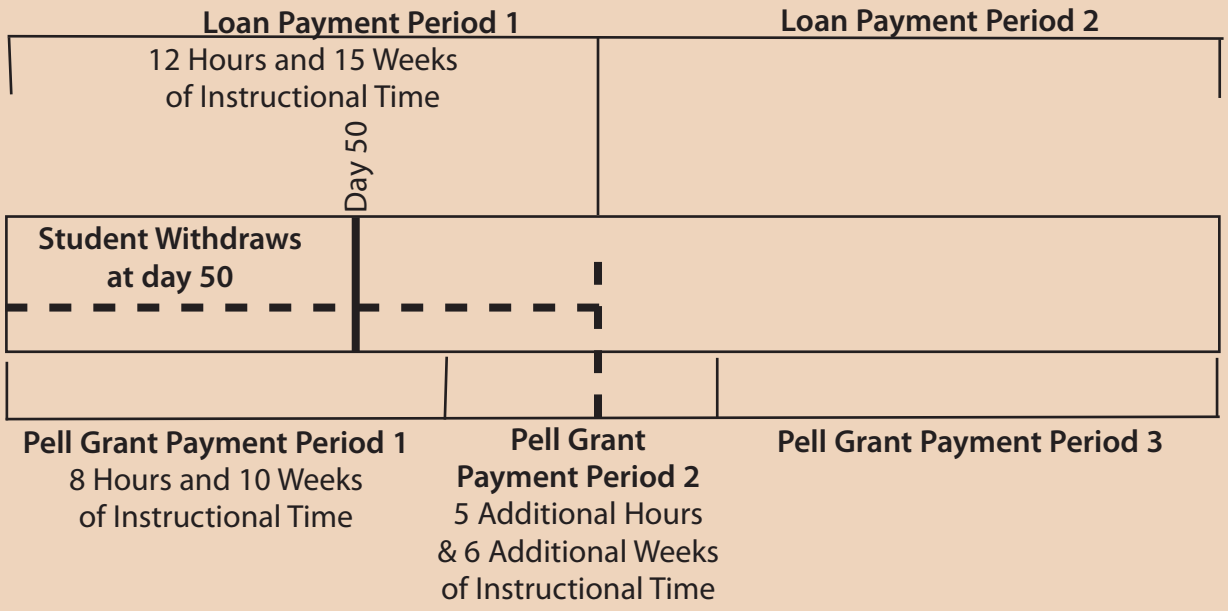
TAI's Academic Year = 24 credits hours over 30 weeks of instructional time comprising the academic year. Term 1 = 8 credits over 10 weeks. Term 2 = 5 credits over 6 weeks.
Term 3 = 11 credits over 14 weeks.

Each scheduled payment period for Pixie's Stafford loans was one half of the program's academic year or 12 credits and 15 weeks.

Pixie was scheduled to receive three disbursements (one in each payment period) of her Pell Grant as follows:
PP1 at day 1
PP2 at the completion of 8 hours and 10 weeks of instructional time
PP3 at the completion of 13 hours and 16 weeks of instructional time

The scheduled disbursements and withdrawal date are shown in the graphic that follows.

Performing a Return calculation for a student receiving aid under multiple payment period definitions, continued



Pixie withdrew on the 50th day after the start of classes. Her FFEL/Direct Loan funds were disbursed for the loan payment period 1 (the first half of the academic year). Her Pell Grant funds were disbursed for the Pell Grant payment period 1 (the first term, which is 10 weeks in length).

Loan Payment Period 1 (the FFEL/Direct Loan payment period) is the payment period during which the student withdrew that ends later, so that is the payment period the school is required to use for the Return of Title IV Funds calculation.

As shown by the horizontal dashed line, the first two Pell Grant payment periods overlap with the Loan payment period 1, so aid that was disbursed or could have been disbursed for the two Pell Grant payment periods are attributed to the Loan payment period 1.

All of Pell Grant Payment Period 1 falls within Loan payment period 1, so all of the Pell Grant funds that were disbursed for Pell Grant Payment Period 1 are included in the calculation. Pell Grant Payment Period 2 of six weeks overlaps with Loan Payment Period 1 for five of those weeks. (The loan period is 15 weeks; Pell Grant Payment Period 1 is 10 weeks and five additional weeks from Pell Grant Payment Period 2 bring the Pell Grant Payment Period used in the calculation up to 15 weeks.)

To determine the amount of Pell Grant funds that could have been disbursed that are attributable to the five additional weeks, the school would take the full amount of Pell Grant funds that could have been disbursed for Pell Grant payment period 2, and multiply it by five-sixths.

STEP 3: AMOUNT OF TITLE IV AID EARNED BY THE STUDENT

The amount of Title IV aid earned by the student is determined by multiplying the percentage of Title IV aid earned (Box H on the worksheet) by the total of Title IV program aid disbursed plus the Title IV aid that could have been disbursed to the student or on the student's behalf (Box G on the worksheet).

Amount of Title IV aid earned by the student
34 CFR 668.22(e)(1)

STEP 4: TOTAL TITLE IV AID TO BE DISBURSED OR RETURNED

If the student receives less Federal Student Aid than the amount earned, the school must offer a disbursement of the earned aid that was not received. This is called a Post-withdrawal disbursement. If the student receives more Federal Student Aid than the amount earned, the school, the student, or both, must return the unearned funds in a specified order.

Title IV aid to be disbursed or returned
34 CFR 668.22(a)(2) or (3)

Part 1 – Post-withdrawal disbursements

If a Post-withdrawal disbursement is due, a school stops at Step 4, Box J on the worksheet. A school may use the ***Post-Withdrawal Disbursement Tracking Sheet*** to track the handling of the Post-withdrawal disbursement, or it may use a form developed by someone other than ED. A school must maintain written records of its Post-withdrawal disbursements.

Post-withdrawal disbursements
34 CFR 668.22(a)(3) & (4)

The requirements for a Post-withdrawal disbursement are similar in many areas to the requirements under Subpart K – Cash Management of the Student Assistance General Provisions regulations. However, in some cases, the Post-withdrawal disbursement requirements differ from the cash management requirements.

Return calculation required

For a student who withdraws after the 60% point-in-time, even though a return is not required, a school may have to complete a Return calculation in order to determine whether the student is eligible for a Post-withdrawal disbursement.

Any Post-withdrawal disbursement due must meet the current required conditions for late disbursements. For example, ED must have processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official expected family contribution (EFC) prior to the student's loss of eligibility. These conditions are listed in a chart on Late Disbursements in *Volume 4 – Processing Aid and Managing Federal Student Aid Funds.* **A school is required to make (or offer as appropriate) Post-withdrawal disbursements.** A Post-withdrawal disbursement must be made within 180 days of the date the institution determines that the student withdrew. The amount of a Post-withdrawal disbursement is determined by following the requirements for calculating earned Title IV Aid, and has no relationship to incurred educational costs.

Reminder

Disburse grant before loan

Disburse Grant before loan
34 CFR 668.22(5)(i)

A Post-withdrawal disbursement, whether credited to the student's account or disbursed to the student or parent directly, must be made from available grant funds before available loan funds. Available grant or loan funds refers to Title IV program assistance that could have been disbursed to the student but was not disbursed as of the date of the institution's determination that the student withdrew.

The regulations do not address how a school should ensure that Title IV funds are disbursed to the proper individual. However, a school may not require a student who has withdrawn from a school (or a parent of such a student, for PLUS loan funds) to pick up a Post-withdrawal disbursement in person. Because the student is no longer attending the school, he or she may have moved out of the area and may be unable to return to the school to pick up a Post-withdrawal disbursement.

Disburse grant before loan example

If a student is due a Post-withdrawal disbursement of $500, and the student has received $400 of $1,000 in Federal Pell Grant funds that could have been disbursed, and $1,200 of the $2,000 in Federal Stafford Loan funds that could have been disbursed, the available undisbursed funds are $600 in Federal Pell Grant funds, and $800 in Federal Stafford loan funds.

Any portion of the $500 Post-withdrawal disbursement that the school makes must be from the $600 in available Federal Pell Grant funds.

Summary of actions a school must take before making a Post-withdrawal disbursement

The actions a school must take before it may disburse funds from a Post-withdrawal disbursement vary depending on the source of the funds.

A school must obtain confirmation from a student, or parent for a parent PLUS loan, before making any disbursement of loan funds from a Post-withdrawal disbursement.

On November 1, 2007, the Department published regulations that removed the requirement that a school obtain confirmation from a student before making a Post-withdrawal disbursement of Title IV grant funds (FR Vol. 72, No. 211, Part III). Without obtaining a student's permission, Title IV grant funds from a Post-withdrawal disbursement are credited to a student's account to pay for tuition, fees, and room and board (if the student contracts with the school) or disbursed directly to a student.

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. A school is permitted to use a student's or parent's authorization for crediting the student's account for educationally related expenses that the school obtained prior to the student's withdrawal date so long as that authorization meets the cash management requirements for student or parent authorizations. If the school did not obtain authorization prior to the student's withdrawal, the school would have to obtain authorization in accordance with the cash management requirements before the school could credit the student's account for other current charges **or** for educationally related activities. (See *Volume 4 – Processing Aid and Managing Federal Student Aid Funds* for more information on student and parent authorizations.)

Post-withdrawal disbursement of Title IV grant funds

A school is permitted to credit a student's account with the Post-withdrawal disbursement of Title IV grant funds without the student's permission for current charges for tuition, fees, and room and board (if the student contracts with the school) up to the amount of outstanding charges. A school must obtain a student's authorization to credit a student's account with Title IV grant funds for charges other than current charges. A school must credit the student's account with the postwithdrawal disbursement for current charges within 180 days of the date of determination.

Timeframe for Post-withdrawal disbursement of grant funds
34 CFR 668.22(a)(5)(ii)(B)(1)

A school must disburse any amount of a Post-withdrawal disbursement of grant funds that is not credited to the student's account. Moreover, the school must make the disbursement as soon as possible, but **no later than 45 days after the date of the school's determination that the student withdrew**.

Post-withdrawal disbursement of Title IV Loan funds

Timeframe for notification of eligibility for Post-withdrawal disbursement of loan funds
34 CFR 668.22(a)(5)(iii)(A)

A school must notify a student, or parent for a parent PLUS loan, in writing prior to making any Post-withdrawal disbursement of loan funds, whether those loan funds are to be credited to the student's account or disbursed directly to the student (or parent). The information provided in this notification must include the information necessary for the student, or parent for a parent PLUS loan, to make an informed decision as to whether the student or parent would like to accept any disbursement of loan funds and must be provided within 30 days of the date of a school's determination that a student has withdrawn. In addition, the notice must request confirmation of any Post-withdrawal disbursement that the student or parent, as applicable, wishes the school to make.

The notice must identify the type and amount of the loan funds it wishes to credit to the student's account or disburse directly to the student or parent, explain that a student, or parent for a parent PLUS loan, may accept or decline all or a portion of the funds. The notice must also explain to the student, or parent for a parent PLUS loan, the obligation to repay the loan funds whether they are disbursed to the student's account or directly to the borrower.

The notice must also make clear that a student, or parent for a parent PLUS loan, may not receive as a direct disbursement loan funds that the institution wishes to credit to the student's account unless the institution agrees to do so. If the student, or parent for a parent PLUS loan, does not wish to accept some or all of the loan funds that the institution wishes to credit to the student's account, the institution must not disburse those funds.

School activity between performing a Return calculation and making a PWD

An institution **may not delay its disbursement processes** in order to ascertain whether a student wishes to receive the grant funds the student is entitled to. However, while the institution is processing the disbursement or notifying the student about his or her eligibility for a Post-withdrawal disbursement of loan funds the school may, at its discretion, notify the student that it may be beneficial to turn down all or a portion of the grant funds to preserve his or her grant eligibility for attendance at another institution.

Of course, if a student should independently contact the institution and state that he or she does not wish to receive a grant disbursement, the institution is not required to make the disbursement.

Cash management requirements for student and parent authorizations
34 CFR 668.165(b)

In the information a school provides to a student when the school informs the student that he or she is due a Post-withdrawal disbursement of loan funds, the school should include information about the advantages of keeping loan debt to a minimum. If a Post-withdrawal disbursement includes loan proceeds, unless the recipient needs the funds to pay educational costs, the school might want to suggest that the student cancel the loan. With a student's permission, Title IV grant funds due a student in a Post-withdrawal disbursement can be used to pay down a Title IV loan thereby reducing any Post-withdrawal disbursement made directly to the student.

The school must document the result of the notification process and the final determination made concerning the disbursement, and maintain that documentation in the student's file.

If a school has completed Post-withdrawal loan notification (described previously) and confirmed a student's desire for any loan funds included in the Post-withdrawal disbursement, the school is permitted to credit a student's account with the Post-withdrawal disbursement without additional permission from the student (or parent, in the case of a PLUS loan) for current charges as described above.

A school may combine providing loan counseling, obtaining authorization to credit loan funds to a student's account for outstanding charges, and authorization to make a direct disbursement to the student.

Once a school has received confirmation from a student, or parent in case of a PLUS loan, that he or she wants to receive the Post-withdrawal disbursement of loan funds, a school must make the Post-withdrawal disbursement of Title IV loan proceeds as soon as possible, but no later than 180 days after the date of the school's determination that the student withdrew.

Separate authorization required for educationally related expenses

A school is permitted to use a student's or parent's authorization for crediting the student's account for educationally related expenses that the school obtained prior to the student's withdrawal date so long as that authorization meets the cash management requirements for student or parent authorizations. If the school did not obtain authorization prior to the student's withdrawal, the school would have to obtain authorization in accordance with the cash management requirements before the school could credit the student's account for other current charges for educationally related activities. (See *Volume 4 – Processing Aid and Managing Federal Student Aid Funds* for more information on student and parent authorizations.)

Crediting a student's account

An institution should not request Title IV funds for a Post-withdrawal disbursement unless and until it has determined that it can disburse any Post-withdrawal disbursement within three business days of receiving the funds.

The requirements for the treatment of Title IV funds when a student withdraws reflect the cash management requirements for disbursing Title IV funds. An institution must obtain a student's authorization to credit a student's account with Title IV funds for charges other than current charges for tuition, fees, room and board (if the student contracts with the school) (see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds* and chart on "Institutional and Financial Assistance Information for Students" in *Volume 2 – School Eligibility and Operations* for more information).

Outstanding charges on a student's account are charges for which the institution will hold the student liable after the application of any applicable refund policy. These are the institutional charges, after any adjustment, that reflect what the student will owe for the current term after his or her withdrawal, any other current charges, plus any permitted minor prior year charges.

A school may credit a student's account for **minor prior award year charges** in accordance with the cash management requirements (see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds*). Schools should make every effort to explain to a student that all or a portion of his or her Post-withdrawal disbursement has been used to satisfy any charges from prior award years.

Outstanding charges example

Consider a student who is due a Post-withdrawal disbursement of $800. The institutional charges that the student was originally assessed by the institution totaled $2,300. However, under the institution's refund policy, the institution may only keep $600 of those institutional charges. No funds had been paid toward the institutional charges at the time the student withdrew. In addition, the student owes $150 for a bus pass. The outstanding charges on the student's account that would be entered in Box 2 of the Post-Withdrawal Disbursement Tracking Sheet are $750 (the $600 in institutional charges plus the $150 owed for the bus pass).

A portion of the $800 the institution must disburse under the Post-withdrawal disbursement provisions may (with authorization if they are loan funds) be used to satisfy the outstanding balance. If the student has provided written authorization to credit Title IV funds to his account and use them for non-educational charges, the school may credit $750 to institutional charges and offer $50 to the student. If the student has not provided (and does not provide) written authorization to use the funds for non-educational charges, the school may only credit $600 to institutional charges, and must offer $200 to the student.

Notice to a student offering a Post-withdrawal disbursement

Flexibility in notifying students

Effective July 1, 2007 or earlier as permitted the current prior year charges are increased from $100 to $200. However, the provision that permitted the payment of prior year charges that exceeded the maximum threshold as long as there were funds sufficient to pay the current period has been dropped.

Student's Response to an Offer of a PWD

A student's or parent's response to an offer of a direct disbursement of Title IV loan funds from Post-withdrawal disbursement does not have to be in writing. However, a school must document the response.

Deadline for responding to an offer of a Post-withdrawal disbursement of loan funds
34 CFR 668.22(a)(5)(iij)(A)(5)

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

- notify 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 Post-withdrawal disbursement of grant or loan funds for other than institutional charges; and
- obtain permission to make a Post-withdrawal disbursement of loan funds directly to a student.

A school must send the notification as soon as possible, but **no later than 30 calendar days after the date that the school determines the student withdrew**.

In the notification, the school must advise the student or parent an institution may set a deadline of 14 days or more. Any deadline must apply to both confirmation of loan disbursements to the student's account and direct disbursements of a Post-withdrawal disbursement. The notification must make it clear that if the student or parent does not respond to the notification within the timeframe, the school is not required to make the Post-withdrawal disbursement. However, a school may choose to make a Post-withdrawal disbursement based on an acceptance received from a student or parent received after school's deadline.

A school that chooses to honor a late response must disburse all the funds accepted by the student or parent as applicable. The school cannot credit the student's account in accordance with the student's request, but decline to disburse Post-withdrawal funds accepted as a direct disbursement. If a response is not received from the student or parent within the permitted timeframe, or the student declines the funds, the school would return any earned funds that the school was holding to the Title IV programs.

If a student or parent submits a timely response accepting all or a portion of a Post-withdrawal disbursement, per the student's or parent's instructions, the school must disburse the loan funds within 180 days of the date of the institution's determination that the student withdrew. (For additional information, see the discussion under *Date of the institution's determination that the student withdrew* earlier in this chapter.) Note that the date of the institution's determination that the student withdrew is the same date that triggers the 30-day period that the school has for notifying the student or parent of any Post-withdrawal disbursement available for direct disbursement. Consequently, the sooner a school sends the notification to a student or parent, the more time the school has to make any accepted Post-withdrawal disbursement.

If authorization from a student (or parent for a PLUS loan) is received after the deadline and the school chooses not to make a Post-withdrawal disbursement of loan funds, the school must notify the student (or parent) that the Post-withdrawal disbursement will not be made and why. This notification must be made in writing. If an authorization from the student (or parent for a PLUS loan) is never received, or if the school chooses to make a Post-withdrawal disbursement of loan funds per the recipient's instructions on an authorization received after the deadline, the school does not need to notify the student.

Example of the Post-withdrawal Disbursement Requirements

Michael drops out of school on November 5. On November 10, the school becomes aware that Michael has ceased attending. The school determines that because Michael has earned $900 in Title IV Program assistance that he has not received, he is due a Post-withdrawal disbursement of $900. When Michael withdrew, only $600 of the $1,000 in Federal Pell Grant funds that could have been disbursed had been disbursed. Of the $500 in Federal Stafford Loan funds that could have been disbursed, none had been disbursed. The school determines that Michael has $50 in outstanding tuition charges and $100 in outstanding parking fines for the payment period. The school obtained permission from Michael at the beginning of the term (prior to his withdrawal) to credit his account for educationally related charges other than tuition, fees, and room and board. Because available grant funds must be used before available loan funds to make a Post-withdrawal disbursement, the school credits Michael's account with $150 of Michael's Federal Pell Grant funds. On November 12, (the last date school could have sent the funds was December 24th – 45 days after the date of the school's determination that the student withdrew) the school sends the remaining $250 in Pell Grant funds to Michael. On the same day (the last date the school could have sent the notification was December 9th – 30 days after the school's determination that the student withdrew) the school sends a notification to Michael stating that:

1. He is due a Post-withdrawal disbursement of $500 in Federal Stafford Loan funds to be disbursed directly to him.

2. Michael may accept all, a portion, or none of the $500 in Federal Stafford Loan funds.

3. Any loan funds that Michael accepts will have to be repaid.

4. The school is obligated to make a Post-withdrawal disbursement of loan funds only if Michael accepts the funds by November 25, 14 days after the school sent the notification. Note that a school may allow more than 14 days for a response.

Michael's responds on November 19 and informs the school that he is accepting $250 of the $500 in Federal Stafford Loan Funds. The school has until June 9 (180 days after November 10 – the date the school determined that the student withdrew) to make the disbursement (34 CFR 668.22(a)(5)(iii)(C)). The school must document the notification and the final determination pursuant to it (whether the student accepts a partial- or full-disbursement or declines the entire disbursement (34 CFR 668.22(a)(5)(iv)).

Death of a student

A school may not make a Post-withdrawal disbursement of Title IV funds to the account or estate of a student who has died.

If an institution is informed that a student has died during a period, it must perform a Return calculation. If the Return calculation indicates that an institution is required to return Title IV funds, the institution must return the Title IV funds for which it is responsible.

The student's estate is not required to return any Title IV funds. Therefore, an institution should neither report a grant overpayment for a deceased student to NSLDS, nor refer a grant overpayment for a deceased student to Borrower Services. If an institution had previously reported a grant overpayment for a student who is deceased to Borrower Services, it should inform Borrower Services that it has received notification that the student is deceased.

The regulations governing the FFEL, Direct, and Federal Perkins loan programs provide for a discharge of a borrower's obligation to repay an FFEL, Federal Direct, or Federal Perkins loan if the borrower dies (including a PLUS loan borrower's obligation to repay an FFEL or Direct PLUS loan if the student on whose behalf the parent borrowed dies). If a school is aware that a student who has died has any outstanding Title IV loan debt, the school should contact the student's estate and inform it of the actions it can take to have the student's Title IV loan debt cancelled.

If a Title IV credit balance created from **funds disbursed before the death of the student** exists after the completion of the Return calculation and the institutional refund calculations, the institution must resolve the Title IV credit balance as follows:

1. in accordance with the cash management regulations, paying authorized charges at the institution (including previously paid charges that are now unpaid due to the Return of Title IV funds by the institution);
2. returning any Title IV grant overpayments owed by the student for **previous withdrawals** from the present school (the institution may deposit the funds in its federal funds account and make the appropriate entry in G5);

   If the institution has previously referred the grant overpayment to Borrower Services, the institution should provide Borrower Services with documentation that the student has died so that Borrower Services can delete the overpayment from its records.
3. returning any remaining credit balance to the Title IV Programs.

Part 2 – Title IV aid to be returned

Title IV aid to be returned
34 CFR 668.22(a)(2)

If the student receives more Federal Student Aid than the amount earned, the school, the student, or both must return the unearned funds in a specified order. The amount of Federal Student Aid to be returned is determined by subtracting the amount of earned Title IV aid (Box I) from the amount of Title IV aid that was actually disbursed to the student, Box E).

Step 5: Amount of unearned Title IV aid due from the school
34 CFR 668.22(g)

Step 5: Amount of unearned Title IV aid due from the school

When a Return of Title IV funds is due, the school and the student may both have a responsibility for returning funds. Funds that are not the responsibility of the school to return, must be returned by the student. Although these requirements talk in terms of returning funds, a school is not required to actually return its share before the student. Rather, it is the Return calculation of the amount of assistance the school is responsible for returning to the Title IV accounts that must be calculated first. Thus, the student's repayment obligation is determined after the school's share is calculated.

Disbursement Prohibited

A school may not disburse the proceeds of a Title IV loan when it knows that the repayment of the loan will devolve or pass to the Department. Therefore, a school may not disburse the proceeds of a PLUS loan taken out by a parent who has died, even though the student for whose benefit the loan was intended remains alive and otherwise eligible.

If a school receives the proceeds of a PLUS loan made to a parent who has died, it must return the funds to the lender together with a letter explaining the reason it is returning the funds.

The school must return the lesser of –

- the amount of Title IV funds that the student does not earn; or
- the amount of institutional charges that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned.

The percentage **not** earned (Box M) is determined by subtracting the percentage of Title IV aid earned (Box H) from 100%.

Aid disbursed to the student before institutional charges are paid

A school's policy and the Return requirements

Title IV funds are provided under the assumption that they are used to pay institutional charges ahead of all other aid.

Consider a case in which, in order to assist a student with living expenses, a school elects to disburse an anticipated credit balance to a student rather than pay itself for institutional charges from the first Title IV funds the school receives. Then, the student withdraws before the school receives anticipated aid from all the Title IV programs. The Return calculations indicate the school must return funds, but the school had passed through all funds to the student. **The school still must return the funds it is responsible for returning as a result of the Return calculation.**

Institutional charges

Institutional charges are used to determine the portion of unearned Federal Student Aid that the school is responsible for returning. Schools must ensure the inclusion of all appropriate fees as well as applicable charges for books, supplies, materials, and equipment in Step 5, Part L of the Return calculation. (See *Institutional versus noninstitutional charges* earlier in this chapter.) Institutional charges do not affect the amount of Federal Student Aid that a student earns when he or she withdraws.

If an institution enters into a contract with a third party to provide institutional housing, the institution must include the cost of housing as an institutional charge in a Return calculation if a student living in the third-party housing withdraws.

Use of institutional charges in determining the school's responsibility for return

The institutional charges used in the calculation are always the charges that were assessed the student for the entire payment period or period of enrollment, as applicable, prior to the student's withdrawal. Initial charges may only be adjusted by those changes the institution made prior to the student's withdrawal (e.g., for dropping or adding a class or changing enrollment status). If after a student withdraws the institution changes the amount of institutional charges it assessed a student, or decides to eliminate all institutional charges, those changes affect neither the charges nor aid earned in the calculation. (Please see *Step 3 — Amount of Title IV Aid Earned by the Student,* for a further discussion of aid earned and institutional charges.)

Institutional charges may not be reduced even if other sources of aid are used to pay those charges. For example, a school may not reduce institutional charges when an outside agency supplying aid requires that aid to be used for tuition. The Return regulations presume Title IV program funds are used to pay institutional charges ahead of all other sources of aid.

When an institution that offers courses in a nonterm, credit-hour format calculates the aid for which the student is eligible, it does so using costs associated with the number of courses it expects the student to complete in the period for which aid is awarded. If the student later withdraws, **the charges entered in Step 5 of the Return calculation must include the charges for all the courses the student was initially expected to complete.**

Institutional charges
34 CFR 668.22(g)(1)(ii)
34 CFR 668.22(g)(2)
DCL-GEN-00-24

Determining charges
34 CFR 668.22(a),
34 CFR 668.22(g)(2)(ii), and
DCL-GEN-00-24

Treatment of Work-Study funds
Federal Work-Study funds are not included in the calculation of earned Title IV funds when a student withdraws. This remains the case even if a student has granted permission for a percentage of the student's Federal Work-Study earnings to be credited to his or her account to pay educational charges.

Fees as noninstitutional charges
Application fees are excluded from institutional charges because they are not an educational cost. (Federal Register, Vol. 59, No. 82, April 29, 1994, page 22356).

Effect of other assistance
Federal Register/Vol. 64, No. 210, 11/1/99, page 59032

Administrative fees
The $100 or 5% administrative fee (whichever is less) that was excludable under the former Refund and Repayment regulations is not excluded in Return of Title IV Funds calculations.

Effects of a Post-withdrawal reduction in charges

If a student withdraws and as a result of applying an institutional refund policy the school reverses, reduces, or cancels a student's charges, the Return requirements still apply. The statute mandates that an otherwise eligible student who begins attendance at a school and is disbursed or could have been disbursed Title IV grant or loan funds prior to a withdrawal earns a portion of those Title IV funds. If as a result of the withdrawal, an institution adjusts or eliminates a student's institutional charges, or changes a student's enrollment status, the changes made by the institution have no bearing on the applicability of the requirements in 34 CFR 668.22. Moreover, the charges used in the Return calculation are always the charges on the student's account prior to withdrawal. However, if a student's enrollment status changed prior to and unrelated to the withdrawal, the effect of that change on institutional charges appropriately should be reflected in any Return calculation.

Prorated charges example

Institutional charges are $8,000 for a nonterm-based program that spans two payment periods of 450 clock hours each. The school chooses to calculate the treatment of Title IV funds on a payment period basis. A student withdraws in the first payment period. The prorated amount of institutional charges for each payment period is $4,000. However, because of the $1,000 in fees charged at the beginning of the period, the school has retained $5,000 of the Title IV funds for institutional charges for the payment period. Therefore, the institutional charges for the payment period are $5,000 — the greater of the two elements from the proration calculation.

When to prorate charges

As stated previously, for students who withdraw from a nonterm-based educational program, the school has the choice of performing the Return calculation on either a payment period basis or a period of enrollment basis. If a school with a nonterm program chooses to base the Return calculation on a payment period, but the school charges for a period longer than the payment period (most likely the period of enrollment), there may not be a specific amount that reflects the actual institutional charges incurred by the student for the payment period. In this situation, the student's institutional charges for the payment period are the prorated amount of institutional charges for the longer period. However, if a school has retained Title IV funds in excess of the institutional charges prorated amount, including allocating costs for equipment and supplies to the beginning of the program, the funds retained by the school are attributed to that payment period because they are a better measure of the student's institutional charges for that period.

Reminder

Effects of waivers on institutional charges

If your school treats a waiver as a payment of tuition and fees that have actually been charged to a student, then the waiver is considered a financial aid resource, and the full amount of the tuition and fees must be included in Step 5, Part L of the Return calculation. On the other hand, if the student is never assessed the full charges, the waiver is not considered to be financial aid, and only the actual charges would be included in the Return calculation. (See DCL GEN 00-24, January 2000 for a further discussion of waivers and the Return calculation.)

Waiver Example

An institution charges state residents $900 per semester. Out-of-state students are charged an additional $2,000 for a total of $2,900. However, the institution grants waivers of the out-of-state charges to out-of-state athletes. The waiver is considered a payment to those charges and the full $2,900 would need to be included in any Return calculation.

STEP 6: RETURN OF FUNDS BY THE SCHOOL

Order of return of Title IV funds

A school must return Title IV funds to the programs from which the student received aid during the payment period or period of enrollment as applicable, in the following order, up to the net amount disbursed from each source:

1. Unsubsidized Federal Stafford loans.
2. Subsidized Federal Stafford loans.
3. Unsubsidized Direct Stafford loans (other than PLUS loans).
4. Subsidized Direct Stafford loans.
5. Federal Perkins loans.
6. Federal PLUS loans.
7. Direct PLUS loans.
8. Federal Pell Grants for which a return of funds is required.
9. Academic Competitiveness Grants for which a return of funds is required.
10. National Smart Grants for which a return of funds is required.
11. Federal Supplemental Educational Opportunity Grants (FSEOG) for which a return of funds is required.
12. Federal Teach Grants for which a Return is required.

Timeframe for the return of Title IV funds

A school must return unearned funds for which it is responsible as soon as possible, but no later than 45 days from the determination of a student's withdrawal.

A school will be considered to have returned funds timely if the school does one of the following as soon as possible, but no later than 45 days after the date it determines that the student withdrew:

- deposits or transfers the funds into the school's federal funds bank account;
- initiates an electronic funds transfer (EFT) to an account belonging to the student;
- initiates an electronic transaction that informs the FFEL or ED, in the case of a Direct Loan, to adjust the borrower's loan account for the amount returned; or
- issues a check.

Order of return of Title IV funds
34 CFR 668.22(i)

Timeframe for return of Title IV funds
34 CFR 668.22(j)(1)

If a school has not drawn federal funds

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 institutional funds were used to credit the student's account.

Return of Title IV funds when a school does not maintain a separate federal bank account

The Department considers a school that maintains Title IV funds and general operating funds in the same bank account (commingles) to satisfy the requirement that it return unearned funds on a timely basis if:

- the school maintains subsidiary ledgers for each type of funds commingled in that account that clearly show how and when those funds were used and reconciled to its general ledger,
- the subsidiary ledger for each Title IV program provides a detailed audit trail on a student-by-student basis that reconciles to the amount of Title IV program funds received and disbursed by the school, and
- the school updates the relevant subsidiary ledger accounts in its general ledger no later than 30 days after it determines that the student withdrew.

More specifically, the return of an unearned funds transaction should be recorded as a debit to a Title IV program fund subsidiary ledger account and a credit to the school's operating fund subsidiary ledger account. The date of the return is the date this transaction is posted to the school's general ledger.

Simultaneous notification of student
34 CFR 682.607(a)(2)

The school is considered to have issued a check timely if the institution's records show that the check was issued no more than 45 days after the date the school determined that the student withdrew, and the date on the cancelled check shows that the bank endorsed that check no more than 60 days after the date the school determined that the student withdrew.

If as a result of a Return calculation a school returns Stafford funds to a lender, the school must notify the student that the funds have been returned on his or her behalf.

STEP 7: INITIAL AMOUNT OF UNEARNED TITLE IV AID DUE FROM THE STUDENT

The statute specifies that a student is responsible for all unearned Title IV Program assistance that the school is not required to return. The initial amount of unearned Federal Student Aid due from the student (or parent, for PLUS loan funds) (Box Q) is determined by subtracting the amount returned by the school (Box O) from the total amount of unearned Title IV funds to be returned (Box K). This is called the initial amount due from the student because a student does not have to return the full amount of any grant repayment due. Therefore, the student may not have to return the full initial amount due.

STEP 8: REPAYMENT OF STUDENT LOANS

The student loans that remain outstanding (Box R) consist of the loans disbursed to the student (Box B) minus any loans the school repaid in STEP 6, Block P. These outstanding loans are repaid according to the terms of the student's promissory notes.

STEP 9: GRANT FUNDS TO BE RETURNED BY A STUDENT

For withdrawals occurring on or after July 1, 2006, the regulations limit the amount a student must repay to the amount by which the original overpayment amount exceeds 50 percent of the total grant funds **disbursed or could have been disbursed** by the student for the payment period or period of enrollment.

The initial amount of unearned Title IV grant aid due from the student (Box S) is found by subtracting the loans to be repaid by the student (Box R) from the initial amount of unearned aid due from the student (Box Q).

The amount of grant overpayment due from a student is limited to the amount by which the original grant overpayment (Box S) exceeds half of the total Title IV grant funds disbursed and could have been disbursed to the student (Box F).

Student overpayments of $50 or less

A student does not have to repay a**n original** grant overpayment of $50 or less for grant overpayments resulting from the student's withdrawal. As a result, a**n original** grant overpayment of $50 or less will not make the student ineligible to receive Title IV, HEA program assistance should the student return to school. A school is not required to attempt recovery of that overpayment, report it to the Department's National Student Loan Data System (NSLDS), or refer it to Federal Student Aid's Debt Resolution Services.

Amounts of $50 or less are considered *de minimus*. These *de minimus* amounts are program specific. That is, if a Return calculation resulted in a student having to return $150 in Pell funds and $40 in FSEOG funds, the student would have to return the Pell funds, but the FSEOG funds would be considered *de minimis* and treated as described above.

STEP 10: RETURN OF GRANT FUNDS BY THE STUDENT

The student is obligated to return any Title IV overpayment in the same order that is required for schools.

Initial amount due from student
34 CFR 668.22(h)

Grant overpayments may be resolved through –

1. full and immediate repayment to the institution;
2. repayment arrangements satisfactory to the school; or
3. overpayment collection procedures negotiated with Borrower Services.

Return of funds by the student
34 CFR 668.22(h)(3)(i) and (ii)

A school has responsibilities that continue beyond completing the Return calculation and returning the funds for which it is responsible. Here we discuss the institution's participation in the return of funds by the student.

A SCHOOL'S RESPONSIBILITIES IN THE RETURN OF FUNDS BY THE STUDENT

Grant Overpayments

Grant overpayments
34 CFR 668.22(h)(4)

The applicable regulations limit the amount of grant funds a student must repay to one half of the grant funds the student received or could have received during the applicable period. Moreover, repayment terms for students who owe Title IV grant overpayments were established to ensure that students who could not immediately repay their debt in full had the opportunity to continue their eligibility for Title IV funds. Students who owe overpayments as a result of withdrawals initially will retain their eligibility for Title IV funds for a maximum of 45 days from the earlier of the –

- date the school sends the student notice of the overpayment, or
- date the school was required to notify the student of the overpayment.

Within 30 days of determining that a student who withdrew must repay all or part of a Title IV grant, a school must notify the student that he or she must repay the overpayment or make satisfactory arrangements to repay it. In its notification a school must inform the student that:

1. The student owes an overpayment of Title IV funds.
2. The student's eligibility for additional Title IV funds will end if the student fails to take positive action by the 45th day following the date the school sent or was required to send notification to the student.
3. There are three positive actions a student can take to extend his or her eligibility for Title IV funds beyond 45 days:
    a. The student may repay the overpayment in full to the school.
    b. The student may sign a repayment agreement with the school.

Reminder

Note: **Two years is the maximum time a school may allow for repayment.**

c. The student may sign a repayment agreement with the Department.

If the student takes no positive action during the 45-day period, the school should report the overpayment to NSLDS immediately after the 45-day period has elapsed. (Because making this change in the NSLDS system is a simple process, we expect an institution will complete making the change within a few days of the end of the 45-day period.)

4. If the student fails to take one of the positive actions during the 45-day period, the student's overpayment immediately must be reported to the NSLDS and referred to the Debt Resolution Services for collection.

5. The student should contact the school to discuss his or her options.

When a student receives additional funds during the 45-day period of extended eligibility

Students who owe overpayments as a result of withdrawals generally will retain their eligibility for Title IV funds for a maximum of 45 days from the earlier of (a) the date the school sends the student notice of the overpayment, or (b) the date the school was required to notify the student of the overpayment.

A student who receives Title IV funds within that period of extended eligibility and then fails to return the overpayment or make repayment arrangements becomes ineligible for additional Title IV program funds on the day following the 45-day period. However, any Title IV program funds received by the student during the 45-day period were received while the student was eligible. Therefore, those Title IV funds do not have to be returned (unless the student withdraws a second time). A student who loses his or her eligibility for Title IV funds at the expiration of the 45-day period will remain ineligible for additional Title IV funds until the student enters into a repayment agreement with the Department.

If at any time a student who previously negotiated a repayment arrangement fails to comply with the terms of his or her agreement to repay, that student immediately becomes ineligible for additional Title IV funds. Any Title IV program funds received by the student between the time the student negotiated the repayment arrangement and the time the student violated the agreement were received while the student was eligible. Therefore, those Title IV funds do not have to be returned (unless the student withdraws a second time). A student who violates the terms of a repayment agreement and loses eligibility remains ineligible for Title IV funds until the student has made satisfactory repayment arrangements with the Department.

45-Day period example

On October 30th during the fall semester a student withdraws and owes a grant overpayment. On November 29th the institution notifies the student of the overpayment. The student has 45 days (until January 13) to repay the overpayment in full or to make arrangements with the institution or the Department to repay the overpayment.

The spring semester begins on January 7, before the 45-day period ends, and the student receives Title IV aid for the spring semester on January 10. The student then fails to repay the overpayment in full or sign a repayment agreement by the end of the 45-day period –January 13. The student is not required to return the Title IV funds received on January 10. However, the student becomes ineligible for additional Title IV funds on January 14 and remains ineligible until he or she enters into a repayment agreement with the Department.

Reminder

If, in either of the two aforementioned cases, the student withdraws a second time, any unearned funds from the disbursements that were made while the student was still eligible would have to be returned in accordance with the Return requirements.

Student overpayments of $50 or less

Student overpayments less than $50
34 CFR 668.22(h)(3)(ii)---

A student does not have to repay a grant overpayment of $50 or less for grant overpayments resulting from the student's withdrawal. As a result, a grant overpayment of $50 or less will not make the student ineligible to receive Title IV, HEA program assistance should the student return to school. A school is not required to attempt recovery of that overpayment, report it to the Department's National Student Loan Data System (NSLDS), or refer it to Debt Resolution Services

Reminder

These *de minimus* amounts are program specific. That is, if a Return calculation resulted in a student having to return $150 in Pell funds and $40 in FSEOG funds, the student would have to return the Pell funds, but the FSEOG funds would be considered *de minimis* and treated as described above.

If a school is currently holding an overpayment resulting from a withdrawal for which the original amount (after the grant protection was applied) was less than $50, the school should delete the overpayment in NSLDS by:

1. from the Overpayment History Page, selecting the overpayment by clicking on the blue number icon;
2. on the Overpayment Display Page, verifying that this is the overpayment you want to delete, and then clicking the Delete Button;
3. on the Overpayments Delete Confirmation page, clicking the Confirm Button.

This new standard does not apply to remaining grant overpayment balances. That is, a student must repay a grant overpayment that has been reduced to $50 or less because of payments made. An overpayment for which the original amount was more than $50 that has a current balance of less than $50 may not be written off.

Note: Debt Resolution Services will not accept referrals for which the original amount was less than $25.

Reminder

This provision does not apply to funds that a school is required to return. A school must return the full amount owed to any Title IV program that the school is responsible for returning. However, a school does not have to return amounts of less than $1.00.

Examples of the relationship between the date of notification and the expiration of the 45-day period

Example 1 – A school sends notification to a student within the 30 days allowed.

If a school sends notification to a student within the 30 days allowed, the 45-day period begins on the day after the school sends the notification to the student. If a school determines on August 20 that a student withdrew and owes a repayment and the school sends notification to the student on September 1 (within the 30 days allowed), then the first day of the 45-day period is September 2. Unless the student takes positive action to resolve the overpayment before the end of the 45-day period, the student loses his or her eligibility on the 45th day. Thus, in this case the last day of the student's eligibility for Title IV funds is October 16.

Example 2 – A school fails to notify the student or notifies the student after the 30 days allowed.

If the school fails to notify the student or notifies the student after the 30 days allowed, the 45-day period begins on the day after the end of the 30-day period (the date by which the school should have sent the notification to the student). Consider a school that determines on August 1 that a student withdrew on June 15. The school should have sent the student a letter by July 15. Because it failed to do so, the first day of the 45-day period is the day after the end of the 30-day period (July 16). Unless the student takes action to resolve the overpayment, the last day of the student's eligibility for Title IV funds is August 29, the end of the 45-day period that began on July 16.

If a student agrees to a repayment arrangement and then fails to meet the terms of that arrangement, the student's eligibility ends as of the date the student fails to comply with the terms of the repayment arrangement.

Payments on a student's behalf

The grant protection always applies to the repayment of grant funds for which the student is responsible, regardless of who actually returns the funds. If an institution chooses to return all or a portion of a grant overpayment that otherwise would be the responsibility of the student to return, the grant protection still applies. If an institution returns a grant overpayment for a student, the student would no longer be considered to have a Title IV grant overpayment and as such no reporting to NSLDS is required and no referral to Debt Resolution Services for collection is allowed. This would be true whether the institution simply returned the overpayment for the student or returned the overpayment and created a debit on the student's school account.

Recording student payments and reductions in the Pell Grant, ACG, National SMART Grant, and TEACH Grant Programs

For reductions and payments to awards in award years after 2005-2006, schools should record reductions and payments by entering a replacement value.

If through its Return calculation a school determines that a student has received an overpayment of Pell, ACG, National SMART Grant, or TEACH Grant funds, the school should reduce the student's award/disbursements and return the funds.

First, reduce the student's award/disbursements by entering a replacement value in the COD system. The replacement value will be the original values less only the amount the school has returned (the sum of: (a) that amount the school is responsible for returning + (b) any portion of the grant overpayment, that otherwise would be the responsibility of the student, but which the school has chosen to return for the student + (c) any portion of the grant overpayment the school has collected from the student.). Do not reduce the award/disbursement by the amount the student must return (unless the student has made a payment).

If a school receives a payment for a current-year overpayment that has not been referred to Debt Resolution Services, the school should NOT send the payment to Debt Resolution Services. Instead, after you have reduced the student's disbursement in COD, return the unearned funds as follows:

- If your school has made repayment arrangements with a student and received a payment on a current-year overpayment, the school should deposit the funds in its Pell, ACG, National SMART, or TEACH Grant account and make the appropriate entry in the COD system.
- If a student makes a payment on any previous year's Pell, ACG, National SMART, or TEACH Grant overpayment, a school makes the aforementioned COD system entry using the same software the school used to create the award. The school then returns the funds to the Department using the Electronic Refund function in G5 following the same procedures the school follows when making other G5 refunds/returns.

Reminder

Returning funds to the Department

Using the electronic refund function in G5 is the preferred method whenever a school must return Pell, ACG, National SMART, or FSEOG funds.

Only in exceptional circumstances (and **never for a current Pell , ACG, National SMART, or FSEOG award**) should a school return funds from a Return calculation by sending a check instead of using the electronic refund function in G5.

Contact the e-payments Help Desk at:
888-336-8930
(M–F 8 a.m. to 6 p.m. ET) for assistance

If because of extraordinary circumstances you must send a check,

The G5 lockbox address for Pell, ACG, National SMART, TEACH Grant and campus-based funds is:

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

The school must note the student's name, SSN, the school's DUNS number, and the complete 11-digit Document/Program Award Number and award year on the check. A school must use a separate check for each award year.

Important

If through its Return calculation a school determines that a student has received an overpayment of FSEOG funds, the school must adjust its institutional ledgers, financial aid records, and the student's account by subtracting the amount the school must return (the FISAP filed for the year will reflect the net award to the student). If a student makes a payment on an FSEOG overpayment made in the current award year, the school should deposit the payment in its ***federal funds account***, and award the funds to other needy students. If the school collects an overpayment of an FSEOG for an award made in a **prior award year**, the funds recovered should be returned to the Department using the Electronic Refund function in G5. Payments should be applied to the award year in which the recovered funds were awarded.

For information on handling student payments after you have referred an overpayment to Borrower Services, see the discussion under Accepting payments on referred overpayments later in this chapter.

Recording student payments and reductions in the Direct Loan Program

If through its Return calculation a school determines that a student has received an overpayment of Direct Loan funds, the school should reduce the student's award/disbursements by making a downward adjustment in COD.

Reporting reductions

Schools can report current year adjustments for awards/disbursements either through their loan processing software or by using the COD Website at:

https://cod.ed.gov

The school then returns the funds to the Department using the Electronic Refund function in G5 following the same procedures the school follows when making other G5 refunds/returns.

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

If a school has to return funds by check, the school must –

1. use a separate check for each award year;
2. note the school's DUNS number, school code, and award year on each check;
3. include a completed Direct Loans Return of Cash form; and
4. include a memorandum that specifies the name and social security number for each student for whom funds are being returned and how much is being returned for each student.

The address for returning Direct Loan funds by check is:

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

NSLDS
DCL-GEN-98-14 July 1998

The email address for NSLDS Customer Service is:

NSLDS@ed.gov

Notifying the Department

A school is never required to enter into a repayment agreement with a student; rather a school may refer an overpayment to the Department at any time **after** the student has had the opportunity to pay off the overpayment in full to the school or indicate his or her intent to negotiate repayment arrangements with Debt Resolution Services. However, if a school reports a student overpayment (for which a student has not negotiated repayment arrangements) to NSLDS before the 45-day period has elapsed, the student will appear to be ineligible for Title IV aid. Since students retain their eligibility for 45 days, schools should provide students with every opportunity to repay their debt or negotiate repayment arrangements before reporting it to NSLDS and referring it to Debt Resolution Services.

Important: Debt Resolution Services is unable to respond to a student-initiated request to negotiate a repayment arrangement until a school has referred the student's account for collection. In addition, Debt Resolution Services uses the information about the student in the NSLDS while conversing with a student.

In order to ensure a student overpayment has been reported and referred to ED, when the school is communicating with a student about making repayment arrangements with ED, the school should make it clear that **the student should contact the school before contacting the Department**. Repayment agreements with the Department will include terms that permit students to repay overpayments while maintaining their eligibility for Title IV funds. Schools are encouraged to negotiate similar repayment agreements with students. However, schools' **repayment arrangements with students must provide for complete repayment of the overpayments within two years of the date of the institutions' determination that the students withdrew**.

There are exceptions to the recommendation that a school wait the full 45 days before reporting a student overpayment through NSLDS. If during the 45-day period a student indicates that he or she cannot repay his or her debt in full and wishes to negotiate a repayment agreement with the Department, the school should immediately report the overpayment to NSLDS and refer the overpayment to Debt Resolution Services. Likewise, if a student contacts a school that will not be offering institutional repayment agreements and indicates that he or she cannot pay the overpayment within the 45 days, the school should immediately report the overpayment to NSLDS and refer the overpayment to Debt Resolution Services . Debt Resolution Services will need time to receive and record an overpayment before it can respond to a student inquiry. Schools should advise students to wait at least 10 days before contacting Debt Resolution Services.

After a school has reported and referred a student's overpayment, the school should provide the student with the phone number and postal address for Borrower Services. A student can contact Debt Resolution Services by calling 800-621-3115 or by writing Debt Resolution Services at the following address:

U.S. Department of Education
Debt Resolution Services
P.O. Box 5609
Greenville, Texas 75403

Reporting and referring overpayments

Referring overpayments for collection is a separate process from reporting overpayments to NSLDS. Reporting is the process of creating within NSLDS a record of a student's overpayment. Referring is the process of turning over a student's debt to Debt Resolution Services. Students who pay their debts in full during the 45-day period should neither be reported to NSLDS nor referred for collection.

A school reports overpayments to the NSLDS via the NSLDS Website. A school sends referrals to Debt Resolution Services through the U.S. Mail to the

Student Loan Processing Center – Overpayments
P.O. Box 4157
Greenville, Texas 75403

If a student who owes a repayment of a Title IV grant calls Debt Resolution Services before Debt Resolution Services has received and recorded the student's overpayment, Debt Resolution Services will examine the student's record in the NSLDS. If a school has reported the overpayment to NSLDS correctly, Debt Resolution Services will inform the student that the overpayment is being processed and that the student should call back in ten days for further information. If a student calls Debt Resolution Services before a school has reported the student's overpayment to the NSLDS, Debt Resolution Services will find no record of the overpayment and will tell the student to contact the school to resolve the discrepancy.

A student who does not take positive action during the 45-day period becomes ineligible for Title IV funds on the 46th day from the earlier of (1) the date the school sends a notification to the student of the overpayment; or (2) the date the school was required to notify the student of the overpayment. The student will remain ineligible until the student enters into a satisfactory repayment agreement with the Department. An overpayment resulting from a student's withdrawal remains an overpayment until it is repaid in full. Though a student may regain Title IV eligibility by negotiating and satisfying the requirements of a satisfactory repayment arrangement, the information on the student's NSLDS account will continue to reflect the status of the overpayment until the debt is repaid in full.

If a school enters into a repayment arrangement with a student who owes an overpayment, the school should immediately report the repayment arrangement using the online NSLDS screens. The school should report the status (Indicator field) of an overpayment for which it has entered a repayment agreement as "Satisfactory Arrangement Made." After the information is reported to the NSLDS, any future output from the CPS (SARs and ISIRs) will show that the student owes a repayment of a Title IV grant and that the student has negotiated a satisfactory repayment arrangement with the school.

Reminder

As long as the student fulfills his or her commitment repayment under the repayment arrangement, the NSLDS overpayment status of "Satisfactory Arrangement Made" will indicate that, though the student owes an overpayment, the student remains eligible for Title IV funds. **If at any time a student fails to comply with the terms of the student's agreement to repay, or if the student fails to complete repayment in the two years allowed, immediately the school must update the student's overpayment status (Indicator field) to "Overpayment."** From that point on the NSLDS will inform schools that the student is not eligible for Title IV funds.

Required referrals

A school must refer to the Department/Debt Resolution Services a student who:

1. does not satisfy the requirements of a repayment agreement with the school;
2. fails to contact the school during the 45-day period;
3. fails, during the 45-day period, to pay his or her overpayment in full or enter into a repayment arrangement; or
4. fails to complete repayment in the two years allowed.

If a school is referring to Debt Resolution Services a student overpayment previously reported to NSLDS, the school must also update the information previously reported to NSLDS by changing the source field from "School" to "Transfer." If a school is referring a student who has failed to satisfy the terms of his or her repayment agreement, the school should also change the status code (Indicator field) from "Satisfactory Arrangement Made" to "Overpayment." If a school is referring for collection a student not previously reported to NSLDS, the school must report the account to NSLDS as a referred overpayment, enter "Transfer" as the initial source and "Overpayment" as the status (Indicator field).

To refer student overpayments for collection, schools should use a format similar to the one found at the end of this chapter and send the form to the address at the bottom of that page. Each referral must be typed or printed and must be submitted on school letterhead.

In order to avoid creating a double record for a single overpayment, **the school must populate its Overpayment Referral Form, Dates of Disbursements, with the exact same dates the school used when it created the NSLDS record. In addition, a school must ensure that it enters for award year, the year the disbursement was made.**

Once Borrower Services has accepted a referred student overpayment, Borrower Services will transmit the information to NSLDS and "ED Region" will replace "School" as the appropriate contact source for information about the overpayment. During the 2009-2010 award year, on its Overpayment Referral, schools must continue to provide their School's Pell Identification Number. During the 2009-2010 award year, schools should **not** enter their Routing Identifier.

REMINDER

All referrals to Borrower Services must be made on institutional letterhead.

Tip

Remember to include your school's Reporting Pell Identification number on the referral.

Important

If your school does not have a Pell ID

If you are referring a TEACH Grant to Borrower Services for collection and your school does not have a Pell ID, on the "Overpayment Referral Form," under "School Information," you must provide your OPEID.

Tip

Summary

- If during the 45-day period a student repays his or her debt in full to the institution, the institution should neither report the overpayment in NSLDS nor refer the student to Debt Resolution Services.
- If during the 45-day period a student signs a repayment agreement with the institution, the institution should immediately (within a few days) make the appropriate entries in NSLDS.
- If during the 45-day period a student indicates that he or she will not or cannot repay the overpayment and wishes to negotiate a repayment agreement with the Department, the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Debt Resolution Services.
- If the institution will not be offering institutional repayment arrangements to students and during the 45-day period a student indicates that he or she cannot repay the debt in full, the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Debt Resolution Services .
- If a student fails to take any positive action during the 45-day period, upon the expiration of that period the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Debt Resolution Services .
- If a student signs a repayment agreement with an institution and at any time then fails to fulfill the terms of that agreement, the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Borrower Services.

Accepting payments on referred overpayments

A school may continue to accept payment on a Title IV grant overpayment after the overpayment has been referred to the Department. A school that accepts a check made out to the Department on an overpayment that has been referred to Debt Resolution Services must –

1. note the student's name and SSN on the check;
2. indicate that the payment is for an overpayment of a Title IV grant; and
3. forward the payment to Borrower Services at:

U.S. Department of Education
National Payment Center
P.O. Box 4169
Greenville, Texas 75403-4169

If a school accepts a cash payment from one or more students who owe overpayments and who have been referred to Debt Resolution Services, the school should write its own check to the Department and attach a letter indicating that the check is for a Title IV grant overpayment. The school must include in its letter a roster that includes, for each student who made a payment, the student's name, social security number, and amount paid.

Payment in full

Anytime a school receives a payment (including the application of a Title IV credit balance) that will repay an overpayment in full, the school must also update its original submission to NSLDS by changing the entry on the "Overpayment Update Screen" for the Indicator Field to "Repaid."

If a school receives a payment for an overpayment previously referred to Debt Resolution Services and if –

- the overpayment was made in the current award year, and
- the payment will retire the student's debt in full,

the institution must:

1. deposit the payment in its appropriate institutionally maintained federal funds account;
2. make the appropriate entry in the COD system (the replacement value); and
3. send a letter or fax to Debt Resolution Services identifying the student and indicating that the student's overpayment has been completely repaid. This will allow the Department to properly update its records in both the Debt Resolution Services system and NSLDS.

   The fax numbers for this purpose and school use only is –

   (319) 665-7646

   Note: This process cannot be performed via email.

In the fax or letter, a school must include the:

1. award year of the overpayment (current award year only);
2. student's social security number;
3. student's last name, first name, and middle initial;
4. student's date of birth;
5. type of overpayment — Federal Pell Grant, FSEOG; ACG, National SMART Grant, or TEACH Grant; and
6. the disbursement date the institution used to create the overpayment record in NSLDS.

Corrections or recalls of referred overpayments

If you determine that a student who you have referred to Debt Resolution Services does not owe an overpayment or that the amount you referred was incorrect, you should fax or mail a letter explaining the situation to Debt Resolution Services at:

(319) 665-7646

Important: You should not send a revised referral form when making changes or corrections.

The letter must include the –

1. student's last name, first name, and middle initial;
2. student's social security number;
3. award year of the overpayment;
4. disbursement date the institution used to create the overpayment record in NSLDS;
5. amount originally referred; and
6. description of the issue, and the requested action.

When a student loses eligibility at a former school while receiving aid at a second school

If a student who owes a Title IV overpayment due to a withdrawal from one school receives additional Title IV aid at another school (based upon the student's having entered into an agreement with either Borrower Services or the first school) and then fails to meet the requirements of the agreement, Debt Resolution Services or the school, as appropriate, will update NSLDS to show that the student is no longer eligible due to his or her violation of the agreement. The NSLDS postscreening process will then cause a new ISIR record to be created and sent to all schools listed in the CPS record.

As noted above under *When a student receives additional funds during the 45-day period of extended eligibility,* the student loses eligibility as soon as he or she fails to meet the terms of the repayment agreement. The second school is not liable for any aid it disbursed after the student became ineligible but prior to being notified of the ineligibility via the NSLDS postscreening process.

As provided for in previous guidance (GEN-96-13, Q&A 13 and 15), once the school receives a record from NSLDS showing that a student is not eligible, it may no longer disburse Title IV aid to the student and must assist the Department in requiring the student to repay any funds he or she was not eligible to receive.

If a student who is receiving Title IV aid at an institution with which he or she has entered into a repayment agreement for a previous overpayment resulting from a withdrawal violates the terms of that agreement, the institution must immediately cease disbursing Title IV aid to the student. The school must immediately update the NSLDS record and refer the overpayment to Debt Resolution Services.

Withdrawal Dates for a School That Is Not Required to Take Attendance

Withdrawal Type	Circumstance	Student's Withdrawal Date [1]	Date of the Institution's Determination that the Student has Withdrawn
Official Notification	The student begins the school's withdrawal process, or The student otherwise provides official notification to the school of intent to withdraw.	The date the student begins the school's withdrawal process, or The date that the student otherwise provides the notification. (If both circumstances occur, use the **earlier** withdrawal date.)	The student's withdrawal date, or the date of notification, whichever is **later.**
Official Notification Not Provided	Official notification not provided by the student because of circumstances beyond the student's control. All other instances where student withdraws without providing official notification.	The date that the school determines is related to the circumstance beyond the student's control. The midpoint of the payment period or period of enrollment, as applicable.	The date that the school becomes aware that the student has ceased attendance. [2]
Leave of Absence Related	The student does not return from an approved leave of absence, or The student takes an unapproved leave of absence.	The date that the student began the leave of absence.	The earlier of the dates of the end of the leave of absence or the date the student notifies the school he or she will not be returning to that school. (In the case of an unapproved absence, the date that the student began the leave of absence.)
Withdrawal After Rescission of Official Notification	The student withdraws after rescinding a previous official notification of withdrawal.	The student's original withdrawal date from the previous official notification.	The date the school becomes aware that the student did not, or will not, complete the payment period or period of enrollment.

1. In place of the dates listed, a school may always use as a student's withdrawal date the student's last date of attendance at an academically related activity if the school documents that the activity is academically related and that the student attended the activity.

2. For a student who withdraws without providing notification to the school, the school must determine the withdrawal date no later than 30 days after the end of the earliest of the (1) payment period or period of enrollment (as appropriate), (2) academic year, or (3) educational program.

SAMPLE SUMMARY OF THE REQUIREMENTS OF 34 CFR 668.22 (TO PROVIDE TO STUDENTS AS PART OF CONSUMER INFORMATION)

Treatment of Title IV Aid When a Student Withdraws

The law specifies how your school must determine the amount of Title IV program assistance that you earn if you withdraw from school. The Title IV programs that are covered by this law are: Federal Pell Grants, Academic Competitiveness Grants, National SMART grants, TEACH Grants, Stafford Loans, PLUS Loans, Federal Supplemental Educational Opportunity Grants (FSEOGs), and Federal Perkins Loans.

When you withdraw during your payment period or period of enrollment (your school can define these for you and tell you which one applies) the amount of Title IV program assistance that you have earned up to that point is determined by a specific formula. If you received (or your school or parent received on your behalf) less assistance than the amount that you earned, you may be able to receive those additional funds. If you received more assistance than you earned, the excess funds must be returned by the school and/or you.

The amount of assistance that you have earned is determined on a prorata basis. For example, if you completed 30% of your payment period or period of enrollment, you earn 30% of the assistance you were originally scheduled to receive. Once you have completed more than 60% of the payment period or period of enrollment, you earn all the assistance that you were scheduled to receive for that period.

If you did not receive all of the funds that you earned, you may be due a Post-withdrawal disbursement. If your Post-withdrawal disbursement includes loan funds, your school must get your permission before it can disburse them. You may choose to decline some or all of the loan funds so that you don't incur additional debt. Your school may automatically use all or a portion of your Post-withdrawal disbursement of grant funds for tuition, fees, and room and board charges (as contracted with the school). The school needs your permission to use the Post-withdrawal grant disbursement for all other school charges . If you do not give your permission (some schools ask for this when you enroll), you will be offered the funds. However, it may be in your best interest to allow the school to keep the funds to reduce your debt at the school.

There are some Title IV funds that you were scheduled to receive that cannot be disbursed to you once you withdraw because of other eligibility requirements. For example, if you are a first-time, first-year undergraduate student and you have not completed the first 30 days of your program before you withdraw, you will not receive any FFEL or Direct loan funds that you would have received had you remained enrolled past the 30th day.

If you receive (or your school or parent receive on your behalf) excess Title IV program funds that must be returned, your school must return a portion of the excess equal to the lesser of:

1. your institutional charges multiplied by the unearned percentage of your funds, or
2. the entire amount of excess funds.

The school must return this amount even if it didn't keep this amount of your Title IV program funds.

If your school is not required to return all of the excess funds, you must return the remaining amount. Any loan funds that you must return, you (or your parent for a PLUS Loan) repay in accordance with the terms of the promissory note. That is, you make scheduled payments to the holder of the loan over a period of time.

Any amount of unearned grant funds that you must return is called an overpayment. The maximum amount of a grant overpayment that you must repay is half of the grant funds you received or were scheduled to receive. You must make arrangements with your school or the Department of Education to return the unearned grant funds.

The requirements for Title IV program funds when you withdraw are separate from any refund policy that your school may have. Therefore, you may still owe funds to the school to cover unpaid institutional charges. Your school may also charge you for any Title IV program funds that the school was required to return. If you don't already know what your school's refund policy is, you can ask your school for a copy. Your school can also provide you with the requirements and procedures for officially withdrawing from school.

If you have questions about your Title IV program funds, you can call the Federal Student Aid Information Center at 1-800-4-FEDAID (1-800-433-3243). TTY users may call 1-800-730-8913. Information is also available on Student Aid on the Web at www.studentaid.ed.gov.

Return of Title IV Funds Requirements and Deadlines

Party Responsible	Requirement	Deadline
School	**Determining withdrawal date** for student who withdraws without providing notification	30 days after the end of the earlier of: • Payment or enrollment period • Academic year in which student withdrew • Educational program from which student withdrew
School	**Return of unearned Title IV funds**	As soon as possible, but no later than 45 days after date school determined student withdrew
School	**Post-withdrawal disbursement to student's account for:** Outstanding current (allowable) charges (tuition and fees, room and board, etc.) Minor (e.g., under $200) prior year charges that the school has authorization to retain	As soon as possible, but no later than 180 days of date school determined student withdrew, in accordance with requirements for disbursing Title IV funds 34 CFR 668.164
School	**Written notification providing the student (or parent) the opportunity to accept all or part of a** Post-withdrawal disbursement of Title IV **loan funds,** (Perkins, FFEL, Direct Loan, or PLUS) to the student's account	Within 30 days of disbursement of loan funds, in accordance with requirements for notifications and authorizations 34 CFR 668.22(a)(4)(i)(B)
School	**Written notification of student's eligibility for a** direct Post-withdrawal disbursement of Title IV loan funds i**n excess of outstanding current (educationally related) charges**	Within 30 days of date school determined student withdrew
School	**Post-withdrawal disbursement to student** for earned Title IV funds in excess of outstanding current (educationally related) charges	From the date school determined student withdrew (1) Loans as soon as possible, but no later than 180 days (2) Grants as soon as possible, but no later than 45 days
School	**Notification to student (or parent) of outcome of late request for a Post-withdrawal disbursement to student** (request received by school after the specified period and school chooses not to make disbursement)	Not specified, but as soon as possible
School	**Notification to student of grant overpayment**	Within 30 days of date school determined student withdrew
School	**Referral of student to Collections,** if student does not pay overpayment in full, does not enter into repayment agreement, or fails to meet terms of repayment agreement	Not specified, but as soon as possible
Student (or parent)	**Submit response instructing school to make Post-withdrawal disbursement**	Within specified number of days school allows for response
Student	**Return of unearned Title IV funds**	Loans – according to terms of the loan Grants – within 45 days of earlier of date school sent, or was required to send notice

Return of Title IV Funds Requirements for Notification

Party Responsible	Notification	Requirements
School	**Report of student to NSLDS** if student does not pay overpayment in full, does not enter into repayment agreement, or fails to meet terms of repayment agreement	No later than 45 days from the date student is notified of overpayment
School	**Consumer Information**	• School's withdrawal policy • School's refund policy • Office(s) designated to receive official notifications of intent to withdraw • Requirements regarding return of Title IV funds
School	Written notification of student's eligibility for a direct Post-withdrawal disbursement of Title IV loan funds in excess of outstanding current (educationally related) charges	• Identify type and amount of the Title IV loan funds that will make up the Post-withdrawal disbursement not credited to student's account • Explain that student or parent may accept all or part of the disbursement • Advise student or parent that no Post-withdrawal disbursement of Title IV loan funds will be made unless school receives response within the time-frame established by the school
School	**Response (written or electronic) to late request for Post-withdrawal disbursement (that school chooses not to make)**	Outcome of request
School	**Repayment Agreement**	• Terms permitting student to repay overpayment while maintaining eligibility for Title IV funds • Repayment in full within 2 years of date school determined student withdrew

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name _____ **Social Security Number** _____

Date form completed ___ / ___ / ___ **Date of school's determination that student withdrew** ___ / ___ / ___

Period used for calculation (check one) ☐ **Payment period** ☐ **Period of enrollment**

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant		
2. Academic Competitiveness Grant		
3. National SMART Grant		
4. FSEOG		
5. TEACH Grant		
	A. Subtotal	C. Subtotal

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
6. Unsubsidized FFEL/Direct Stafford Loan		
7. Subsidized FFEL/Direct Stafford Loan		
8. Perkins Loan		
9. FFEL/Direct PLUS (Graduate Student)		
10. FFEL/Direct PLUS (Parent)		
	B. Subtotal	D. Subtotal

E. Total Title IV aid disbursed for the period.

A. _____
\+ B. _____
= E. $ _____ .

F. Total Title IV grant aid disbursed and that could have been disbursed for the period.

A. _____
\+ C. _____
= F. $ _____ .

G. Total Title IV aid disbursed and that could have been disbursed for the period.

A. _____
B. _____
C. _____
\+ D. _____
= G. $ _____ .

STEP 2: Percentage of Title IV Aid Earned

___ / ___ / ___	___ / ___ / ___	___ / ___ / ___
Start date	**Scheduled end date**	**Date of withdrawal**

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed

Divide the calendar days completed in the period by the total calendar days in the period (excluding scheduled breaks of five days or more **AND** days that the student was on an approved leave of absence).

_____ (Completed days) ÷ _____ (Total days) = _____ . %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. _____ . %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) by the Total Title IV aid disbursed and that could have been disbursed for the period (Box G).

_____ % (Box H) X _____ (Box G) = I. $ _____ .

STEP 4: Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal,* ***STOP.*** *No further action is necessary.*

J. Post-withdrawal disbursement

From the Amount of Title IV aid earned by the student (Box I) subtract the Total Title IV aid disbursed for the period (Box E). This is the amount of the post-withdrawal disbursement.

Stop here, and enter the amount in Box 1 on Page 3 (Post-withdrawal disbursement tracking sheet).

_____ (Box I) – _____ (Box E) = J. $ _____ .

Step 4 continued ▶

You may use this form when the withdrawal date is on or after 11/01/2007

Student's Name _____ **Social Security Number** _____

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned

From the Total Title IV aid disbursed for the period (Box E) subtract the amount of Title IV aid earned by the student (Box I). This is the amount of Title IV aid that must be returned.

[ ] (Box E) – [ ] (Box I) = K.$.

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the period

Tuition	
Room	
Board	
Other	
Other	
Other	

Total Institutional Charges *(Add all the charges together)* = L.$.

M. Percentage of unearned Title IV aid

100% – [ ] % (Box H) = M. . %

N. Amount of unearned charges

Multiply institutional charges for the period (Box L) by the percentage of unearned Title IV aid (Box M).

[ ] (Box L) x [ ] % (Box M) = N.$.

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. O.$.

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	
Total loans the school must return	P.$.
6. Pell Grant	
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	
10. TEACH Grant	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

From the amount of Title IV aid to be returned (Box K) subtract the Amount for the school to return (Box O).

[ ] (Box K) – [ ] (Box O) = Q. .

▶ *If Box Q is ≤ zero, **STOP**. If greater than zero, go to Step 8*

STEP 8: Repayment of the Student's loans

From the Net loans disbursed to the student (Box B) subtract the Total loans the school must return (Box P) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

[ ] (Box B) – [ ] (Box P) = R.$.

▶ *If Box Q is less than or equal to Box R, **STOP**. The only action a school must take is to notify the holders of the loans of the student's withdrawal date.*

▶ *If Box Q is greater than Box R, proceed to Step 9.*

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

From the initial amount of unearned Title IV aid due from the student (Box Q) subtract the amount of loans to be repaid by the student (Box R) .

[ ] (Box Q) – [ ] (Box R) = S.$.

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and that could have been disbursed for the period (Box F) by 50%.

[ ] (Box F) x 50% = T. $.

U. Title IV grant funds for student to return

From the Initial amount of Title IV grants for student to return (Box S) subtract the Amount of Title IV grant protection (Box T).

[ ] (Box S) – [ ] (Box T) = U.$.

▶ *If Box U is less than or equal to zero, **STOP**. If not, go to Step 10.*

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes $50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	
5. TEACH Grant	

POST-WITHDRAWAL DISBURSEMENT TRACKING SHEET

Student's Name _____ Social Security Number _____

Date of school's determination that student withdrew ___ / ___ / ___

I. Amount of Post-withdrawal Disbursement (PWD)

Amount from "Box J" of the Treatment of Title IV Funds When a Student Withdraws worksheet **Box 1** $ _____ .

II. Outstanding Charges For Educationally Related Expenses Remaining On Student's Account

Total Outstanding Charges Scheduled to be Paid from PWD
(*Note: Prior-year charges cannot exceed $200.*) **Box 2** $ _____ .

III. Post-withdrawal Disbursement Offered Directly to Student and/or Parent

From the total Post-withdrawal Disbursement due (Box 1), subtract the Post-withdrawal Disbursement to be credited to the student's account (Box 2) . This is the amount you must make to the student (grant) or offer to the student or parent (Loan) as a Direct Disbursement.

$ _____ . (Box 1) — $ _____ . (Box 2) = **Box 3** $ _____ .

IV. Allocation of Post-withdrawal Disbursement

Type of Aid	Loan Amount School Seeks to Credit to Account	Loan Amount Authorized to Credit to Account	Title IV Aid Credited to Account	Loan Amount Offered as Direct Disbursement	Loan Amount Accepted as Direct Disbursement	Title IV Aid Disbursed Directly to Student
Pell Grant	N/A	N/A		N/A	N/A	
ACG	N/A	N/A		N/A	N/A	
National SMART Grant	N/A	N/A		N/A	N/A	
FSEOG	N/A	N/A		N/A	N/A	
TEACH Grant	N/A	N/A		N/A	N/A	
Unsubsidized FFEL / Direct						
Subsidized FFEL / Direct						
Perkins						
FFEL / Direct Grad Plus						
FFEL / Direct Parent Plus						
Totals						

V. Authorizations and Notifications

Post-withdrawal disbursement loan notification sent to student and/or parent on ___ / ___ / ___

Deadline for student and/or parent to respond ___ / ___ / ___

☐ Response received from student and/or parent on ___ / ___ / ___ ☐ Response not received

☐ School does not accept late response

VI. Date Funds Sent

Date Direct Disbursement mailed or transferred Grant ___ / ___ / ___ Loan ___ / ___ / ___

You may use this form when the withdrawal date is on or after 11/01/2007

Treatment Of Title IV Funds When A Student Withdraws From A Clock-Hour Program

Student's Name _____ **Social Security Number** _____

Date form completed ___ / ___ / ___ **Date of school's determination that student withdrew** ___ / ___ / ___

Period used for calculation (check one) ☐ **Payment period** ☐ **Period of enrollment**

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant		
2. Academic Competitiveness Grant		
3. National SMART Grant		
4. FSEOG		
5. TEACH Grant		
	A. Subtotal	C. Subtotal

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
6. Unsubsidized FFEL/Direct Stafford Loan		
7. Subsidized FFEL/Direct Stafford Loan		
8. Perkins Loan		
9. FFEL/Direct PLUS (Graduate Student)		
10. FFEL/Direct PLUS (Parent)		
	B. Subtotal	D. Subtotal

E. Total Title IV aid disbursed for the period.

A. _____
+ B. _____
= E. $ _____ .

F. Total Title IV grant aid disbursed and that could have been disbursed for the period.

A. _____
+ C. _____
= F. $ _____ .

G. Total Title IV aid disbursed and that could have been disbursed for the period.

A. _____
B. _____
C. _____
+ D. _____
= G. $ _____ .

STEP 2: Percentage of Title IV Aid Earned

Withdrawal date ___ / ___ / ___

H. Determine the percentage of the period completed:
Divide the clock hours scheduled to have been completed as of the withdrawal date in the period by the total clock hours in the period.

_____ (Hours scheduled to complete) ÷ _____ (Total hours in period) = _____ . %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. _____ . %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) by the Total Title IV aid disbursed and that could have been disbursed for the period (Box G).

_____ % (Box H) x _____ (Box G) = I. $ _____ .

STEP 4: Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.*

J. Post-withdrawal disbursement
From the Amount of Title IV aid earned by the student (Box I) subtract the Total Title IV aid disbursed for the period (Box E). This is the amount of the post-withdrawal disbursement.
Stop here, and enter the amount in Box 1 on Page 3 (Post-withdrawal disbursement tracking sheet).

_____ (Box I) – _____ (Box E) = J. $ _____ .

K. Title IV aid to be returned
From the Total Title IV aid disbursed for the period (Box E) subtract the Amount of Title IV aid earned by the student (Box I) . This is the amount of Title IV aid that must be returned.

_____ (Box E) – _____ (Box I) = K. $ _____ .

You may use this form when the withdrawal date is on or after 11/01/2007

Student's Name _____ **Social Security Number** _____

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the period

Tuition	
Room	
Board	
Other	
Other	
Other	

Total Institutional Charges
(Add all the charges together) = L.$.

M. Percentage of unearned Title IV aid

100% – ____ % (Box H) = M. . %

N. Amount of unearned charges

Multiply institutional charges for the period (Box L) by the Percentage of unearned Title IV aid (Box M).

____ (Box L) x ____ % (Box M) = N.$.

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to Amount of unearned charges (Box N), and enter the lesser amount.

O.$.

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	
Total loans the school must return	= P.$.
6. Pell Grant	
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	
10. TEACH Grant	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

From the amount of Title IV aid to be returned (Box K) subtract the Amount for the school to return (Box O).

____ (Box K) – ____ (Box O) = Q.$

▶ *If Box Q is ≤ zero, **STOP**. If greater than zero, go to Step 8.*

STEP 8: Repayment of the Student's loans

From the Net loans disbursed to the student (Box B) subtract the Total loans the school must return (Box P) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

____ (Box B) – ____ (Box P) = R.$

▶ *If Box Q is less than or equal to Box R, **STOP.*** The only action a school must take is to notify the holders of the loans of the student's withdrawal date.

▶ *If Box Q is greater than Box R, proceed to Step 9.*

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

From the Initial amount of unearned Title IV aid due from the student (Box Q) subtract the amount of loans to be repaid by the student (Box R) .

____ (Box Q) – ____ (Box R) = S. .

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and that could have been disbursed for the period (Box F) by 50%.

____ (Box F) x 50% = T. .

U. Title IV grant funds for student to return

From the Initial amount of Title IV grants for student to return (Box S) subtract the Amount of Title IV grant protection (Box T).

____ (Box S) – ____ (Box T) = U. .

▶ *If Box U is less than or equal to zero, **STOP**. If not, go to Step 10.*

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes $50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	
5. TEACH Grant	

POST-WITHDRAWAL DISBURSEMENT TRACKING SHEET

Student's Name _____ Social Security Number _____

Date of school's determination that student withdrew ___ / ___ / ___

I. Amount of Post-withdrawal Disbursement (PWD)

Amount from "Box J" of the Treatment of Title IV Funds When a Student Withdraws worksheet **Box 1** $ _____ .

II. Outstanding Charges For Educationally Related Expenses Remaining On Student's Account

Total Outstanding Charges Scheduled to be Paid from PWD
(*Note: Prior-year charges cannot exceed $200.*) **Box 2** $ _____ .

III. Post-withdrawal Disbursement Offered Directly to Student and/or Parent

From the total Post-withdrawal Disbursement due (Box 1), subtract the Post-withdrawal Disbursement to be credited to the student's account (Box 2) . This is the amount you must make to the student (grant) or offer to the student or parent (Loan) as a Direct Disbursement.

$ _____ . (Box 1) — $ _____ . (Box 2) = **Box 3** $ _____ .

IV. Allocation of Post-withdrawal Disbursement

Type of Aid	Loan Amount School Seeks to Credit to Account	Loan Amount Authorized to Credit to Account	Title IV Aid Credited to Account	Loan Amount Offered as Direct Disbursement	Loan Amount Accepted as Direct Disbursement	Title IV Aid Disbursed Directly to Student
Pell Grant	N/A	N/A		N/A	N/A	
ACG	N/A	N/A		N/A	N/A	
National SMART Grant	N/A	N/A		N/A	N/A	
FSEOG	N/A	N/A		N/A	N/A	
TEACH Grant	N/A	N/A		N/A	N/A	
Unsubsidized FFEL / Direct						
Subsidized FFEL / Direct						
Perkins						
FFEL / Direct Grad Plus						
FFEL / Direct Parent Plus						
Totals						

V. Authorizations and Notifications

Post-withdrawal disbursement loan notification sent to student and/or parent on ___ / ___ / ___

Deadline for student and/or parent to respond ___ / ___ / ___

☐ Response received from student and/or parent on ___ / ___ / ___ ☐ Response not received

☐ School does not accept late response

VI. Date Funds Sent

Date Direct Disbursement mailed or transferred Grant ___ / ___ / ___ Loan ___ / ___ / ___

You may use this form when the withdrawal date is on or after 11/01/2007

Information Required when Referring Student Overpayments to Debt Resolution Services

Student Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____ _____

Social Security Number: _____ Date of Birth: _____

If the overpayment includes an Academic Competitiveness, National Smart Grant, or TEACH Grant, enter the Award Identifier (**ID**) used when the award was created in COD.

ACG Award ID: _____ National Smart Grant Award ID: _____

TEACH Award ID: _____

Parent/Spouse Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____ _____

School Information

If your Pell Reporting ID is different than your Pell Attended ID, please provide both. Otherwise, just report the Pell Attended ID.

Reporting School's Pell ID Number: _____ Attending School's Pell ID Number: _____

If your school does not have a Pell ID, enter your OPE ID: _____

Name of Contact: _____ Telephone Number: _____

Disbursements and Repayments

	Pell Grant	Academic Competitiveness Grant	National Smart Grant	FSEOG [1]	TEACH Grant
Award year in which overpayment was disbursed:					
Total grant disbursed:					
Dates of disbursement: **(Must match NSLDS overpayment record)**					
Overpayment amount owed by student *					
Total grant repaid by student to school, if any:					
Date of last payment to school, if any:					
Total being referred for collection:				[1]	

[1] If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG.

* If the overpayment is the result of a withdrawal, provide the date of the withdrawal [/ /]

If the overpayment is **not** the result of a withdrawal, please provide a brief explanation of the reason for the overpayment.

_____

_____

SEND INFORMATION TO ⇒ Student Loan Processing Center – Overpayments
P.O. Box 4157
(903) 454-5398 ⇐ FAX Greenville, Texas 75403

You may use this form when the withdrawal date is on or after 11/01/2007

Returning Funds on FFEL Loans Purchased/Serviced by the Department and Direct Loans

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.

Important

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.

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

Important

This information is for school use only.

*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

Important

This information is for school use only.

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

Important

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

Address for NELNET Overnight Delivery:

Nelnet School Service Center
121 South 13th Street, Suite 201
Lincoln, NE 68508

Case Studies in Withdrawals and the Return of Title IV Aid

On the pages that follow, you will find examples of the withdrawal calculations performed for students enrolled in various types of programs and institutions. By reviewing these case studies, you can gain additional insight into the process of returning Title IV funds.

Case Study 1: Penny Jones

Calculating the return of Title IV funds for a student attending a two-year community college (semester) who is receiving Title IV grants and loans (partially disbursed), and is due a post-withdrawal disbursement.

Case Study 2: Bob Ellison

Calculating the return of Title IV funds when a student receiving Title IV grants and loans at a low-cost public community college that measures progress in credit hours withdraws and both the school and the student must return grant funds.

Case Study 3: Richard Sherman

When a student receiving Title IV grants and loans at a school that uses the aggregate method for matching the school's FSEOG Federal allocation withdraws unofficially.

Case Study 4: Harry Springer

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a period of enrollment basis withdraws unofficially.

Case Study 5: Jordan Aire

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a payment period basis withdraws unofficially.

Case Study 6: Bob White

When a student receiving Title IV grants and loans at a school that utilizes a non-term course structure, measures academic progress in credit hours, and performs its Return calculations on a payment period basis, officially withdraws, reenters within 180 days, and withdraws again.

CASE STUDY 1: PENNY JONES

Calculating the return of Title IV funds for a student attending a two-year community college (semester) who is receiving Title IV grants and loans (partially disbursed), and is due a Post-withdrawal Disbursement

Learning Objectives

Learn to complete STEPs 1 – 4 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- identify the basic information needed to complete the worksheet, including the withdrawal date and date of the institution's determination that the student withdrew;
- calculate the percentage of the payment period or period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned;
- determine the amount to be offered to the student or returned; and
- provide the information a school must maintain in its files when a student is eligible for a Post-withdrawal Disbursement, and complete a Post-Withdrawal Tracking Sheet.

School Profile

Everyone Should Have an Education Community College (ESECC) is a two-year, public, semester-based institution that measures academic progress in credit hours.

Academic Year/Program	2 semesters 32 weeks
Period	16 weeks 110 calendar days
Period Start Date	August 23
Institutionally Scheduled Break	None
Required to Take Attendance	No

Student Profile

Penny Jones is a first-year student in Virginia. Charges to her account for the first semester are as follows:

Tuition and fees	$	1,000.00/16-week semester
Technology fee	$	100.00/16-week semester
Books and Supplies	$	400.00/16-week semester
Health Insurance	$	200.00/academic year

Charges remaining on Penny's account after the withdrawal:

Tuition	$	100.00

School Authorized to Credit Account for Other Charges: Yes (all charges)

Penny's financial aid package included the following annual awards:

Pell Grant	$	2,000.00
Direct Subsidized Loan	$	3,500.00
State Grant	$	500.00
College Grant	$	200.00

Discussion

On the first day of the fall semester, August 23, Penny received the following disbursements to her student account:

Pell Grant	$	1,000.00
Direct Subsidized Loan	$	0.00
State Grant	$	500.00
College Grant	$	100.00

Although Penny is grateful for the assistance, she is concerned about meeting her living costs for the year.

On October 8, Penny came to the Financial Aid Office to advise that she doesn't think she is doing very well and is considering dropping out prior to November 1, the last day to withdraw from classes without academic penalty. To help her make a decision, she requests information on the withdrawal process. You are fairly certain that Penny is having a hard time adjusting to college life, and want to encourage her to hang in until the end of the semester, December 10. After you provide her preliminary information, you ask her if it is her intent to withdraw. Penny says that she needs some time to think it over, and makes a follow-up appointment for October 13.

When Penny comes to see you on October 13, she indicates that the last class she attended was on September 30. Because she doesn't see how she can get caught up on the work she's missed, she is adamant about withdrawing, so you give her instructions on completing the college's official withdrawal process and advise her where she can get the appropriate forms. Penny picks up the forms from the registrar on October 14. She turns the completed forms in on October 15.

Let's review some basic information about Penny as well as our learning objectives for this case. Penny attended a two-year community college, which was on the semester system. Students earned academic credits based on credit hours taken. Before withdrawing, Penny received her Pell Grant disbursement, but not her Direct Loan.

The first thing we'll need to do is to decide on the date of the school's determination that Penny withdrew. Then, we'll complete Step 1: Student's Title IV Aid Information, which includes:

- Title IV aid disbursed, and
- Title IV aid that could have been disbursed.

Solution

The date of the institution's determination is the date you were advised by Penny that she had decided to withdraw (October 13). On the earlier date, October 8, she was only thinking about withdrawing.

Date of the institution's determination that the student withdrew = October 13.

Note that for a student who provides notification to the institution of his or her withdrawal, the ***date of determination*** is the student's withdrawal date, or the date of notification of withdrawal, whichever is later (34 CFR 668.22(l)(3)(i)). In this case, the dates are identical, October 13.

The withdrawal date for Title IV purposes, October 13, is described in ***Step 2***.

STEP 1: Student's Title IV Aid Information

Box A.	Title IV grants aid disbursed –	
	Pell Grant	$ 1,000.00
	A. =	$ 1,000.00
Box B.	Net Title IV loans disbursed = $ 0.00	
Box C.	Title IV grants that could have been disbursed = $ 0.00	

Box D. Penny's Direct Loan had not been disbursed yet. But, she was eligible for the disbursement. Net Title IV loans that could have been disbursed = $1,750.00

D = $ 1,750.00

Box E. Although Penny also received disbursements of state and institutional aid, only Title IV aid is considered in the return of funds calculation. Title IV aid disbursed = $1,000.00.

Pell Grant $ 1,000.00

Box F. Box F is equal to the $1,000.00 from Box A plus $0.00 from Box C. Box F = $1,000.

Box G. Both the disbursed Pell (Box A) and undisbursed Direct Loan (Box D) are included Box G. Total Title IV aid disbursed plus Title IV aid that could have been disbursed = $2,750.

Pell Grant (Box A)	$ 1,000.00
Direct Subsidized Loan (Box D)	$ 1,750.00
Total Title IV aid disbursed plus could have been disbursed (Box G)	$ 2,750.00

STEP 2: Percentage of Title IV Aid Earned

1. Payment period start date = August 23
2. Payment period end date = December 10
3. Withdrawal date = October 13

Note: Since ESECC is not required by an outside entity to take attendance, the withdrawal date is the date Penny began the official school withdrawal process. **Since the school includes the financial aid office as one of those places where the student can begin the withdrawal process, Penny's withdrawal date is October 13.**

Although the school's refund policy is that the withdrawal date is the date a student turns in the signed withdrawal forms — which she did on October 15, that date is superseded for a student receiving Title IV aid by the federal requirement to use the date the student begins the withdrawal process or otherwise provides official notification (October 13) .

Although Penny stopped attending classes on September 30, she didn't notify the school (begin the official withdrawal process) until October 13. When she came to see you on October 8, she was only thinking about withdrawing.

Of course, the school could have documented a last date of attendance at an academically-related activity and used that as her withdrawal date if it so chose.

Box H. Percentage of payment period completed

- Since the student attended a credit-hour school, the percentage of aid completed is calculated by dividing the number of calendar days completed by the total number of calendar days in the payment period. Number of calendar days completed in payment period = 52 (August 23 – October 13).
- Because the semester does not include a scheduled break of 5 or more consecutive days, all of the calendar days in the period from August 23 to December 10 are counted. Number of calendar days in payment period = 110.
- 52 days ÷ 110 days = .4727, rounded to .473, or 47.3%. Percentage of payment period completed = 47.3%.

Because this percentage is less than 60%, the Percentage of Title IV aid earned, Box H = 47.3%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 47.3% (Percentage of Title IV aid earned from Box H) X $2,750.00 (Total Title IV aid disbursed plus Title IV aid that could have been disbursed from Box G) = $1,300.75. Amount of Title IV aid earned by the student (Box I) = $1,300.75.

STEP 4: Total Title IV Aid to Be Disbursed or Returned

Box J. Because the total aid earned (Box I) is greater than the total aid disbursed (item E), Penny is due a post-withdrawal disbursement. $1,300.75 (Box I) – $1,000.00 (Box E) = $300.75. Post-withdrawal disbursement (Box J) = $300.75.

If a post-withdrawal disbursement is due the student, you stop here on the worksheet. Your next step is to begin compiling the information a school must maintain in its files when a student is eligible for a Post-withdrawal Disbursement (ESECC has chosen to use FSA's Post-withdrawal Tracking Sheet), and providing the required notifications to the student.

THE POST-WITHDRAWAL DISBURSEMENT TRACKING SHEET

The FAO performed the Return calculation on October 15 and determined that Penny was eligible for a post-withdrawal disbursement of $300.75 (STEP 4, Box J).

Because the post-withdrawal disbursement would be composed entirely of loan funds, the school could not credit any funds to Penny's account or disburse any funds to her directly without sending Penny written notification advising her of her responsibility to repay the funds and obtaining Penny's confirmation that she still wanted them.

Therefore, on October 20, the school sent Penny a letter explaining that:

- she was eligible for a post-withdrawal disbursement of Subsidized Direct Loan funds in the amount of $300.75;
- she could accept some or all of the funds;
- Penny was obligated to repay any loan funds she accepted;
- if she accepted the disbursement, $100 would be credited to her account for unpaid charges and that Penny could not receive that $100;
- if she accepted the disbursement, the school would make a direct disbursement directly to her of $200.75; and
- she has until November 13 (24 days from the day the school mailed the letter)[1] to accept the disbursement, and that if her response was received after that date, that the school did not have to make the disbursement.

On November 13, the school received confirmation from Penny that she accepted all of the funds.

On November 15, the school drew down $300.75 in Subsidized Direct Loan funds through GAPS, credited the $300.75 to Penny's account, took $100 for unpaid charges, and sent Penny a check for the credit balance of $200.75. (Note that the school could have drawn down the funds, credited the student's account with $100, and sent the student the balance of $200.75, but we do not require a school to deviate from its normal cash management procedures, and establish a different type of audit trail for post-withdrawal disbursements.)

The FAO placed a record of all the aforementioned in Penny's permanent financial aid file.

1 The regulations now allow a school to set a deadline later than 14 days, provided the later deadline applies to both confirmation of loan disbursements to the student's account and direct disbursements of a post-withdrawal disbursement.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name Penny Jones **Social Security Number** Example 1

Date form completed 10 / 15 / **Date of school's determination that student withdrew** 10 / 13 /

Period used for calculation (check one) [X] **Payment period** [ ] **Period of enrollment**

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant	1,000.00	
2. Academic Competitiveness Grant		
3. National SMART Grant		
4. FSEOG		
	A. 1,000.00 Subtotal	C. 0.00 Subtotal

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
6. Unsubsidized FFEL/Direct Stafford Loan		
7. Subsidized FFEL/Direct Stafford Loan		1750.00
8. Perkins Loan		
9. FFEL/Direct PLUS (Graduate Student)		
10. FFEL/Direct PLUS (Parent)		
	B. 0.00 Subtotal	D. 1,750.00 Subtotal

E. Total Title IV aid disbursed for the payment period or period of enrollment.

A. 1,000.00
+ B. 0.00
= E. $ 1,000.00

F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. 1,000.00
+ C. 0.00
= F. $ 1,000.00

G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. 1,000.00
B. 0.00
C. 0.00
+ D. 1,750.00
= G. $ 2,750.00

STEP 2: Percentage of Title IV Aid Earned

Start date	Scheduled end date	Date of withdrawal
08 / 23 /	12 / 14 /	10 / 13 /

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed

Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

52 (Completed days) ÷ 110 (Total days) = 47.3 %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 47.3 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

47.3 % (Box H) X 2,750 (Box G) = I. $ 1,300.75

STEP 4: Total Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal,* ***STOP.*** *No further action is necessary.*

J. Post-withdrawal disbursement

Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on page 3, the Post-withdrawal disbursement tracking sheet.

1,300.75 (Box I) − 1,000.00 (Box E) = J. $ 300.75

Step 4 continued ▶

You may use this form when the withdrawal date is on or after 7/01/2006

POST-WITHDRAWAL DISBURSEMENT TRACKING SHEET

Student's Name: Penny Jones

Social Security Number: Example 1

Date of school's determination that student withdrew: 10 / 13 /

I. Amount of Post-withdrawal Disbursement (PWD)

Amount from "Box J" of the Treatment of Title IV Funds When a Student Withdraws worksheet **Box 1** $ 300.75

II. Outstanding Charges For Educationally Related Expenses Remaining On Student's Account

Total Outstanding Charges Scheduled to be Paid from PWD **Box 2** $ 100.00

III. Post-withdrawal Disbursement Offered Directly to Student and/or Parent

Subtract the Post-withdrawal Disbursement to be credited to the student's account (Box 2) from the total Post-withdrawal Disbursement due (Box 1). This is the amount you must offer to the student and/or parent as a Direct Disbursement.

$ 300.75 (Box 1) − $ 100.00 (Box 2) = **Box 3** $ 200.75

IV. Allocation of Post-withdrawal Disbursement

Type of Aid	Grant Aid Credited to Account	Loan Amount School Seeks to Credit to Account	Loan Amount Authorized to Credit to Account	Amount of Aid Offered as Direct Disbursement	Amount of Aid Accepted as Direct Disbursement
Unsubsidized FFEL/Direct	N/A				
Subsidized FFEL/Direct	N/A	$100.00	$100.00	$200.75	$200.75
Perkins	N/A				
FFEL/Direct Grad Plus	N/A				
FFEL/Direct Parent Plus	N/A				
Pell Grant		N/A	N/A		
ACG		N/A	N/A		
National SMART Grant		N/A	N/A		
FSEOG		N/A	N/A		
Totals					

V. Authorizations and Notifications

Post-withdrawal disbursement notification sent to student and/or parent on 10 / 20 /

Deadline for student and/or parent to respond 11 / 13 /

☒ Response received from student and/or parent on 11 / 13 /

☐ Response not received

☐ School does not accept late response

VI. Date Funds Sent

Date Direct Disbursement mailed or transferred 11 / 15 /

CASE STUDY 2: BOB ELLISON

Calculating the return of Title IV funds when a student receiving Title IV grants and loans at a low-cost public community college that measures progress in credit hours withdraws and both the school and the student must return grant funds

Learning Objectives

Learn to complete STEPs 1–10 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- identify the basic information needed to complete the worksheet, including the withdrawal date and date of the institution's determination that the student withdrew for a student who officially withdraws;
- calculate the percentage of the payment period or period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned;
- determine the amount to be offered to the student or returned; and
- apply the Title IV grant protection; and
- apply the *de minimis* grant repayment provision.

School Profile

West Coast Community College (WCCC) is a two-year public, credit-hour institution.

Academic Year/Program:	2 semesters 32 weeks
Period:	16 weeks 110 calendar days
Period Start Date:	January 8
Period End Date:	May 4
Institutionally Scheduled Break:	Yes, 7 days
Taking Attendance Required:	No
Method for Matching FSEOG:	Fund-specific

Student Profile

Bob Ellison is a first-time freshman at WCCC. Charges to his account are as follows:

Tuition and Fees:	$	1,000.00/16 week semester
School Authorized to Credit Account for Other Charges:		Yes (all charges)

Bob's financial aid package includes the following annual awards:

Pell Grant	$	2,050.00
ACG	$	750.00
FSEOG	$	2,400.00

Discussion

Bob Ellison enrolled as a first-time freshman at (WCCC) for the spring semester on January 8. On January 18, Bob got a call from the state treasurer informing him that the programming job he had applied for six months ago was his for the taking. That same day, Bob contacted the Financial Aid Office to advise it that he was withdrawing from WCCC, begin WCCC's formal withdrawal process (11 calendar days into the semester), and find out what to do next. All of his financial aid for the semester had been disbursed.

Solution

The date of the institution's determination that Bob withdrew is the day he contacted the Financial Aid Office to advise the school that he was withdrawing from WCCC, January 18.

STEP 1: Student's Title IV Aid Information

Box A. Because WCCC uses the fund-specific method of matching FSEOG funds, 100% of Bob's FSEOG grant is used in the calculation. Title IV grant aid disbursed = $2,600.00.

Pell Grant	$ 1,025.00
ACG	$ 375.00
FSEOG	$ 1,200.00
A. =	$ 2,600.00

Box B. Net Title IV loans disbursed = $ 0.00.

Box C. Grants that could have been disbursed = $ 0.00.

Box D. Net Title IV Loans that could have been disbursed = $ 0.00.

Box E. Total Title IV aid disbursed for the payment period = A + B = 2,600.00 + 0.00 = $ 2.600.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period = A + C = 2,600.00 + 0.00 = $ 2,600.00.

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period = A + B + C + D = 2,600.00 + 0.00 + 0.00 + 0.00 = $ 2,600.00

STEP 2: Percentage of Title IV Aid Earned

1. Payment period start date = January 8.
2. Payment period end date = May 4.
3. Date of withdrawal = January 18.
4. Percentage of payment period completed:
   - Number of calendar days completed = 11 calendar days.
   - Number of calendar days in payment period = 110 calendar days.
   - 11 days ÷ 110 days = .100. Percentage of payment period completed = 10.0%.

Box H. Because this percentage is less than 60%, the Percentage of Title IV aid earned = 10.0%.

STEP 3: Amount of Title IV Aid Earned by Student

Box I. Multiply 10.0% (% of Title IV aid earned from Box H) X $2,600.00 (total Title IV aid disbursed plus Title IV aid that could have been disbursed from Box G) = $260.00 Amount of Title IV aid earned by student = $260.00

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to item K. Post-withdrawal disbursement = N/A.

Box K. Because the total aid disbursed (Box E) is greater than the total aid earned (Box I), Title IV aid will need to be returned.

$2,600.00 (Box E) – $260.00 (Box D) = $2,340.00. Title IV aid to be returned = $2,340.00

STEP 5: Amount of Unearned Title IV Aid Due from the School

Box L. Institutional charges for the payment period or period of enrollment = $1,000.00

Tuition and Fees	$	1,000.00

Box M. Subtract 10.0%, the percentage of Title IV aid earned (Box H) from 100% (100% – 10.0% = 90.0%). Percentage of Title IV aid unearned = 90.0%.

Box N. First, calculate the unearned institutional charges. $1,000.00 (institutional charges from Box L) X 90.0% (% Title IV aid unearned from Box M) = $900.00 (no rounding needed). Amount of unearned institutional charges = $900.00.

Box O. Then, compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N) and enter the lesser amount for Box O.

Box K =	$	2,340.00
Box N =	$	900.00

Amount of unearned Title IV aid due from the school = $900.00.

STEP 6: Return of Funds by the School

Box P. The student had no loans, so the total loans the school must return = $0.00

Box P =	$	0.00

The student's Pell Grant ($1,025.00) exceeds the amount the school must return ($900.00), so the school must return $900.00 to the Federal Pell Grant program. The school must return the funds as soon as possible, but no later than **45 days** from the date it determined Bob withdrew.

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid that the school must return $900.00 (Box O) from the total amount of Title IV aid that is to be returned $2,340.00 (Box K). $2,340.00 – $900.00 = $1,440.00. Initial amount of unearned Title IV aid due from student = $1,440.00

STEP 8: Repayment of the Student's Loans

Box R. The student had no loans, so the total loans the student must return = $0.00

STEP 9: Grant Funds to be Returned

Box S. Initial amount of Title IV grants for the student to return

Subtract the amount of loans to be repaid by the student ($0.00 from Box R) from the initial amount of unearned Title IV aid due from the student ($1,440.00 from Box Q) to find the Initial amount of Title IV grants for the student to return. $1,440.00 – $0.00 = $1,440.00.

Box T. Amount of grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment ($2,600.00 from Box F) by 50%. Amount of grant protection = $2,600.00 X .50.0% = $1,300.00

Box U. Title IV grant funds for the student to return

Subtract the protected amount of Title IV grants ($1,300.00 from Box T) from the initial amount of Title IV grants for student to return ($1,440.00 from Box S). Total grants for student to return = $1,440.00 – $1,300.00 = $140.00.

STEP 10: Return of Grant Funds by the Student

Amount of Title IV grants for he student to return

- Subtract the amount the school had to return to the Federal Pell Grant program $900.00 from the amount Federal Pell Grant disbursed to the student $1,025.00. Remaining unearned Pell Grant balance = $1,025.00 – $900.00 = $125.00.
- Subtract the Remaining unearned Pell Grant balance of $125.00 from the $140.00 in Title IV grants for the student to return. ACG for student to return = $140.00 – $125.00 = $15.00.

* Because the $15.00 to be returned to the ACG program is $50.00 or less, it is considered a *de minimis* amount. Therefore, the school is not required to return it to the ACG program, report it to NSLDS, or refer it to ED collections.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name: Bob Ellison

Social Security Number: Example 2

Date form completed:

Date of school's determination that student withdrew: 1/18/

Period used for calculation (check one): [X] Payment period [ ] Period of enrollment

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant	1,025.00	
2. Academic Competitiveness Grant	375.00	
3. National SMART Grant		
4. FSEOG	1,200.00	
	A. 2,600.00 (Subtotal)	C. 00.00 (Subtotal)

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
6. Unsubsidized FFEL/Direct Stafford Loan		
7. Subsidized FFEL/Direct Stafford Loan		
8. Perkins Loan		
9. FFEL/Direct PLUS (Graduate Student)		
10. FFEL/Direct PLUS (Parent)		
	B. 00.00 (Subtotal)	D. 00.00 (Subtotal)

E. Total Title IV aid disbursed for the payment period or period of enrollment.

A. 2,600.00
+ B. 00.00
= E. $ 2,600.00

F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. 2,600.00
+ C. 00.00
= F. $ 2,600.00

G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.

A.
B. 00.00
C. 00.00
+ D. 00.00
= G. $ 2,600.00

STEP 2: Percentage of Title IV Aid Earned

Start date	Scheduled end date	Date of withdrawal
1 / 08 /	5 / 04 /	1 / 18 /

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed

Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

11 (Completed days) ÷ 110 (Total days) = 10 . 0 %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 10 . 0 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

10.0 % (Box H) X 2,600.00 (Box G) = I. $ 260 . 00

STEP 4: Total Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal,* ***STOP.*** *No further action is necessary.*

J. Post-withdrawal disbursement

Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on page 3, the Post-withdrawal disbursement tracking sheet.

Box I – Box E = J. $ NA .

Step 4 continued ▶

You may use this form when the withdrawal date was on or after 7/01/2006

Student's Name	Bob Ellison	Social Security Number	Example 2

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned

Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

2,600.00 (Box E) − 260.00 (Box I) = **K.$** 2,340.00

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	1,000.00
Room	
Board	
Other	
Other	
Other	

Total Institutional Charges *(Add all the charges together)* = **L.$** 1,000.00

M. Percentage of unearned Title IV aid

100% − 10.0 % (Box H) = **M.** 90.0 %

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

1,000.00 (Box L) X 90.0 % (Box M) = **N.$** 900.00

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. **O.$** 900.00

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	
Total loans the school must return	**P.$** 0.00
6. Pell Grant	900.00
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

2,340.00 (Box K) − 900.00 (Box O) = **Q.$** 1,440.00

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

0.00 (Box B) − 0.00 (Box P) = **R.$** 0.00

▶ *If Box Q is less than or equal to Box R,* ***STOP.*** *The only action a school must take is to notify the holders of the loans of the student's withdrawal date.*

▶ If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

1,440.00 (Box Q) − 0.00 (Box R) = **S.$** 1,440.00

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

2,600.00 (Box F) X **50%** = **T.$** 1,300.00

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

1,440.00 (Box S) − 1,300.00 (Box T) = **U.$** 140.00

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes $50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	125.00
2. Academic Competitiveness Grant	15.00*
3. National SMART Grant	
4. FSEOG	

CASE STUDY 3: RICHARD SHERMAN

When a student receiving Title IV grants and loans at a school that uses the Aggregate method for matching the school's FSEOG federal allocation withdraws unofficially

Learning Objectives

Learn to complete Steps 1–9 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- identify the basic information needed to complete the worksheet, including the withdrawal date and date of the institution's determination that the student withdrew for a student who withdraws unofficially;
- calculate the percentage of the payment period or period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned;
- determine the amount to be offered to the student or returned; and
- apply the Title IV grant protection.

School Profile

The Ultra Large State University (ULSU) is a four-year, semester-based, public institution that measures academic progress in credit hours and uses the Aggregate method for matching the school's FSEOG federal allocation with state grant funds.

Academic Year/Program	2 semesters 30 weeks
Period	15 weeks 100 calendar days
Period Start Date	September 1
Institutionally Scheduled Break	None
Required to Take Attendance	No
Method for Matching FSEOG	Aggregate

Student Profile

Richard Sherman is a third-year student with a 3.5 cumulative GPA majoring in engineering.

Tuition and fees	$	4,000.00/15 week semester
Room	$	1,000.00/15 week semester
Board	$	1,000.00/15 week semester
Books and Supplies (credit voucher at school store)	$	500.00/15 week semester

School Authorized to Credit Account for Other Charges: Yes (all charges)

Richard's financial aid package included the following **annual** awards:

Pell Grant	$	4,000.00
National SMART Grant	$	4,000.00
State Grant	$	1,000.00
FSEOG (Federal Portion)	$	1,500.00
Net Unsubsidized Stafford Loan	$	3,860.00

All of Richard's financial aid for the first semester (i.e., 1/2 of his annual awards) was disbursed on the first day of classes.

Discussion

Richard is a brilliant computer engineering major in his third year at The ULSU. Over the summer between his second and third year Richard developed and submitted to Gigantic Computer Corporation (GCC) an idea for a new memory chip. In October, Richard got a six figure offer of employment from GCC. Richard was so excited by the offer that he packed his bags and headed for Seattle without telling anyone at the school that he was leaving.

Instructors at The ULSU must report a last date of attendance (LDA) whenever they submit a non-passing grade, and those dates appear on a report of Title IV recipients who failed to earn a passing grade in any of their classes that is provided by the Computer Center to the financial aid office at the end of each grading period.

On December 16, after grades have been submitted for the fall semester, the Computer Center at The ULSU ran the program that identified Title IV recipients who failed to earn a passing grade in any of their classes. When the aid office received and evaluated the report for the fall semester it found that Richard's LDA was October 10. Because Richard did not provide official notification of his withdrawal, he is considered an unofficial withdrawal.

At the beginning of the semester, the following awards were posted to Richard's account at ULSU.

Pell Grant	$	2,000.00
National SMART Grant	$	2,000.00
State Grant	$	500.00
FSEOG	$	750.00
Unsubsidized Stafford	$	1,930.00

Solution

The date of the institution's determination that Richard withdrew is the date the aid office received and processed the report from the Computer Center. Date of institution's determination that the student withdrew = December 16.

Note: For a student who withdraws without providing notification from a school that is not required to take attendance the school must determine the withdrawal date no later than 30 days after the end of the earlier of (1) the payment period or the period of enrollment (as applicable), (2) the academic year, or (3) the student's educational program.

STEP 1: Student's Title IV Aid Information

Box A. Because The ULSU uses the Aggregate method for matching the school's FSEOG federal allocation, the state grant funds that make up the match are excluded from the Return calculation.

Title IV grant aid disbursed –

Pell Grant	$	2,000.00
National Smart Grant	$	2,000.00
FSEOG	$	750.00
A. =	$	4,750.00

Box B. Net Title IV loans disbursed,
Unsubsidized FFEL/Direct Stafford = $ 1,930.00

Box C. Title IV grants that could have been disbursed = $ 0.00.

Box D. Net Title IV loans that could have been disbursed = $ 0.00.

Box E. Total Title IV aid disbursed for the payment period = A + B = 4,750.00 + 1,930.00 = $ 6,680.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period = A + C = 4,750.00 + 0.00 = $ 4,750.00.

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period = A + B + C + D = 4,750.00 + 1,930.00 + 0.00 + 0.00 = $ 6,680.00.

STEP 2: Percentage of Title IV Aid Earned

Because Richard did not officially withdraw from school and The ULSU is not required to take attendance by an outside agency (other than for a one day snapshot for state census purposes) the school may use either the midpoint of the payment period or the last date of Richard's attendance in an academically related activity as the withdrawal date. The school elects to choose the midpoint of the period as Richard's withdrawal date.

1. Payment period start date = September 1
2. Payment period end date = December 9
3. Date of withdrawal = October 20[1]
4. Percentage of payment period completed
   - Number of calendar days completed = 50[2]
   - Number of calendar days in the payment period = 100
   - 50 days ÷ 100 days = 0.5000. Percentage of payment period completed = 50.0%

Box H. Because this percentage is less than 60%, the Percentage of Title IV aid earned = 50.0%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 50.0% (Percentage of Title IV aid earned from Box H) X $6,680.00 (Total of the Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment from Box G) = $3,340.00. Amount of Title IV aid earned by the student = $3,340.00.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.

Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.

$6,680.00 (Box E) – $3,340.00 (Box I) = $3,340.00. Title IV Aid to be returned = $3,340.00.

1, 2 The midpoint of the period, or 50 of 100 days.

STEP 5: Amount of Unearned Title IV Aid Due from the School

Box L. Institutional charges for the payment period or period of enrollment = $6,500.00.

Tuition and fees	$	4,000.00
Room	$	1,000.00
Board	$	1,000.00
Books	$	500.00

Box M. Subtract the percentage of Title IV earned from Box H (50.0%) from 100.0%. 100% – 50.0% = 50.0%. Percentage of Title IV aid unearned = 50.0%.

Box N. Calculate the amount of unearned charges. $6,500.00 (institutional charges from Box L) X 50% (% of Title IV aid unearned from Box M) = $3,250.00 (no rounding needed). Amount of unearned institutional charges = $3,250.00.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K =	$	3,340.00
Box N =	$	3,250.00

Amount of unearned Title IV aid due from the school = $3,250.00.

STEP 6: Return of Funds by the School

Box P. The only Title IV loan disbursement Richard received was an Unsubsidized FFEL Stafford loan disbursement of $1,930.00. Since $1,930.00 is less than the $3,250.00 (Box O) the school must return, the school must return the entire $1,930.00. Box P = $1,930.00.

After the school returns $1,930.00 to the Title IV loan programs, $1,320.00 remains to be returned by the school ($3,250 (from Box O) – $1,930 (from Box P)). Richard received $2,000.00 in Pell Grant funds, so the school returns the $1,320.00 to the Pell Grant program.

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return ($3,250.00 from Box O) from the total amount of Title IV aid that is to be returned ($3,340.00 from Box K) to find the Initial amount of Title IV aid Due from the Student. $3,340.00 – $3,250.00 = $90.00.

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return ($1,930.00 from Box P) from the Net Loans Disbursed to the Student ($1,930.00 from Box B) to find the total of the loans the student must repay $1,930.00 – $1,930.00 = $0.00.

Remember, you must notify the holder of Richard's loan that he has withdrawn from school.

STEP 9: Grant Funds to be Returned

Box S. Initial amount of Title IV grants for the student to return

Subtract the amount of loans to be repaid by the student ($0.00 from Box R) from the Initial Amount of Unearned aid due from the student ($90.00 from Box Q) to find the Initial amount of Title IV grants for the student to return. $90.00 – $0.00 = $90.00.

Box T. Amount of grant protection

Multiply the Total of Title IV grant aid disbursed or could have been disbursed for the payment period or period of enrollment ($4,740.00 from Box F) by 50.0%. $4,750 X 50.0% = $2,375.00.

Box U. Title IV grant funds for the student to return

Subtract the amount of grant protection ($2,375.00 from Box T) from the initial amount of Title IV grants for the student to return ($90.00 from Box S) to find the Title IV grant funds for the student to return. $90.00 — $2375.00 = $0.00[1]

1 If this amount is less than or equal to $0.00, enter = NA, and stop here. Richard is not required to return any Title IV grant funds.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name Richard Sherman **Social Security Number** Example 3

Date form completed **Date of school's determination that student withdrew** 12/16/

Period used for calculation (check one) [X] **Payment period** [ ] **Period of enrollment**

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant	2,000.00	
2. Academic Competitiveness Grant		
3. National SMART Grant	2,000.00	
4. FSEOG	750.00	
	A. 4,750.00 Subtotal	C. 0.00 Subtotal

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
5. Unsubsidized FFEL/Direct Stafford Loan	1,930.00	
6. Subsidized FFEL/Direct Stafford Loan		
7. Perkins Loan		
8. FFEL/Direct PLUS (Graduate Student)		
9. FFEL/Direct PLUS (Parent)		
	B. 1,930.00 Subtotal	D. 0.00 Subtotal

E. Total Title IV aid disbursed for the payment period or period of enrollment.

A. 4,750.00
+ B. 1,930.00
= E. $ 6,680.00

F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. 4,750.00
+ C. 0.00
= F. $ 4,750.00

G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. 4,750.00
B. 1,930.00
C. 0.00
+ D. 0.00
= G. $ 6,680.00

STEP 2: Percentage of Title IV Aid Earned

Start date	Scheduled end date	Date of withdrawal
09 / 01 /	12 / 09 /	10 / 20 /

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed

Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

50 (Completed days) ÷ 100 (Total days) = 50.0 %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 50.0 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

50.0 % (Box H) X 6,680.00 (Box G) = I. $ 3,340.00

STEP 4: Total Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal,* ***STOP.*** *No further action is necessary.*

J. Post-withdrawal disbursement

Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on page 3, the Post-withdrawal disbursement tracking sheet.

Box I – Box E = J. $ NA

Step 4 continued ▶

You may use this form when the withdrawal date was after 7/01/2006

Student's Name	Richard Sherman	Social Security Number	Example 3

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned

Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

6,680.00 (Box E) — 3,340.00 (Box I) = **K.$** 3,340.00

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	4,000.00
Room	1,000.00
Board	1,000.00
(Books) Other	500.00
Other	
Other	

Total Institutional Charges *(Add all the charges together)* = **L.$** 6,500.00

M. Percentage of unearned Title IV aid

100% — 50.0 % (Box H) = **M.** 50.0 %

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

6,500.00 (Box L) X 50.0 % (Box M) = **N.$** 3,250.00

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. **O.$** 3,250.00

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	1,930.00
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	
Total loans the school must return	**P.$** 1,930.00
6. Pell Grant	1,320.00
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

3,340.00 (Box K) — 3,250.00 (Box O) = **Q.$** 90.00

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

1,930.00 (Box B) — 1,930.00 (Box P) = **R.$** 0.00

▶ *If Box Q is less than or equal to Box R,* ***STOP.*** *The only action a school must take is to notify the holders of the loans of the student's withdrawal date.*

▶ If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

90.00 (Box Q) — 0.00 (Box R) = **S.$** 90.00

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

4,750.00 (Box F) X **50%** = **T.$** 2,375.00

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

90.00 (Box S) — 2,375.00 (Box T) = **U.$** NA

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes $50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	

CASE STUDY 4: HARRY SPRINGER

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a period of enrollment basis, withdraws unofficially

Learning Objectives

Learn to complete Steps 1–8 of the Treatment of Title IV Funds when a Student Withdraws from a Clock-Hour Program worksheet, and be able to:

- determine withdrawal date for student who did not provide notification of intent to withdraw at a school required to take attendance;
- determine the scheduled clock hours;
- calculate the percentage of the period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned; and
- determine the amount to be offered to the student or returned.

School Profile

Quality Tech School (QTS) is a proprietary school that measures academic progress in clock hours.

Academic Year/Program/ Period of Enrollment	900 hours/30 weeks
Payment Period	450 hours
Period Start Date	January 8
Period End Date	August 3
Institutionally Scheduled Break	None
Required to Take Attendance	Yes
Period used in Return calculation	Period of Enrollment

Student Profile

Harry Springer enrolled at QTS for a 30-week program of study period consisting of 900 clock hours offered over 30 weeks. The first payment period is 450 clock hours. Charges to Harry's account are as follows:

Tuition and fees	$	8,000.00/30 week program
Room	$	non-residential program
Board	$	non-residential program
Books and Supplies	$	500.00/program

School Authorized to Credit Account for Other Charges: Yes (all charges)

Harry's financial aid package included the following **annual** awards:

Pell Grant	$	4,000.00
Net Subsidized Stafford Loan	$	3,860.00

All of Harry's financial aid for the first payment period (450 clock hours, i.e. one half his annual awards) was disbursed on the first day of classes.

Discussion

On the first day of the winter period, January 8, Harry received the following disbursements to his student account:

Pell Grant	$	2,000.00
Subsidized Stafford Loan	$	1,930.00

Everything seemed to be going very well for Harry. It wasn't until January 26 that the school discovered Harry hadn't been attending classes and didn't plan on returning. The director of the program notified the aid office that Harry's last day of attendance was January 17 (through which time Harry was scheduled to have attended 45 hours), and the aid office began the withdrawal process and required calculations.

Solution

The date of the institution's determination that Harry withdrew (January 26) is the date the aid office received the information from the Director of Student Services. Because QTS is required to take attendance, Harry's withdrawal date is his last day of attendance at an academically related activity, January 17.

At the beginning of the semester, the following awards were posted to Harry's account at QTS.

Pell Grant	$	2,000.00
Subsidized Stafford Loan	$	1,930.00

STEP 1: Student's Title IV Aid Information

Box A. Title IV grant aid disbursed –

Pell Grant	$	2,000.00
A. =	$	2,000.00

Box B. Net Title IV loans disbursed –

Unsubsidized FFEL/Direct Stafford	$	1,930.00
B. =	$	1,930.00

Box C. Because QTS uses the period of enrollment as the basis for its Return calculation, the $2,000 in Pell funds Harry was scheduled to receive once he had completed the first 450 hours of his program is included as Title IV grants that could have been disbursed.

C. = $ 2,000.00

Box D. Because QTS uses the period of enrollment as the basis for its Return calculation, the $1,930.00 in Subsidized Stafford Loan funds Harry was scheduled to receive once he had completed the first 450 hours and the calendar midpoint of his program of his program is included as Title IV grants that could have been disbursed.

D. = $ 1,930.00

Box E. Total Title IV aid disbursed for the period of enrollment = A + B = 2,000.00 + 1,930.00 = $ 3,930.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the period of enrollment = A + C = 2,000.00 + 2,000.00 = $ 4,000.00.

Box G. Total Title IV aid disbursed and could have been disbursed for the period of enrollment = A + B + C + D = 2,000.00 + 1,930.00 + 2,000.00 + 1,930.00 = $ 7,860.00.

STEP 2: Percentage of Title IV Aid Earned

Because QTS is required to take attendance by an outside agency the school must use the last date of Harry's attendance in an academically related activity as determined from its attendance records as the withdrawal date. Harry's last date of attendance was January 17.

1. Period of enrollment start date = January 8.
2. Period of enrollment end date = August 3.
3. Date of withdrawal = January 17.

Box H. Percentage of payment period completed

Under the Higher Education Reconciliation Act of 2005 (HERA), only scheduled hours are used to determine the percentage of the period completed by a student withdrawing from a clock-hour program. The percentage of the period completed by a student is determined by dividing the number of hours the student was scheduled to complete in the payment period or period of enrollment as of the day the student withdrew, by the total number of clock hours in the same period.

- Number of clock hours Harry was scheduled to complete on January 17 = 45
- Number of clock hours in the period of enrollment = 900
- 45 clock hours ÷ 900 clock hours = 0.050.

Percentage of period of enrollment completed = 5.0%

Because this percentage is less than 60%, the Percentage of Title IV aid earned, Box H = 5.0%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 5.0% (Percentage of Title IV aid earned from Box H) X $7,860.00 (Total of the Title IV aid disbursed and could have been disbursed for the period of enrollment from Box G) = $393.00. Amount of Title IV aid earned by the student = $393.00.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.

Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.

$3,930.00 (Box E) – $393.00 (Box I) = $3,537.00. Title IV Aid to be returned = $3,537.00.

STEP 5: Amount of Unearned Title IV Aid Due from the School

Box L. Institutional charges for the period of enrollment = $8,500.00.

Tuition and fees	$	8,000.00
Books & Supplies	$	500.00

Box M. Subtract the percentage of Title IV earned from Box H (5.0%) from 100.0%. 100% – 5.0% = 95.0%. Percentage of Title IV aid unearned = 95.0%.

Box N. Calculate the amount of unearned charges. $8,500.00 (institutional charges from Box L) X 95% (% of Title IV aid unearned from Box M) = $8,075.00 (no rounding needed). Amount of unearned institutional charges = $8,075.00.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K =	$	3,537.00
Box N =	$	8,075.00

Amount of unearned Title IV aid due from the school = $3,537.00.

STEP 6: Return of Funds by the School

Box P. The only Title IV loan disbursement Richard received was a Subsidized FFEL Stafford loan disbursement of $1,930.00. Since $1,930.00 is less than the $3,537.00 (Box O) the amount the school must return, the school must return the entire $1,930.00 to the FFEL program.

Box P =	$	1,930.00.

After the school returns $1,930.00 to the FFEL program, the balance to be returned by the school is $1,607.00 ($3,537.00 (from Box O) – $1,930.00 (from Box P). Harry received $2,000.00 in Pell Grant funds, so the school returns the $1,607.00 to the Pell Grant program.

The school must return any unearned funds within 45 days from the date of the institution's determination that Harry withdrew.

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return ($3,537.00 from Box O) from the total amount of Title IV aid that is to be returned ($3,537.00 from Box K) to find the Initial amount of Title IV aid Due from the Student. $3,537.00 – $3,537.00 = $0.00.

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return ($1,930.00 from Box P) from the Net Loans Disbursed to the Student ($1,930.00 from Box B) to find the total of the loans the student must repay $1,930.00 – $1,930.00 = $0.00.

Since the amount from Box Q ($0.00) is equal to (or less than) the amount from Box R ($0.00), the calculation ends here.

Remember, you must notify the holder of Harry's loan that he has withdrawn from school.

Treatment Of Title IV Funds When A Student Withdraws From A Clock-Hour Program

Student's Name Harry Springer **Social Security Number** Example 4

Date form completed / / **Date of school's determination that student withdrew** 1 / 26 /

Period used for calculation (check one) ☐ **Payment period** ☒ **Period of enrollment**

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant	$2,000.00	$2,000.00
2. Academic Competitiveness Grant		
3. National SMART Grant		
4. FSEOG		
	A. $2,000.00 Subtotal	C. $2,000.00 Subtotal

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
5. Unsubsidized FFEL/Direct Stafford Loan	$1,930.00	$1,930.00
6. Subsidized FFEL/Direct Stafford Loan		
7. Perkins Loan		
8. FFEL/Direct PLUS (Graduate Student)		
9. FFEL/Direct PLUS (Parent)		
	B. $1,930.00 Subtotal	D. $1,930.00 Subtotal

E. Total Title IV aid disbursed for the payment period or period of enrollment.

A. $2,000.00
+ B. $1,930.00
= E.$ $3,930.00

F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. $2,000.00
+ C. $2,000.00
= F.$ $4,000.00

G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. $2,000.00
B. $1,930.00
C. $2,000.00
+ D. $1,930.00
= G.$ $7,860.00

STEP 2: Percentage of Title IV Aid Earned

Withdrawal date 1 / 17 /

H. Determine the percentage of payment period or period of enrollment completed:
Divide the clock hours scheduled to have been completed as of the withdrawal date in the payment period or period of enrollment by the total clock hours in the payment period or period of enrollment.

45 (Hours scheduled to complete) ÷ 900 (Total hours in period) = 5.00 %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 5.00 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

5.00 % (Box H) X $7,860.00 (Box G) = I.$ $393.00

STEP 4: Total Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.*

J. Post-withdrawal disbursement
Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on Page 3 (Post-withdrawal disbursement tracking sheet).

Box I – Box E = J.$ NA

K. Title IV aid to be returned
Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

$3,930.00 (Box E) – $393.00 (Box I) = K.$ $3,537.00

You may use this form when the withdrawal date was on or after 7/01/2006

Student's Name Harry Springer **Social Security Number** Example 4

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	$8,000.00
Room	
Board	
Books & Supplies	$500.00
Other	
Other	

Total Institutional Charges *(Add all the charges together)* = **L.$** $8,500.00

M. Percentage of unearned Title IV aid

100% – 5.00 % (Box H) = **M.** 95.00 %

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

$8,500.00 (Box L) x 95.00 % (Box M) = **N.$** $8,075.00

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. **O.$** $3,537.00

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	$1,930.00
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	

Total loans the school must return = **P.$** $1,930.00

6. Pell Grant	$1,607.00
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

$3,537.00 (Box K) – $3,537.00 (Box O) = **Q.$** $0.00

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

$1,930.00 (Box B) – $1,930.00 (Box P) = **R.$** $0.00

▶ *If Box Q is less than or equal to Box R,* ***STOP.*** The only action a school must take is to notify the holders of the loans of the student's withdrawal date.

▶ *If Box Q is greater than Box R, proceed to Step 9.*

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

(Box Q) – (Box R) = **S.** .

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

(Box F) x 50% = **T.** .

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

(Box S) – (Box T) = **U.** .

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes $50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	

CASE STUDY 5: JORDAN AIRE

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a payment period basis, withdraws unofficially

Learning Objectives

Learn to complete Steps 1–8 of the Treatment of Title IV Funds when a Student Withdraws from a Clock-Hour Program worksheet, and be able to:

- determine withdrawal date for student who did not provide notification of intent to withdraw at a school required to take attendance;
- determine the scheduled clock hours;
- calculate the percentage of the payment period the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned; and
- determine the amount to be offered to the student or returned.

School Profile

Learn to Earn Technical School (LETS) is a proprietary school that measures academic progress in clock hours.

Academic Year/Program/ Period of Enrollment	900 hours/30 weeks
Payment Period	450 hours
Period Start Date	April 2
Period End Date	October 26
Institutionally Scheduled Break	None
Required to Take Attendance	Yes
Period used in Return calculation	Payment Period

Student Profile

Jordan Aire enrolled at LETS for a 30-week program of study period consisting of 900 clock hours offered over 30 weeks. The first payment period is 450 clock hours. Charges to Jordan's account are as follows:

Tuition and fees	$	9,000.00/30 week program
Room	$	non-residential program
Board	$	non-residential program
Books and Supplies	$	500.00/program

School Authorized to Credit Account for Other Charges: Yes (all charges)

Jordan's financial aid package included the following **annual** awards:

Pell Grant	$	4,000.00
Net Subsidized Stafford Loan	$	3,860.00

All of Jordan's financial aid for the first payment period (450 clock hours, i.e. one half his annual awards) was disbursed on the first day of classes.

Discussion

On the first day of the period, April 2, Jordan received the following disbursements to his student account:

Pell Grant	$	2,000.00
Subsidized Stafford Loan	$	1,930.00

On May 3 the Retention Specialist at LETS is informed by the director of Jordan's program that since April 21, Jordan has not been attending classes. The Retention Specialist contacts Jordan who tells him that he's been ill, but plans on coming back to school during the next week. Since this falls within the time period for excused absences allowed by school policy as well as absences allowed by the state and the school's accrediting agency, the school delays taking any action. However, on May 11 when the Retention Specialist follows up with the Program Director, he finds that Jordan has not returned to school. Since Jordan has now exceeded the number of absences allowed by school policy, LETS must administratively withdraw Jordan from school.

Note: Remember that institutions that are required to take attendance are expected to have a procedure in place for routinely monitoring attendance records to determine in a timely manner when a student withdraws. Except in unusual instances, the date of the institution's determination that the student withdrew should be no later than 14 days after the student's withdrawal date.

The institution is not required to administratively withdraw a student who has been absent for 14 days. However, after 14 days, it is expected to have determined whether the student intends to return to classes or has withdrawn. Moreover, the institution must return any unearned funds within 45 days of the date of the institution's determination that Jordan withdrew (May 4).

Solution

Jordan's withdrawal date is his last day of attendance at an academically related activity as determined from the school's attendance records, April 20.

The school must use May 4 (14 days from the student's last day of attendance) as the date of the institution's determination that the student withdrew.

At the beginning of the semester, the following awards were posted to Jordan's account at LETS.

Pell Grant	$	2,000.00
Subsidized Stafford Loan	$	1,930.00

STEP 1: Student's Title IV Aid Information

Box A. Title IV grant aid disbursed –

Pell Grant	$	2,000.00
A. =	$	2,000.00

Box B. Net Title IV loans disbursed –

Unsubsidized FFEL/Direct Stafford =	$	1,930.00
B. =	$	1,930.00

Box C. Title IV grants that could have been disbursed = $ 0.00.

Box D. Title IV loans that could have been disbursed = $ 0.00.

Box E. Total Title IV aid disbursed for the payment period = A + B = 2,000.00 + 1,930.00 = $ 3,930.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period = A + C = 2,000.00 + 0.00 = $ 2,000.00.

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period = A + B + C + D = 2,000.00 + 1,930.00 + 0.00 + 0.00 = $3,930.00.

STEP 2: Percentage of Title IV Aid Earned

Because LETS is required to take attendance by an outside agency, the school must use the last date of Jordan's attendance in an academically related activity as determined from its attendance records as the withdrawal date. Jordan's last date of attendance was April 20.

1. Payment Period start date = April 2.
2. Payment Period end date = October 26.
3. Date of withdrawal = April 20.

Box H. Percentage of payment period completed

Under the Higher Education Reconciliation Act of 2005 (HERA), only scheduled hours are used to determine the percentage of the period completed by a student withdrawing from a clock-hour program. The percentage of the period completed by a student is determined by dividing the number of hours the student was scheduled to complete in the payment period or period of enrollment as of the day the student withdrew, by the total number of clock hours in the same period.

- Number of clock hours Jordan was scheduled to complete on April 20 = 90
- Number of clock hours in the payment period = 450
- 90 clock hours ÷ 450 clock hours = 0.20.

Percentage of payment period completed = 20.0%

Because this percentage is less than 60%, the Percentage of Title IV aid earned,

Box H = 20.0%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 20.0% (Percentage of Title IV aid earned from Box H) X $3,930.00 (Total of the Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment from Box G) = $786.00. Amount of Title IV aid earned by the student = $786.00.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.

Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.

$3,930.00 (Box E) – $786.00 (Box I) = $3,144.00. Title IV Aid to be returned = $3,144.00.

STEP 5: Amount of Title IV Aid Due from the School

Box L. A school that charges by the period of enrollment but performs its Return calculation on a payment period basis before entering data in STEP 5, Part L, of the Return calculation, must determine whether it must enter: (a) the prorated amount of all institutional charges, or (b) the amount the school retained. To do this, first, the school prorates all institutional charges. Then, the school determines the amount actually retained. The school compares the two results and enters in STEP 5, Part L the greater of the two amounts. Because LETS provides students with their books and supplies on the first day of class, and retains 100% of those fees in, addition to the tuition charged for the first payment period, LETS must include 100% of the cost of those books and supplies in its institutional charges for the first payment period.

Institutional charges for the payment period = $5,000.00.

Tuition and fees	$	4,500.00
Books & Supplies	$	500.00

Box M. Subtract the percentage of Title IV earned from Box H (20.0%) from 100.0%. 100% – 20.0% = 80.0%. Percentage of Title IV aid unearned = 80.0%.

Box N. Calculate the amount of unearned charges. $5,000.00 (institutional charges from Box L) X 80% (% of Title IV aid unearned from Box M) = $4,000.00 (no rounding needed). Amount of unearned institutional charges = $4,000.00.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K =	$	3,144.00
Box N =	$	4,000.00

Amount of unearned Title IV aid due from the school = $3,144.00.

STEP 6: Return of Funds by the School

Box P. Jordan received a Subsidized FFEL Stafford loan disbursement of $1,930.00. Since $1,930.00 is less than the $3,144.00 (Box O) the school must return, the school must return $1,930.00 to the lender. Box P = $1,930.00.

After the school returns $1,930.00 to the Title IV loan programs, the balance to be returned by the school is $1,214.00 ($3,144.00 (from Box O) – $1,930 (from Box P)). Jordan received $2,000.00 in Pell Grant funds, so the school returns $1,214.00 to the Pell Grant program.

The school must return any unearned funds within 45 days from the date of the institution's determination that Jordan withdrew (May 4).

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return ($3,144.00 from Box O) from the total amount of Title IV aid that is to be returned ($3,144.00 from Box K) to find the Initial amount of Title IV aid Due from the Student. $3,144.00 – $3,144.00 = $0.00.

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return ($1,930.00 from Box P) from the Net Loans Disbursed to the Student ($1,930.00 from Box B) to find the total of the loans the student must repay $1,930.00 – $1,930.00 = $0.00.

Since the amount from Box Q ($0.00) is equal to (or less than) the amount from Box R ($0.00), the calculation ends here.

Remember, you must notify the holder of Jordan's loan that he has withdrawn from school.

Treatment Of Title IV Funds When A Student Withdraws From A Clock-Hour Program

Student's Name Jordan Aire **Social Security Number** Example 5

Date form completed / / **Date of school's determination that student withdrew** 5 / 04 /

Period used for calculation (check one) [X] **Payment period** [ ] **Period of enrollment**

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant	$2,000.00	$0.00
2. Academic Competitiveness Grant		
3. National SMART Grant		
4. FSEOG		
	A. $2,000.00 Subtotal	**C.** $.00 Subtotal

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
5. Unsubsidized FFEL/Direct Stafford Loan	$1,930.00	$0.00
6. Subsidized FFEL/Direct Stafford Loan		
7. Perkins Loan		
8. FFEL/Direct PLUS (Graduate Student)		
9. FFEL/Direct PLUS (Parent)		
	B. $1,930.00 Subtotal	**D.** $0.00 Subtotal

E. Total Title IV aid disbursed for the payment period or period of enrollment.

A. $2,000.00
\+ **B.** $1,930.00
= **E.$** $3,930.00

F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. $2,000.00
\+ **C.** $ 0.00
= **F.$** $2,000.00

G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. $2,000.00
B. $1,930.00
C. $0.00
\+ **D.** $0.00
= **G.$** $3,930.00

STEP 2: Percentage of Title IV Aid Earned

Withdrawal date 4 / 20 /

H. Determine the percentage of payment period or period of enrollment completed:
Divide the clock hours scheduled to have been completed as of the withdrawal date in the payment period or period of enrollment by the total clock hours in the payment period or period of enrollment.

90 (Hours scheduled to complete) ÷ 450 (Total hours in period) = 20.00 %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 20.00 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

20.00% (Box H) x $3,930.00 (Box G) = **I.$** $786.00

STEP 4: Total Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.*

J. Post-withdrawal disbursement
Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on Page 3 (Post-withdrawal disbursement tracking sheet).

[ ] (Box I) – [ ] (Box E) = **J.$** NA

K. Title IV aid to be returned
Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

$3,930.00 (Box E) – $786.00 (Box I) = **K.$** $3,144.00

You may use this form when the withdrawal date was on or after 7/01/2006

Student's Name Jordan Aire **Social Security Number** Example 5

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	$4,500.00
Room	
Board	
Books & Supplies	$500.00
Other	
Other	

Total Institutional Charges *(Add all the charges together)* = **L.$** $5,000.00

M. Percentage of unearned Title IV aid

100% – 20.00 % (Box H) = **M.** 80.00 %

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

$5,000.00 (Box L) x 80.00 % (Box M) = **N.$** $4,000.00

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. **O.$** $3,144.00

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	$1,930.00
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	

Total loans the school must return = **P.$** $1,930.00

6. Pell Grant	$1,214.00
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

$3,144.00 (Box K) – $3,144.00 (Box O) = **Q.$** $0.00

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

$1,930.00 (Box B) – $1,930.00 (Box P) = **R.$** $0.00

▶ *If Box Q is less than or equal to Box R,* ***STOP.*** The only action a school must take is to notify the holders of the loans of the student's withdrawal date.

▶ *If Box Q is greater than Box R, proceed to Step 9.*

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

(Box Q) – (Box R) = **S.**

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

(Box F) x 50% = **T.**

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

(Box S) – (Box T) = **U.**

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes $50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	

CASE STUDY 6: BOB WHITE

When a student receiving Title IV grants and loans at a school that utilizes a non-term modular course structure, measures academic progress in credit hours, and performs its Return calculations on a payment period basis, officially withdraws, reenters within 180 days, and withdraws again.

Learning Objectives

Learn to complete Steps 1–8 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- determine the total number of days the student was in attendance over multiple periods of attendance;
- determine the total number of days in the payment period for the multiple periods of attendance;
- calculate the percentage of the payment period the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned; and
- determine the amount to be offered to the student or returned.

School Profile

University of Huachuca (UH) is a non-residential postsecondary institution that utilizes a non-term modular course structure and measures academic progress in credit hours.

Academic Year/ Period of Enrollment	24 credits/ 32 weeks
Payment Period	12 credit hours 4 modules (each of 4 weeks duration) 16 weeks
Period Start Date	January 8
Period End Date	April 27
Institutionally Scheduled Break	None
Required to Take Attendance	No
Period used in Return calculation	Payment Period

School Profile, continued

Scheduled starting and ending dates for modules within the calendar year. At each starting point all modules are offered.

Start	End	Start	End
January 8	February 2	February 5	March 2
March 5	March 30	April 2	April 27
April 30	May 25	May 28	June 22
June 25	July 20	July 23	August 17
August 20	September 14	September 17	October 12
October 15	November 9	November 12	December 7

Student Profile

Bob White is a third-year student enrolled at UH for 12 credits offered in four three-credit modules. UH anticipates that Bob, as do most of the students at UH, will complete each of the modules in four weeks, and the period in 16 weeks. Charges to Bob's account for the payment period are as follows:

Tuition and fees	$	6,000.00/12 credits
Room	$	non-residential program
Board	$	non-residential program

School Authorized to Credit Account for Other Charges: Yes (all charges)

Bob's financial aid package included the following **annual** awards:

Pell Grant	$	4,050.00
Net Unsubsidized Stafford Loan	$	4,860.00
Net Subsidized Stafford Loan	$	5,460.00

All of Bob's financial aid for the first payment period (one half his annual awards) was disbursed on the first day of classes.

Discussion

On the first day of the period, January 8, Bob received the following disbursements to his student account:

Pell Grant	$	2,025.00
Unsubsidized Stafford Loan	$	2,430.00
Subsidized Stafford Loan	$	2,730.00

On January 19, Bob came to the financial aid office and informed you that he is withdrawing from school thereby beginning the school's formal withdrawal process.

Because Bob failed to begin attendance in all of the classes on which his Pell Grant was based, before performing the required Return calculation UH must to recalculate Bob's Pell based on his enrollment in just the one module he began – three credits. After eliminating the living expenses and tuition associated with the period of non-attendance, UH determined that based on the costs associated with the three credits Bob began that he was eligible for an annual award of $1,550 and an award for the period of $775. UH returned the difference of $1,250 ($2,025 – $775) to the Pell Grant program.

Note : **If Bob had received Campus-Based aid, the school would also have had to recalculate his COA, eliminating the costs attributable to the modules that he did not begin attending, to see whether a reduction of the Campus-Based aid was necessary.**

UH performed a return calculation using January 19 as Bob's withdrawal date and $775 as the amount of Pell Grant disbursed, and determined that the school was responsible for returning all of the funds that Bob received from the subsidized and unsubsidized Stafford loan programs and $128.00 in Pell funds. UH also determined that Bob was not required to return any funds. On February 5, UH returned the funds for which it was responsible to the appropriate programs.

On March 5 Bob re-entered the program. Since this is within 180 days of his withdrawal date, Bob was considered to be in the same payment period so his Title IV eligibility is the same as before he left.

In order to ask the lender to redisburse his Stafford loans the school had to determine the new end for the payment period and the Bob's Borrower Based Academic Year (BBAY). Because the program is based on discrete modules, UH can easily identify the point at which Bob will have completed half the weeks **and** half the credits in the academic year. It is June 22. The end of the BBAY is October 12. Therefore, UH asked his lender to redisburse the subsidized and unsubsidized Stafford loans with a new scheduled date for the second disbursement of June 25 and a new end date for Bob's BBAY of October 12. Since the end of Bob's new BBAY was within one year of the beginning date of the period for which the loan was first certified (January 8), the lender agreed to and made the disbursement, and UH once again disbursed the Stafford loan funds to Bob's account. In addition, UH drew down and redisbursed the $128.00 in Pell funds that it previously returned.

Bob completed his first module as scheduled on March 30 and began his second module on April 2. On April 10, Bob came to the financial aid office and informed UH that he is once again withdrawing from school.

UH must determine the correct number of days to include as completed days and total days in the Return calculation and correctly calculate the amount to be returned or disbursed.

Solution

Once again, because Bob has failed to begin attendance in all of the classes on which his Pell Grant was based, before performing the required Return calculation you must recalculate Bob's Pell Grant based on his enrollment in just the two modules he began – six credits. This, time after eliminating the living expenses and tuition associated with the period of non-attendance, UH determined that Bob remained eligible for an annual award of $4,050 (an award for the period of $2,025). Therefore, UH included the following awards in the Return calculation.

Pell Grant	$	2,025.00
Unsubsidized Stafford Loan	$	2,430.00
Subsidized Stafford Loan	$	2,730.00

Bob's withdrawal date and the date of the institution's determination of Bob's withdrawal is the day he informed UH of his intent to withdraw – April 10.

STEP 1: Student's Title IV Aid Information

Box A. Title IV grant aid disbursed –

Pell Grant	$	2,050.00
A. =	$	2,050.00

Box B. Net Title IV loans disbursed –

Unsubsidized FFEL/Direct Stafford	$	2,430.00
Subsidized FFEL/Direct Stafford	$	2,730.00
B. =	$	5,160.00

Box C. Title IV grants that could have been disbursed = $ 0.00.

Box D. Title IV loans that could have been disbursed = $ 0.00.

Box E. Total Title IV aid disbursed for the payment period or period of enrollment = A + B = 2,025.00 + 5,160.00 = $ 7,185.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period or period of enrollment = A + C = 2,025.00 + 0.00 = $ 2,025.00.

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment = A + B + C + D = 2,025.00 + 5,160.00 + 0.00 + 0.00 = $ 7,185.00.

STEP 2: Percentage of Title IV Aid Earned

Bob's withdrawal date was April 10.

When Bob initially withdrew on January 19, he had completed twelve days out of 110. When he returned on March 5, UH determined a new period end date of June 22. In order to determine the correct number of days of attendance and days in the period, UH must subtract the 44 days Bob was originally scheduled to attend but did not attend (starting with January 20 and ending on March 4) from the *Total days*.

Note : If you are using ED's Web based software you can enter January 20 and March 4 (44 days) as beginning an ending dates of a scheduled break so that the software will correctly reflect this period of non-enrollment.

1. Payment Period start date = January 8.
2. Payment Period end date = June 22.
3. Date of withdrawal = April 10.
4. Scheduled break (for software purposes) January 20 through March 4 (44 days).
5. Percentage of payment period completed –
   - Number of calendar days completed = 49 (12 days from his first enrollment plus 37 days from his second).
   - Number of calendar days in the payment period = January 8 through June 22 – 166 days minus the 44 days of non-attendance = 122 days.
   - 49 days ÷ 122 days = 0.4016. Percentage of payment period completed = 40.2%.

Box H. Because this percentage is less than 60%, the Percentage of Title IV aid earned = 40.2%..

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 40.2% (Percentage of Title IV aid earned from Box H) X $7,185.00 (Total of the Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment from Box G) = $2,888.37. Amount of Title IV aid earned by the student = $2,888.37.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.

Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.

$7,185.00 (Box E) – $2,888.37 (Box I) = $4,296.63. Title IV Aid to be returned = $4,296.63.

STEP 5: Amount of Title IV Aid Due from the School

Box L. The charges on Bob's account are the charges initially assessed for the payment period:

Tuition and fees	$	6,000.00

Box M. Subtract the percentage of Title IV earned from Box H (40.2%) from 100.0%. 100% – 40.2% = 59.8%. Percentage of Title IV aid unearned = 59.8%.

Box N. Calculate the amount of unearned charges. $6,000.00 (institutional charges from Box L) X 59.8% (% of Title IV aid unearned from Box M) = $3,588.00 (no rounding needed).

Amount of unearned institutional charges = $3,588.00.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K =	$	4,296.63
Box N =	$	3,588.00

Amount of unearned Title IV aid due from the school = $3,588.00.

STEP 6: Return of Funds by the School

Box P. Bob received an Unsubsidized FFEL Stafford loan disbursement of $2,430.00. Since $2,430.00 is less than the $3,588.00 (Box O) the school must return, the school must return $2,430.00 to the lender of Bob's Unsubsidized Stafford loan. In addition, there is a balance of $1,158.00 (3,588 – 2,430) that the school must return. So, the school returns $1,158.00 to the lender of Bob's Subsidized Stafford loan. Box P = $2,430.00 + $1,158.00 = $3,588.00.

Box P =	$	3,588.00

The school must return any unearned funds within 45 days from the date of the institution's determination that Bob withdrew (April 10).

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return ($3,588.00 from Box O) from the total amount of Title IV aid that is to be returned ($4,296.63 from Box K) to find the Initial amount of Title IV aid Due from the Student. $4,296.63 – $3,588.00 = $708.63.

Box Q =	$	708.63

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return ($3,588.00 from Box P) from the Net Loans Disbursed to the Student ($5,160.00 from Box B) to find the total of the loans the student must repay $5,160.00 – $3,588.00 = $1,572.00.

Since the amount from Box Q ($708.63) is equal to (or less than) the amount from Box R ($1,572.00), the calculation ends here.

Remember, you must notify the holder of Bob's loans that he has withdrawn from school.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name Bob White **Social Security Number** Case Study 6

Date form completed 4 / 15 / **Date of school's determination that student withdrew** 4 / 10 /

Period used for calculation (check one) ☐ **Payment period** ☐ **Period of enrollment**

Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed
1. Pell Grant	$2,025.00	
2. Academic Competitiveness Grant		
3. National SMART Grant		
4. FSEOG		
	A. $2,025.00 Subtotal	**C.** $0.00 Subtotal

Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed
5. Unsubsidized FFEL/Direct Stafford Loan	$2,430.00	
6. Subsidized FFEL/Direct Stafford Loan	$2,730.00	
7. Perkins Loan		
8. FFEL/Direct PLUS (Graduate Student)		
9. FFEL/Direct PLUS (Parent)		
	B. $5,160.00 Subtotal	**D.** $0.00 Subtotal

E. Total Title IV aid disbursed for the payment period or period of enrollment.

A. $2,025.00
\+ **B.** $5,160.00
= **E. $** 7,185.00

F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. $2,025.00
\+ **C.** $0.00
= **F. $** $2,025.00

G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.

A. $2,025.00
B. $5,160.00
C. $0.00
\+ **D.** $0.00
= **G. $** 7,185.00

STEP 2: Percentage of Title IV Aid Earned

Start date	Scheduled end date	Date of withdrawal
1 / 08 /	6 / 22 /	4 / 10 /

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date. *(less 44 days of non attendance)*

H. Percentage of payment period or period of enrollment completed

Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more **AND** days that the student was on an approved leave of absence).

49 (Completed days) ÷ 122 (Total days) = 40.16 %

- If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 40.2 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

40.2 % (Box H) X 7,185.00 (Box G) = **I. $** 2,888.37

STEP 4: Total Title IV Aid to be Disbursed or Returned

- *If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).*
- *If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).*
- *If the amounts in Box I and Box E are equal,* ***STOP.*** *No further action is necessary.*

J. Post-withdrawal disbursement

Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due.
Stop here, and enter the amount in Box 1 on Page 3 (post-withdrawal disbursement tracking sheet).

[ ] (Box I) – [ ] (Box E) = **J. $** NA

Step 4 continued ▶

You may use this form when the withdrawal date was on or after 7/01/2006

Student's Name Bob White **Social Security Number** Case Study 6

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned

Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

7,185.00 (Box E) – 2,888.37 (Box I) = **K.$** 4,296.63

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	$6,000.00
Room	
Board	
Other	
Other	
Other	

Total Institutional Charges *(Add all the charges together)* = **L.$** 6,000.00

M. Percentage of unearned Title IV aid

100% – 40.2% (Box H) = **M.** 59.8 %

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

6,000.00 (Box L) X 59.8 % (Box M) = **N.$** 3,588.00

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. **O.$** 3,588.00

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	$2,430.00
2. Subsidized FFEL/Direct Stafford Loan	$1,158.00
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	
Total loans the school must return	**P.$** 3,588.00
6. Pell Grant	
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

4,296.63 (Box K) – 3,588.00 (Box O) = **Q.$** 708.63

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

$5,160.00 (Box B) – 3,588.00 (Box P) = **R.$** 1,572.

▶ *If Box Q is less than or equal to Box R, **STOP**. The only action a school must take is to notify the holders of the loans of the student's withdrawal date.*

▶ If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

(Box Q) – (Box R) = **S.$** .

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

(Box F) X 50% = **T.$** .

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

(Box S) – (Box T) = **U.$** .

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes $50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	

Participation, Fiscal Procedures & Records

CHAPTER 1

This chapter addresses fiscal procedures and recordkeeping requirements that are specific to the Campus-Based programs. For information on general fiscal procedures and records requirements for all Federal Student Aid (FSA) programs, refer to Volume 2, School Eligibility and Operations, and the current edition of the Blue Book.

A school applies for and receives Campus-Based program funds directly from the U.S. Department of Education by submitting the *Fiscal Operations Report and Application to Participate* (FISAP), each award year. The school's financial aid administrator is responsible for ensuring that eligible students at the school receive program funds according to the provisions of the law, the regulations the Program Participation Agreement (PPA) signed by both a representative of the Secretary of Education and the school's chief administrative officer, and other criteria the Department may establish.

PROGRAM PARTICIPATION AGREEMENT

A school that wants to participate in any Federal Student Aid (FSA) program must sign a Program Participation Agreement (PPA) with the Department. The school official legally authorized to assume the agreement's obligations on the school's behalf must sign the agreement.

Under the PPA, the school agrees to use the funds it receives solely for the purposes specified in the regulations for that program and to administer each program in accordance with the Higher Education Act of 1965 (HEA), as amended, and the General Provisions regulations. (For more information on this agreement and the General Provisions requirements for all FSA programs, see *Volume 2, School Eligibility and Operations.*)

The Federal Perkins Loan and Federal Work-Study (FWS) programs have additional requirements that are part of the PPA and that are specific to the individual program as described in this volume.

CHAPTER 1 HIGHLIGHTS

- Program Participation Agreement
- FISAP Report and Application
- Allocation of funds
- Reallocation
- Transfer of funds
  - →FWS to FSEOG or Perkins
  - →FSEOG to FWS
- Carry forward/Carry back
- Federal/Nonfederal share
- Use of FWS allocated funds
  - →Community service waivers
- Recordkeeping
- Record Retention & Formats
- Perkins reimbursement & assignment
- Administrative cost allowance

Campus-Based PPA requirements

34 CFR 673.3
Perkins PPA
34 CFR 674.8
Federal Work-Study PPA
34 CFR 675.8

NEW Treatment of FWS in 90/10 calculation

FWS funds recovered by the school are excluded from revenues in the 90/10 calculation, unless the school used those funds to pay for a student's institutional charges. (See *Volume 2* for discussion of the 90/10 calculation)

Federal Capital Contribution (Perkins)

Congress has not authorized any Federal Capital Contribution (FCC) through the 2010-2011 application year.

Perkins PPA Requirements

The agreement requires the school to annually submit to the Department a report containing information that determines the school's Perkins default rate.

The agreement for the Federal Perkins Loan Program also requires the school to establish and maintain a Fund and to deposit into the Fund:

- any Federal Capital Contribution (FCC) the school receives as its federal allocation for the program for each award year (currently no FCC is being allocated to schools in the Perkins Loan Program);
- the institution's capital contribution (ICC), including any ICC to match transfer of funds from other Campus-Based programs;
- payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the fund;
- payments the school receives from ED for cancellations, such as teacher service cancellations, (see Chapter 5 of this volume);
- any other earnings on fund assets, including net interest earnings on funds deposited in an interest-bearing account (total interest minus bank charges incurred on the account); and
- proceeds of any short-term no-interest loans the school makes to the fund in anticipation of receipt of its FCC or of loan collections.

Federal Work-Study PPA Requirements

Under the Program Participation Agreement, schools participating in the Federal Work-Study (FWS) Program must:

- make FWS employment reasonably available, to the extent of available funds, to all eligible students;
- award FWS employment, to the maximum extent practicable, that will complement and reinforce each recipient's educational program or career goals;
- assure that FWS employment may be used to support programs for supportive services to students with disabilities; and
- inform all eligible students of the opportunity to perform community services and consult with local nonprofit, government, and community-based organizations to identify those opportunities.

FISAP REPORT AND APPLICATION

Application for funds

To apply for and receive funds from the Department for one or more of the Campus-Based programs, a school must submit a FISAP for each award year. The Department posts instructions for submitting the FISAP in July in a Dear Colleague Letter on the IFAP Web site.

On Part II of the FISAP, you will report enrollment and aid eligibility information, such as the amount of tuition and fees your school assessed, total Pell, ACG, National SMART funds disbursed, and the number of eligible aid applicants at your school at different income levels. The information reported on the FISAP must be accurate and verifiable, as it will be used in the funding allocation formula (see next section).

You must submit your school's FISAP by October 1. Although most of the information on the FISAP is submitted electronically, please remember that you must print the combined certification and signature pages for your FISAP submission, obtain the required signatures, and mail these documents (with the original signatures) to the Department's FISAP Administrator.

Reporting expenditures

The school uses the Fiscal Operations Report portion of the FISAP to report its expenditures under the Campus-Based programs in the previous award year.

e-CampusBased

FISAP on the Web is available through the eCampus-Based Web site at: www.cbfisap.ed.gov.
To submit the FISAP on the Web, you must have a User ID and password. If you do not have a User ID and password, go to the eCampus-Based Web site, select "Login," and select the registration link. Once you have registered, you will receive your User ID via email.

First-time Campus-Based program applicants

A school that has applied to participate in the Campus-Based programs for the first time should submit a FISAP by the deadline even if the school has not been certified to participate in the programs. The Department will calculate a funding level for the school and put the funding on "hold" status until the school has been approved to participate. See "Allocation of Funds" for more information.

Use the 2009 FISAP to:

- Apply for 2010-2011 Funds
- Report 2008-2009 Expenditures

Completing the FISAP

FISAP on the Web

Schools submit the FISAP through the FISAP on the Web, available at:
www.cbfisap.ed.gov

The FISAP is available for completion on the Web by August 1 of each year. It must be completed no later than October 1 of the same year. If October 1st falls on a weekend, the deadline is moved back to the previous business day.

A list of all Campus-Based submission dates is posted on the **FISAP on the Web** site.

Schools may also make corrections via the **FISAP on the Web site**.

For assistance submitting corrections for closed years, or for questions concerning the preparation of the FISAP, schools should contact the Campus-Based Call Center at **1-877-801-7168** or **CBFOB@ed.gov.**

Certifications on the FISAP

Part I of the FISAP includes two required certifications:

1. Form 80-0013, Certifications Regarding Lobbying; Debarment, Suspension, and Other Responsibility Matters; and Drug-Free Workplace Requirements.
2. Standard Form LLL, Disclosure of Lobbying Activities (should only be completed if a school expends funds for lobbying activities)

See *Volume 2* for more information on these requirements.

Campus-Based Call Center

For assistance, contact the Campus-Based Call Center at **1-877-801-7168** between 8 a.m.–8 p.m. Eastern time. You may also email the Call Center at **cbfob@ed.gov**

Release of tentative & final funding levels

Your school's funding levels and corresponding worksheets will be posted in the "Self-Service" area on the eCB Web site before your school's Campus-Based contact person will be notified by e-mail when the tentative and the final funding levels are issued.

Allocation of funds
HEA 462(a)
34 CFR 673.4

Witholding final allocations

In some cases, ED calculates a school's final allocations, but does not issue the final allocation by April 1st. We may withhold a school's final allocation if:

- the school lost its eligibility to participate in FSA programs;
- the school is a new applicant for the FSA programs and/or for Campus-Based programs and has not been approved yet; or
- we have not received the FISAP signature/ certification form with the required original signature of the school's CEO.

When the reason(s) for holding the school's final allocation is/are resolved, we will release the school's final allocation.

ALLOCATION OF CAMPUS-BASED FUNDS

The Department allocates funds for each of the Campus-Based programs directly to schools each award year in the amount of funding the school is authorized to receive from the Department for an award year. The Department bases the allocation amount on statutory formulas and program funding. A school will not, however, receive an allocation that is in excess of its request. Your school's initial allocation is based on the amount allocated for the base award year, 1999-2000.

If your school submits the FISAP by the 1st of October, the Department provides your school with tentative allocation information in January of the following year and with final allocation information by the 1st of April. A school is notified via e-mail when its tentative or final allocation information is available in the "Self-Service" section of the *eCampus-Based* Web site.

If a school does not use its total allocation of funds for the Campus-Based programs, the school must release unexpended amounts to the Department. In June/July, the Department posts a Dear Colleague Letter on IFAP that requests schools to release any previous award year funds that they have not expended and offers schools the opportunity to request supplemental FWS funds for community service. The Reallocation Form for schools wishing to return funds or request supplemental FWS funds can be found in the Setup section of the *eCampus-Based* Web site.

REALLOCATION OF FUNDS

You must complete the Campus-Based Reallocation Form (on the *eCampus-Based* Web site) if:

- you do not intend to spend your entire allocation in any of the Campus-Based programs, or
- you want to request supplemental FWS funds to pay students in community service jobs (based on the criteria discussed below).

A school may request supplemental FWS funds if it

- has spent at least 5% of its total FWS funds for the award year to compensate students employed as reading tutors of children or in family literacy activities as part of its community service activities; and
- has an FWS fair share shortfall as shown on the school's final funding worksheet, provided with the final allocation letter.

Releasing unused funds

After schools release their unexpended allocations, the Department reallocates the funds to schools that have met the criteria for receiving a supplemental allocation (based on statutory and regulatory guidelines).

If a school returns more than 10% of its allocated funds for a given award year under any one of the Campus-Based programs, the Department will reduce the school's allocation for the second succeeding award year by the dollar amount returned unless the Department waives this provision.

Reduction of allocation
34 CFR 673.4(d)(3)

Waiver of allocation reduction
To request a waiver, a school must submit an explanation of the circumstances with its FISAP. ED explains the process a school must use to request a waiver in the FISAP Instruction Booklet.
ED may waive this provision for a specific school if the school returned more than 10% of its allocation due to circumstances that are beyond the schools' control, and are not expected to recur.

Reallocation of unexpended Campus-Based funds
ED reallocates 80% of returned Perkins loan funds in accordance with 462(i) of the HEA and reallocates 20% in a manner that best carries out the purposes of the program. Unexpended FSEOG funds returned to ED will be reallocated to an eligible school in a manner that best carries out the purposes of the FSEOG program.

FWS funds to FSEOG cite
34 CFR 675.18(e)

G5: transferred FWS funds
Any FWS funds transferred to FSEOG must be entered in G5 as an expenditure against the FWS Program, not the FSEOG Program.

NEW **New C-B fund transfer provisions**
Under the HEOA of 2008, a school may now transfer up to 25% of the school's FWS allotment to their Perkins Loan Program allotment in addition to the FSEOG Program allotment, which was already permitted. The HEOA also permits an school to transfer up to 25% of the school's FSEOG allotment to the school's FWS allotment.
HEOA section 494A
HEA section 488
Effective date: August 14, 2008

Transfer of FWS based on Perkins LOE
The school does not need to receive a Perkins Loan FCC allocation for an award year in order to transfer an allowable percentage of its FWS allocation for that award year to the Federal Perkins Loan Program. This is because the school has a revolving loan fund for the Perkins Loan Program. However, the school would need to have a Perkins Loan Level of Expenditure (LOE) from ED for that award year. The LOE is the authority from ED for the school to participate and spend monies from the Perkins Loan Fund for that award year, including making new loans to students. The official FWS allocation letter and the Perkins Loan LOE is the school's authority to exercise the FWS to Perkins Loan transfer option.

Perkins transfer to FWS or FSEOG
In those years when Federal Capital Contribution was allocated to schools, schools were allowed to transfer up to a total of 25% of their total Federal Perkins Loan allocation (initial plus supplemental) for an award year to either or both the Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study (FWS) programs.

TRANSFER OF CAMPUS-BASED FUNDS

Several general rules apply to the transfer of funds between Campus-Based programs:

- You must award transferred funds according to the requirements of the program to which they are transferred.
- You must report the transfer of funds on the Fiscal Operations Report portion of the FISAP.
- Any transferred funds that are unexpended must be transferred back to the original program at the end of the award year.

Federal Work-Study transfer to FSEOG or Perkins

Effective August 14, 2008, a school may transfer up to a total of 25% of its FWS allocation (initial plus supplemental) for an award year to its Perkins FCC allocation or FSEOG allocation, or both. This means that the total dollar amount of the FWS allocation transferred to both programs may not exceed 25% of the FWS allocation. (The FWS allocation does not include any amounts that may have been carried forward or carried back from other award years, as discussed in the next section.)

If the school wants to transfer an allowable percentage of its FWS allocation to the FSEOG Program or transfer an allowable percentage of its FSEOG allocation to the FWS Program, the program that the school wants to transfer funds to must also have an allocation for that same award year. The official allocation letter for both the FWS and FSEOG programs for the same specific award year is the school's authority to exercise the FWS and FSEOG transfer of funds option from one to the other.

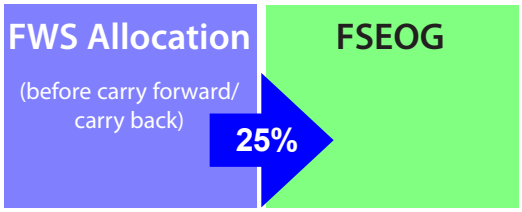
Your school must match any FWS funds transferred to FSEOG at the matching rate of the FSEOG Program, but the match doesn't have to be made until the transfer has occurred.

Your school may transfer up to 25% of its total FWS allotment allocation (initial and supplemental) to its Perkins Loan fund, in addition to the FSEOG Program allotment. Your school must have a Perkins Loan Level of Expenditure from the Department for the award year in order to do this. The Department's permission is not required.

FSEOG transfer to FWS NEW

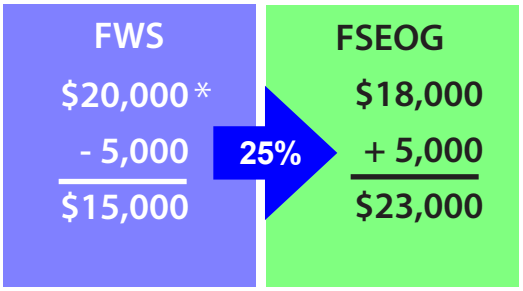
A school may now transfer up to 25% of its FSEOG allocation to its FWS allocation. (The school must have an FWS allocation to be able to transfer the funds.)

Example: transferring funds



Rule: a school may transfer up to 25% of its FWS allocation to its FSEOG program

Example: Mimosa Tech has a $20,000 FWS allocation, but only $18,000 of FSEOG. The aid administrator decides to transfer the maximum 25% of FWS to the FSEOG program.



FWS carry forward/carry back
34 CFR 675.18(b)
34 CFR 675.18(c)

G5: Funds Carried Forward/Back
Any FWS funds carried forward or carried back between award years must be entered in G5 as an expenditure against the FWS authorization for the award year from which the funds were taken, not the authorization for the award year in which the funds were used. The same requirement holds for FSEOG funds

FSEOG & FWS CARRY FORWARD/CARRY BACK

Carry Forward

Your school may spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) in the *following* award year (carry forward). Before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year.

Carry Back

Your school is also permitted to spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) for expenses incurred in the *previous* award year (carry back).

Your school must match FWS or FSEOG funds carried forward or carried back in the award year that they are spent. A school's future FWS or FSEOG program allocation is not affected by carrying forward or carrying back funds between award years.

You may "carry back" FWS funds for summer employment; that is, you may use any portion of your school's initial and supplemental FWS allocations for the current award year to pay student wages earned on or after May 1 of the previous award year but prior to the beginning of the current award year (July 1). This summer carry back authority is in addition to the authority to carry back 10% of the current year's FWS allocation for use during the previous award year.

Also, your school may spend any portion of its current award year's initial and supplemental FSEOG allocations to make FSEOG awards to students for payment periods that begin on or after May 1st of the prior award year but end prior to the start of the current award year (carry back for summer). This carry-back authority for summer FSEOG awards is in addition to the authority to carry back 10% of the current award year's FSEOG allocation for use during the previous award year.

On the FISAP, you must report FWS or FSEOG funds that your school carries back and carries forward. For example, if a school carried forward 10% of its FWS 2008–2009 allocation to be spent in 2008–2009, the school must report this amount on the FISAP (due October 1, 2009) in Part V of the Fiscal Operations Report for 2008–2009.

General principles

The official allocation letter for a specific award period is the school's authority to exercise these options. A school may not carry forward or carry back FWS funds to any award year in which there is no specific FWS allocation and the same requirement holds for FSEOG funds.

FWS limitations on use of funds carried forward or back

Schools are not permitted to add funds that are carried forward or back to the total FWS allocation for an award year when determining the maximum percentage of available funds that may be used in that award year for any of the following purposes:

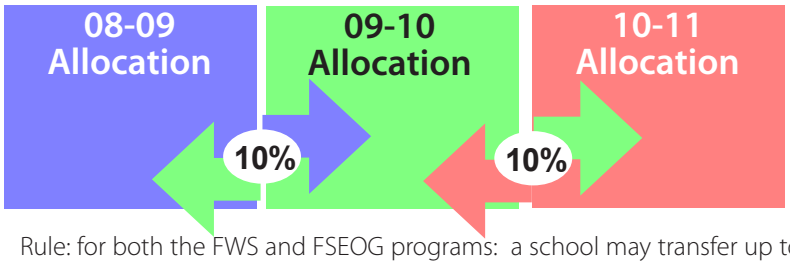
- transferring FWS funds to FSEOG;
- providing the federal share of wages in private for-profit sector jobs; or
- the Job Location and Development (JLD) Program.

For example, if a school carries $10,000 forward from 2008-2009 to 2009-2010, it may not include the $10,000 in the total 2009-2010 FWS allocation for the three purposes above. For these purposes, the 2009-2010 percentage is based on a school's total 2009-2010 original FWS allocation plus any supplemental FWS allocation for the 2009-2010 year.

Wages from federal agency

The portion of the FWS wages contributed as the school share by a federal off-campus agency is not considered part of the "federal share." Thus, a federal agency may provide the required share of student compensation normally paid by off-campus agencies plus any other employer costs that they agree to pay.

Carry forward/carry back



Rule: for both the FWS and FSEOG programs: a school may transfer up to 10% of its current year allocation (initial & supplemental) *forward* to the next award year, or *back* to the previous award year.

Federal shares cites
Federal share limitation for FWS
34 CFR 675.26
Job Location & Development
34 CFR 675.33(b)

Job Location & Development
The HEOA increases the funds for the Job Location and Development Program to not more than 10% or $75,000 of a school's FWS allocation, which is an increase from not more than 10% or $50,000, effective August 14, 2008.

The federal share of allowable costs in carrying out the JLD Program may not exceed 80% of such costs. (See Chapter 2 of this volume.)

Full federal share of FWS wages for schools under 34 CFR 606-609
The Department may authorize a federal share of 100% of FWS wages at schools designated as eligible schools under 34 CFR parts 606, 607, 608, or 609 (Hispanic-Serving Institutions, Historically Black Colleges and Universities, and institutions eligible under the Strengthening Institutions program). The work performed by the student must be for the school itself, for a federal, state, or local public agency, or for a private nonprofit organization. Your school is considered to have applied for a waiver of the nonfederal share requirement if your school is designated as an eligible school and your school submits a complete FISAP by the established deadline. Such schools will receive a letter from the Department indicating that they have been granted a waiver of the FWS nonfederal share requirement. (For more information, see *The Blue Book* on IFAP.)

FEDERAL SHARE LIMITATION

Federal share of FWS

In general, the federal share of FWS wages paid to a student may not exceed 75% of the student's total wages. However, there are some important exceptions to this rule, as described below.

If the student is working for a private for-profit organization, the federal share of the student's wages may not exceed 50%.

On the other hand, a school may use the federal share to pay up to 100% of the FWS wages paid to a student who is

- performing civic education and participation activities in community service projects,
- employed as a reading tutor for preschool-age children or elementary school children,
- employed as a mathematics tutor for children in elementary school through ninth grade, or
- performing family literacy activities in a family literacy project that provides services to families with preschool age children or elementary school children.

A school is not required to ask the Department for a waiver of the FWS nonfederal share requirement to receive the 100% federal share authorization for an FWS student employed in one of these jobs. Instead, the school should use 100% federal dollars to pay such a student and then show on its FISAP that it did so. (See Chapter 2 for a more detailed discussion of eligible jobs and employers.)

A school to may use the federal share of FWS wages to pay up to 90% of a student's wages if:

- The student is employed at a private nonprofit organization or a federal, state, or local public agency. (Employment at the school itself is not eligible.)
- The school does not own, operate, or control the organization or agency. To satisfy this requirement, your school must keep a statement in the school's file, signed by both the agency and the school, stating that they have no such relationship.
- The school selects the organization or agency on an individual, case-by-case basis. This requirement is satisfied when the school selects the agency through its normal process of selecting potential employers.
- The organization or agency must be unable to pay the regular nonfederal share. To satisfy this requirement, the school must keep in its file a signed letter from an official of the agency stating that the agency cannot afford to pay the regular nonfederal share.
- The 90% federal share is limited to no more than 10% of the students paid under the FWS Program. For purposes of this calculation, the school must use the total number of

FWS students paid during the current award year. The 10% limit on the number of students paid with the 90% federal share does not include students whose FWS wages have been exempted from the full nonfederal share requirement due to being employed as a reading tutor, mathematics tutor, or performing family literacy activities.

Federal share of Perkins

The federal funds allocated to a school in an award year under the Federal Perkins Loan Program are called the Federal Capital Contribution (FCC), and the matching share is called the Institutional Capital Contribution (ICC). Note that Congress has not authorized new Federal Capital Contribution for 2009–2010. See prior-year Handbooks for guidance on how the FCC/ICC match has been treated in those years.

Federal share of FSEOG

The federal share of FSEOGs made by a school may not exceed 75% of the total FSEOGs. The school must contribute a nonfederal share (also called "institutional share") of 25%.

Separate FISAP for locations ineligible for waiver

If your school files a FISAP on behalf of two or more separately eligible school locations, but not all of these locations are eligible for a waiver of the nonfederal share requirement, you must file a separate FISAP for any locations that are not eligible for a waiver of the nonfederal share requirement. Only those locations that are eligible will receive a waiver of the nonfederal share requirement.

Contributing greater than minimumn nonfederal share of FWS

An employer can choose to contribute more than the minimum required nonfederal share. For example, if a school has a large demand for FWS jobs from its various departments, it may contribute more than the usual 25% to allow for additional employment. However, schools should not report any contributions over the 25% requirement on the FISAP.

Waiver of the FSEOG nonfederal share requirement

Your school is considered to have applied for a waiver of the nonfederal share requirement if your school is designated as an eligible school and your school submits a complete FISAP by the established deadline. Such schools will receive a letter from the Department indicating that they have been granted a waiver of the nonfederal share requirement. (For more information, see *The Blue Book*, available on IFAP.)

Waivers for eligible schools under 34 CFR Parts 606-609

ED may waive the nonfederal share requirement for FSEOG and may authorize for an award year a federal share of 100% to a school that is designated as an eligible school under 34 CFR parts 606, 607, or 608 (see below).

ED may waive the institutional share requirement for FWS for a school that is designated as an eligible school under 34 CFR Parts 606, 607, 608, or 609 (see below). If the Department grants a waive of the FWS requirement, the school has the option of providing an institutional share and determining the amount of the share. However, the institutional share requirements for employment provided by a private for-profit organization (50% federal-share limitation) or for the administration of the JLD Program (80% federal-share limitation) are never waived.

34 CFR Part 606
- Developing Hispanic-Serving Institutions Program

34 CFR Part 607
- Strengthening Institutions Program
- American Indian Tribally Controlled Colleges and Universities Program
- Alaska Native and Native Hawaiian-Serving Institutions Program

34 CFR Part 608
- Strengthening Historically Black Colleges and Universities Program

34 CFR Part 609
- Strengthening Historically Black Graduate Institutions Program

NONFEDERAL SHARE

Nonfederal share of Federal Work-Study

The nonfederal share of a student's FWS wages must be at least 25% each award year, except as noted in the previous section. Your school may use any resource available to pay its share of FWS compensation except federal funds allocated under the FWS Program (or any other program funds where this use is prohibited). The school's share may come from its own funds, from outside funds (such as from an off-campus agency), or from both. However, if a student is employed by a private, for-profit organization, that organization must provide the nonfederal share.

Your school may also pay the institutional share with noncash contributions. If the school's noncash contribution is less than the remaining 25%, the school must make up the difference in cash.

Funds from programs sponsored by federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the nonfederal share, as long as the programs have the authority to pay student wages. A school should contact the appropriate federal agency to see if the program in question does have this authority.

Nonfederal share of FSEOG

The nonfederal share of FSEOGs must be made from the school's own resources. These resources may include:

- institutional scholarships and grants;
- waivers of tuition or fees;
- state scholarships and grants; and
- funds from foundations or other charitable organizations.

All state scholarships and grants, except for the Leveraging Educational Assistance Partnership (LEAP) and the Special Leveraging Educational Assistance Partnership (SLEAP) programs are eligible funds that may be used to meet the nonfederal share requirement of FSEOGs. LEAP and SLEAP grants, for this purpose, are defined as the federal LEAP and SLEAP allocation plus the minimum required state matching amount. The remaining state grants are not considered LEAP or SLEAP grants, and therefore can be used for the match.

The Department issues Dear Colleague Letters that show the percentage of each state's scholarships that can be used to provide the nonfederal share of FSEOGs. You can apply the appropriate state percentage to the state scholarships and grants your school's students receive to determine the total amount of state scholarships and grants that may be used to meet the FSEOG nonfederal share requirement.

As a variance from use of the percentages indicated in the chart, if a school has specific knowledge that a state scholarship or grant–irrespective of its name–is considered to be the required state

matching portion of a LEAP or SLEAP grant, that scholarship or grant may not be used to meet the FSEOG nonfederal share. Also, if a school has documented knowledge that a state scholarship or grant is not comprised of LEAP or SLEAP monies (federal or state), 100% of the scholarship or grant may be used as the FSEOG nonfederal share.

The nonfederal share requirement of 25% (unless the school qualifies for a waiver) may be met by one of three methods. In the following discussion of these methods, you should note that for a student to meet the definition of an FSEOG recipient, some portion of the grant awarded to the student must have come from the FSEOG federal dollars. Also, by the time the FSEOGs are disbursed (regardless of when in the award period the disbursements are made), the required match must have been accomplished; that is, the school's own resources must have been disbursed before or at the time the federal dollars are disbursed. However, it is important to note that outside resources (such as state grants, foundation, or other charitable organization funds) can be used to match FSEOGs even if the funds are received at a later date, provided that the school has written information about funds that the non-institutional agency or organization is awarding to the student involved. The written information must be kept on file at the school.

The three methods a school may use to meet its nonfederal share follow:

1. Individual FSEOG recipient basis-the school provides its share to an individual FSEOG recipient together with the federal share; that is, each student's total FSEOG would consist of 25% nonfederal resources and 75% federal dollars for the 2009–2010 award year.
2. Aggregate basis–the school ensures that the sum of all funds awarded to FSEOG recipients in the 2009–2010 award year comprises 75% FSEOG federal funds and 25% nonfederal resources. (See sidebar for example)
3. Fund-specific basis–the school establishes an FSEOG fund into which it deposits FSEOG federal funds and the required 25% nonfederal share. Awards to FSEOG recipients are then made from the fund.

Nonfederal share of Perkins

The nonfederal share required from the school's own funds for the Federal Perkins Loan Program is called the Institutional Capital Contribution (ICC). Even though there will be no new FCC for 20092010, the school may elect to make its own contributions to the Perkins revolving fund.

Nonfederal share
FWS 34 CFR 675.27

Use of state scholarships & grants as non-federal share of FSEOG
Percentages for 2008–2009 were issued in Dear Colleague Letter CB-08-13, dated November 20, 2008.

State scholarship as nonfederal share component example
Dominic receives a grant of $675 from a state with a percentage of 96.26. Jacob Broadcasting School multiplies 96.26% by $675, resulting in $650, which is the portion of the grant that may be used to meet the nonfederal share requirement for a $2,600 FSEOG award ($1,950 is the federal share of the FSEOG award).

Example of aggregate basis for FSEOG nonfederal share
For example, if a school awards a total of $60,000 to FSEOG recipients in 2008–2009, it has to ensure that $45,000 comes from FSEOG federal funds and $15,000 comes from nonfederal resources; if there are 100 FSEOG recipients, the entire $15,000 nonfederal resource requirement can be met by awarding a total of $15,000 in nonfederal resources to four FSEOG recipients. However, each FSEOG recipient must receive some FSEOG federal funds.

Allocation
The term allocation always refers to the original initial and supplemental allocation your school receives and never refers to an amount remaining after your school carries forward or carries back funds.

Definition of community service
The definition of community service has been extended to include the field of emergency preparedness and response.
HEOA 441(2)
Effective August 14, 2008.

*Remember that in meeting the community service minimum requirement, one or more of the school's FWS students must be employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

7% Citation
34 CFR 675.18(g)

NEW **Grants for off-campus & community service**
The HEOA authorizes (but does not fund) grants to schools to supplement off-campus and community service employment. Grant funds would be used to recruit and compensate students performing off-campus community service (including compensation for time spent in training and for travel directly related to the community service). This program is not currently funded and cannot be implemented until funding is provided by Congress.
HEOA section 446 HEA section 447(b)

USE OF FWS ALLOCATED FUNDS

Private for-profit organizations (25% of allocation)

Your school may use up to 25% of its FWS allocation and reallocation for an award year to pay the wages of FWS students employed by private for-profit organizations.

Work-Colleges

An approved school may use part of its FWS allocation for the purpose of meeting the costs of the Work-Colleges Program discussed in Chapter 2.

Community Service Jobs

There are two community service expenditure requirements that a school must meet.

1. A school must use at least 7% of its FWS federal allocation for an award year to pay the federal share of wages to students employed in community service jobs for that year.
2. In meeting the 7% community service requirement, one or more of the school's FWS students must be employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

A school may request a waiver of either or both of these requirements by the annual deadline. The school should include detailed information that demonstrates that the requirement would cause a hardship for students at the school. The fact that it may be difficult for the school to comply with these requirements is not, in and of itself, a basis for granting a waiver. See the box on the next page for more information on waivers.

Community service waivers

The Department in the past has approved a limited number of waivers of the community service expenditure requirements for schools that have demonstrated that enforcing these requirements would have caused a hardship for their students. Examples of waiver requests include:

Case Study #1 - Small FWS allocation

The school had a very small FWS allocation. The supporting information submitted by the school noted that 7% of the school's allocation only provided enough funds for a student to work for a short period of time. Therefore, the school was unable to find placement for a student in community service.

Case Study #2 - Rural area

The school was in a rural area that was located far away from the types of organizations that would normally provide community service jobs. The school provided information that showed that its students lacked the means of transportation to get to the town where the community jobs were located. In a similar waiver request in which transportation did exist, a school provided documentation that showed that the transportation costs were extremely high for the students.

Case Study #3 - Specialized program

The school offered only a single program of specialized study that required its students to participate in extensive curriculum and classroom workloads. The school provided information that demonstrated that this specialized educational program prevented the students from performing community service jobs at the time those work opportunities were available.

These examples are not the only circumstances that may result in approval of a waiver request, however, you must always submit a justi!cation of your request.

The Department posts annual announcement to the IFAP Web site describing the electronic waiver process, providing examples of previously approved waivers, and giving the deadline date for that year. For example, the waiver process for 2009–2010 was described in an Electronic Announcement posted on March 24, 2009.

A school must submit its waiver request to the Department electronically via the eCampus-Based (eCB) Web site at: **www.cbfisap.ed.gov**
Go to the "Community Service Waiver" link at the top of the Setup-Change Years/Schools page.

Reallocation effect on minimum community service expenditures

When a school receives reallocated FWS funds, the minimum amount of FWS federal funds the school must expend on community service jobs for an award year is one of the following two amounts, whichever is greater:

7% of the sum of:

- your original FWS allocation, plus
- your FWS supplemental allocation (if any), minus
- any amount of FWS Federal funds you returned through the reallocation process or earlier

OR

100% of your FWS supplemental allocation (if any)

Retention of records
General Provisions
34 CFR 668.24
Perkins loans
34 CFR 674.19
FWS
34 CFR 675.19
FWS
34 CFR 676.19

CAMPUS-BASED RECORDKEEPING

A school must follow the recordkeeping requirements in the General Provisions (discussed in *Volume 2*), and those specific to the Campus-Based programs.

A school must keep financial records that reflect all Campus-Based program transactions and must keep all records supporting the school's application for Campus-Based funds. This documentation includes the applications and records of all students who applied for Campus-Based assistance for a specific award year and were included on the school's FISAP for that award year.

The school must also retain applications and records of students who applied for, but did not receive aid, either because the school had no more funds to award or because the school determined that the student did not need funds. The school must keep general ledger control accounts and related accounts that identify each program transaction and must separate those transactions from all other institutional financial activity. Fiscal records must be reconciled at least monthly.

The Campus-Based records a school must maintain include but are not limited to:

- the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine a student's eligibility for Campus-Based program funds;
- application data submitted to the Department or the school on behalf of the student;
- documentation of the payment of any return of Title IV funds or overpayment to the FSA program fund or the Department;
- documentation of the amount of a Perkins Loan, FSEOG or FWS award, its payment period, and the calculations used to determine the amount of the loan, grant, or FWS award;
- documentation of each FSEOG or Perkins Loan disbursement and the date and amount of each payment of FWS wages;
- documentation of the school's calculation of any refunds or overpayments due to, or on behalf of, the student and the amount, date, and basis of the school's calculation;
- information collected at initial and exit loan counseling required by Perkins Loan regulations; and
- reports and forms used by the school in its participation in a Campus-Based program, and any records needed to verify data that appear in those reports and forms.

Perkins recordkeeping

Perkins Loan records of a school must maintain and include, but are not limited to:

- documentation of each student's eligibility for a Perkins Loan;

- the promissory note;
- documentation of the amount of a Perkins Loan, its payment period, and the calculations used to determine the amount of the loan;
- documentation of the date and amount of each disbursement of Perkins Loan funds;
- information collected at initial and exit loan counseling required by Perkins Loan regulations.

You must maintain a copy of the promissory note signed by the student (see the next section for acceptable formats for paper and electronic promissory notes). You must maintain an affidavit or certification regarding creation and maintenance of an electronic promissory note, including its authentication and signature processes. Documentation and certification requirements for assignment of Perkins Loans made using an electronic promissory note or MPN are discussed in Chapter 6, under "Perkins Assignment."

When the borrower has fully repaid the Perkins Loan, your school is required to either mark the original note "paid in full," have it certified by an official of the school, and return it to the borrower or to notify the borrower in writing that the loan is paid in full.

For each Perkins Loan borrower, a school must also maintain a repayment history that shows:

- the date and amount of each repayment during the life of the loan;
- the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges;
- the date, nature, and result of each contact with the borrower (or endorser for loans made prior to July 23, 1992) in the collection of an overdue loan; and
- copies of all correspondence to or from the borrower (and endorser for loans made prior to July 23, 1992), except for bills, routine overdue notices, and routine form letters (demand letters, notices of intent to accelerate, and the like are not considered to be routine form letters).

FWS Recordkeeping

For schools administering FWS, you must also follow the procedures established in 34 CFR 675.19 for documenting a student's FWS work, earnings, and payroll transactions. You must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize FWS payments and disburse FWS funds to students. If you use a fiscal agent for FWS funds, that agent may perform only ministerial acts.

Sample certification statement

If the original promissory note is released for the purpose of enforcing repayment, the school must keep a certified true copy. To qualify as a certified true copy, a photocopy (front and back) of the original promissory note must bear a certification statement signed by the appropriate school official. The following text can be used as the certification statement on a certified true copy of a Perkins promissory note.

CERTIFIED TRUE COPY: I declare under penalty of perjury that the foregoing is a true and correct copy of the original promissory note.

Signature: _____
Title: _____
Date:_____

In school records, schools must distinguish expenditures for FWS compensation from other institutional expenditures. You should enter FWS compensation on a separate voucher or, if listed on the general payroll voucher, you should group FWS compensation separately from other compensation. If payrolls are handled on automatic data processing equipment, you should identify FWS with a special code.

You must establish and maintain program and fiscal records that are reconciled at least monthly. The records must include:

- a payroll voucher containing sufficient information to support all payroll disbursements;
- a noncash contribution record to document any payment of the school's share of the student's earnings in the form of services and equipment; and
- a certification by the student's supervisor, an official of the school (or off-campus agency) that each student has worked and earned the amount being paid. Your school may use an electronic certification process (see sidebar). The school may still continue to have the FWS student's supervisor sign a paper certification. If the students are paid on an hourly basis, the certification must include or be supported by a time record showing the hours each student worked in clock time sequence, or the total hours worked per day.

In addition, each FWS position should have a job description that includes the following:

- the name and address of the student's employer (department, public agency, nonprofit organization);
- the purpose of the student's job;
- the student's duties and responsibilities;
- the job qualifications;
- the job's wage rate or range;
- the length of the student's employment (beginning and ending dates); and
- the name of the student's supervisor.

The job description has several purposes:

- It clearly defines whether the job qualifies under the FWS Program.
- It provides the information needed to explain the position to a student and to help him or her select the type of employment most closely related to his or her educational or career objectives.
- It helps the financial aid administrator, the student, and the supervisor determine the number of hours of work required at the specified wage rate to meet a student's financial need.
- It establishes a written record, for both student and employer, of the job's duties and responsibilities so that there will be no misunderstanding.

If a student is employed with an agency or organization that provides community services, the school should, as with any other FWS position, have a job description that includes the duties and the responsibilities. Schools should use the job description to verify that the job meets the definition of community services in the FWS regulations (see Chapter 2). In addition, for students performing reading tutoring or family literacy activities, the job description should support those jobs.

FSEOG Recordkeeping

In addition to following the fiscal procedures and records requirements mentioned above and in *Volume 2*, a school must meet the following requirements, which are included in the FSEOG regulations:

- A school must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize FSEOG payments and disburse FSEOG funds to students.
- A school must establish and maintain program and fiscal records that are reconciled at least monthly.
- Each year a school must submit a FISAP and other information the Department requires. The information must be accurate and must be provided on the form and at the time specified by the Department.

Electronic certification

A school that uses an electronic certification must adopt reasonable safeguards against possible fraud and abuse.

The school should provide a secure electronic certification through an electronic payroll system that includes:

- password protection;
- password changes at set intervals;
- access revocation for unsuccessful log-ins;
- user identification and entry-point tracking;
- random audit surveys with supervisors; and
- security tests of the code access.

See Volume 2 of the *FSA Handbook* for more information about recordkeeping, privacy safeguards, and information security.

Payroll vouchers

Payroll vouchers must support all payroll disbursements and should provide space for the following information:

- the school's name and address;
- the starting and ending dates of the payroll period;
- the student's name;
- an identification of the student's job;
- the number of hours worked during the pay period;
- the hourly rate of pay for an undergraduate student;
- the hourly rate of pay or salary for a graduate student;
- the student's gross earnings;
- any compensation withheld for federal, state, county, or city taxes, and other deductions;
- any noncash payments;
- the student's net earnings;
- a check number, duplicate receipt, or other payment identification; and
- any overtime earnings (a student may be paid overtime with FWS funds).

Records readily available for review
34 CFR 668.24(d)

RECORD RETENTION & FORMATS

Availability of records & period of retention

Your school must make its records readily available for review by the Department or its authorized representative at an institutional location the Department or its representative designates. Generally, a school must keep records relating to the school's administration of a Campus-Based program for 3 years after the end of an award year for which the aid was awarded and disbursed under that program.

There are some exceptions to this requirement:

- The school must retain the FISAP containing reported expenditures and any records necessary to support the data contained in the FISAP, including "income grid information," for three years after the end of the award year in which the FISAP is submitted.
- The school must keep the original signed promissory note and repayment schedule *until the loan is repaid in full or until the original note and schedule are needed to enforce loan collection.* Only authorized personnel may have access to these records.
- If a promissory note or MPN was signed electronically, you must store it electronically for *at least* e years after all loans made on the promissory note or MPN are satisfied. (The Department recommends that the school maintain a certified copy of the signed promissory note as well as a record of the full amount owed in its records beyond the 3-year record retention requirement.) You must ensure that the promissory note or MPN can be retrieved in a coherent format.
- The school must keep *repayment* records for Perkins Loans, including records relating to cancellation and deferment requests for at least 3 years from the date a loan is repaid, cancelled, or assigned to the Department. If a loan is assigned to the Department due to total and permanent disability, the school must retain any loan-related documentation that it does not submit until the Department approves a final discharge or the loan has been paid in full (Dear Colleague Letter CB-02-08).
- Records questioned in an audit or program review must be kept until the questions are resolved or until the end of the retention period applicable to the records, whichever is later.

Record formats, storage, etc.

A school must keep its Campus-Based program records in one of the following formats:

- The school must retain the original signed promissory notes and signed repayment schedules for Perkins/NDSL loans in a locked fireproof container. If a loan is assigned to the Department, the school must send the original promissory note or a certified copy of the note, as well as a copy of the original deferment or cancellation form(s). The school may not send computer-generated form(s) or microform(s).

- A school may keep other required records in hard copy or in microform, computer file, optical disk, CD-ROM, or other media formats, but all record information must be retrievable in a coherent hard copy format or in other media formats acceptable to the Department except that any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be kept in its original hard copy or in an imaged media format.
- Any imaged media format used to keep required records must be capable of reproducing an accurate, legible, and complete copy of the original document, and, when printed, this copy must be approximately the same size as the original.

Perkins assignment
34 CFR 674.50
Dear Colleague Letter CB-03-12
Dear Colleague Letter CB-06-23

Assignment address
A school should mail assignments to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, TX 75403-4316

Perkins loan liquidation procedures
Dear Partner Letter CB-00-05

Assigning uncollected loans
See Chapter 6 in this Volume for a discussion of the procedures for assigning individual loans to FSA Collections when the school has been unable to collect.

PERKINS REIMBURSEMENT & ASSIGNMENT

Reimbursement of Perkins fund for overpayment or default

The Department may require your school to reimburse its Perkins Loan Fund for any outstanding balance on an overpayment or a defaulted loan for which your school failed to record or retain the promissory note, record disbursements, or exercise due diligence. Your school must also reimburse the Perkins Loan Fund for the amount of the administrative cost allowance claimed on any reimbursed portion of a loan.

You do not have to reimburse the Perkins Loan Fund if your school can recover the defaulted loan or show the Department that the borrower would not have paid the loan even if your school properly exercised due diligence. Also, you should not reimburse the Perkins Loan Fund for loans on which your school obtains a judgment.

Assigning loans to FSA collections if Perkins participation ends

Your school must assign to FSA Collections all its Perkins and NDSL loans if:

-your school is closing;

- your school is withdrawing from the Federal Perkins Loan Program; or
- the Department is terminating your school's participation in the program.

Perkins Liquidation

There are seven basic steps to liquidating a school's Perkins Loan portfolio:

1. Notifying the Department of Education of your school's intent to liquidate its Perkins Loan portfolio;
2. Assigning all of your outstanding Perkins Loans to the Department;
3. Continuing National Student Loan Data System reporting until all your outstanding Perkins Loans have been either fully retired, accepted for assignment, or purchased by your school;
4. Returning the federal share of your school's Perkins Loan revolving fund to the Department;
5. Filing the final Fiscal Operation Report;
6. Having an independent compliance audit conducted of all Perkins Loan funds your school has received; and
7. Reconciling the FISAP information reported by your school with Department data.

After the Department completes the reconciliation process and determines that your school has satisfied the liquidation requirements, we will send a letter of approval to your school.

ADMINISTRATIVE COST ALLOWANCE

Administrative cost allowance
34 CFR 673.7

FSA Assessment: Administrative Cost Allowance
http://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html

A school participating in the Campus-Based programs is entitled to an Administrative Cost Allowance (ACA) for an award year if it advances funds under the Perkins Loan Program, provides employment under the FWS Program, or awards grants under the FSEOG Program to students in an award year. The ACA may be used to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The ACA can also be used for service fees that banks charge for maintaining accounts. Computer costs associated with Perkins Loan billing may also be paid from this allowance. Schools may use the allowance to help pay the costs of administering not only the Campus-Based programs but the Federal Pell Grant Program as well. Administrative costs also cover expenses for carrying out the student consumer information services requirements.

The amount of the ACA is calculated as a percentage of the school's expenditures to students for an award year under the Campus-Based programs.

5% of the first $2,750,000 of a school's Campus-Based expenditures to students

+

4% of Campus-Based expenditures greater than $2,750,000 but less than $5,500,000

+

3% of Campus-Based expenditures greater than $5,000,000

When a school calculates its ACA for the award year, the school is to include in its calculation the full amount of its FSEOG awards—both the 75% federal share and the required 25% nonfederal share. However, a school that chooses to provide more than a 25% institutional share to FSEOG recipients may not include an FSEOG institutional share in excess of 25% in its FISAP or in the calculation of its ACA.

If a school makes no match after receiving a waiver of its required institutional share for the FSEOG Program or the FWS Program, that school's ACA may be calculated only on the full federal portion of its awards for those programs.

The school takes the ACA out of the annual authorizations the school receives for the FSEOG and FWS programs and from the available cash on hand in its Perkins Loan fund. It is not a separate allowance sent to the school. A school may draw its allowance from any combination of Campus-Based programs, or it may take the

Using ACA to train FWS tutor

A school may use a portion of its administrative cost allowance (ACA) to cover the costs of training an FWS tutor. A school may also use a portion of its ACA to cover expenses that are related to employing a student as a tutor with a local school district and that the school may not incur with another organization. If, for example, a school district requires all employees to undergo a background check and be fingerprinted at a cost of $40 per employee, the postsecondary school may use a portion of its ACA to cover this cost. The FWS Program does not provide for any additional funds beyond the ACA for technical assistance and training of tutors.

total allowance from only one program provided there are sufficient funds in that program. However, a school may not draw any part of its allowance from a Campus-Based program unless 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.

Your school may use up to 10% of the ACA, as calculated above, as attributable to its expenditures under the FWS Program to pay the administrative costs of conducting its program of community service. These costs may include:

- developing mechanisms to assure the academic quality of a student's experience;
- assuring student access to educational resources, expertise, and supervision necessary to achieve community service objectives; and
- collaborating with public and private nonprofit agencies and programs assisted under the National and Community Service Act of 1990 in the planning, development, and administration of these programs.

Some schools do not claim an ACA so that all the funds can be used for student awards. This option is the school's decision.

Operating a Federal Work-Study Program

CHAPTER 2

This chapter covers issues specific to operating Federal Work-Study (FWS) program, including Community Service, Job Location and Development, and Work-College programs. For student eligibility criteria relating to Campus-Based programs, including FWS, refer to Volume 1. For information on selecting Campus-Based recipients, and calculating and packaging Campus-Based awards, see Volume 3. For information on disbursing FWS funds, see Volume 4.

CHAPTER 2 HIGHLIGHTS

- FWS jobs & employers
- Employment conditions & limitations
  - →Wages
  - →Disasters–flexible use of funds
  - →General restrictions
- FWS jobs & periods of enrollment/ nonenrollment
- Community service jobs
- Work for a proprietary school
- Work on campus
- Work off-campus
  - →Nonprofit or government agency
  - →Off-campus agreements
  - →Employing FWS students as tutors
- JLD programs
  - →Fund limitations and allowable costs
  - →Multi-institutuional JLD programs
- Work colleges program
- Appendices:
  - →Model Off-Campus Agreement;
  - →NEED Assessment for FWS Community Service

FWS JOBS & EMPLOYERS

A student may be employed under the FWS program by the school in which the student is enrolled (on-campus). You may also arrange for your school's FWS recipients to be employed off-campus by–

- federal, state, or local public agencies, or
- certain private nonprofit or for profit organizations.

Off-campus FWS jobs with federal, state, or local public agencies or private nonprofit organizations must be in the public interest.

Off-campus FWS jobs with private, for-profit organizations must be academically relevant to the maximum extent possible. Also, your school *must* use at least 7% of its FWS allocation to employ students in community service jobs with at least one FWS student employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

A school must make FWS jobs reasonably available to all eligible students at the school. To the maximum extent practicable, a school must provide FWS jobs that complement and reinforce each recipient's educational program or career goals.

In assigning an FWS job, a school must consider the student's financial need, the number of hours per week the student can work, the period of employment, the anticipated wage rate, and the amount of other assistance available to the student. While there is no minimum or maximum award, the amount for each student should be determined based on these factors.

U.S. Department of Labor Web site: www.dol.gov/esa/whd/flsa/

State & local minimum wage laws
The pay must meet the requirements of the state or local law. This means that when the state or local law requires a higher minimum wage, the school must pay the FWS student that higher wage. However, if the state or local law allows a wage that is less than the Federal minimum wage, the FWS student must be paid at least the Federal minimum wage.

Subminimum wages
The Small Business Job Protection Act of 1996 established a subminimum, or training wage that is lower than the minimum wage. However, it is not permissible to pay the subminimum wage rate to students in FWS jobs.

EMPLOYMENT CONDITIONS AND LIMITATIONS

FWS employment must be governed by employment conditions, including pay, that are appropriate and reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable federal, state, or local law.

Wages

FWS employers must pay students at least the federal minimum wage in effect at the time of employment (The federal minimum wage is $6.55 per hour effective July 24, 2008; and $7.25 per hour effective July 24, 2009).

A student's need places a limit on the total FWS earnings permissible but has no bearing on his or her wage rate. It is not acceptable to base the wage rate on need or on any other factor not related to the student's skills or job description. If a student's skill level depends on his or her academic advancement, the school may pay a student on that basis. For example, a junior or third-year lab student may be paid a higher rate than a sophomore or second-year lab student. However, in most cases, students performing jobs comparable to those of other employees should be paid comparable wages, whether the other employees are students at different class levels or are regular employees.

Disasters–flexible use of funds NEW

In the event of a major disaster, an eligible school located in any area affected by such major disaster, as determined by the Secretary, may make FWS payments to disaster-affected students, for the period of time (not to exceed one academic year) in which the disaster-affected students were prevented from fulfilling their work-study obligations.

Payments may be made in an amount equal to or less than the amount of FWS wages such students would have been paid had the students been able to complete the work obligation necessary to receive work-study funds. Payments may not be made to any student who was not eligible for work-study or was not completing the work obligation necessary to receive FWS funds prior to the major disaster. Any payments made must meet the FWS matching requirements, unless such matching requirements are waived by ED.

The term "disaster-affected student" means a student enrolled at an eligible school who

- received an FWS work-study award for the academic year during which a major disaster occurred;
- earned FWS wages from the school for the academic year prior to the disaster;
- was prevented from fulfilling his or her work-study obligation for all or part of such academic year due to such major disaster; and
- was unable to be reassigned to another work-study job.

The term "major disaster" means: any natural catastrophe (including any hurricane, tornado, storm, high water, wind driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, or drought), or, regardless of cause, any fire, flood, or explosion, in any part of the United States, which in the determination of the President causes damage of sufficient severity and magnitude to warrant major disaster assistance under this chapter to supplement the efforts and available resources of States, local governments, and disaster relief organizations in alleviating the damage, loss, hardship, or suffering caused thereby.
—Section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)

General restrictions on employment

FWS employment must not displace employees (including those on strike) or impair existing service contracts. Also, if the school has an employment agreement with an organization in the private sector, the organization's employees must not be replaced with FWS students. Replacement is interpreted as displacement.

FWS positions must not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction. In determining whether any FWS employment will violate this restriction, a school should consider the purpose of the part of the facility in which the work will take place and the nature of the work to be performed. For example, if the part of the facility in which the student will work is used for religious worship or sectarian instruction, the work cannot involve construction, operation, or maintenance responsibilities. If that part of the facility is not being used for religious worship or sectarian instruction, The school should make sure that any work the student will perform meets general employment conditions and that other limitations are not violated.

Neither a school nor an outside employer that has an agreement with the school to hire FWS students may solicit, accept, or permit the soliciting of any fee, commission, contribution, or gift as a condition for a student's FWS employment. However, a student may pay union dues to an employer if they are a condition of employment and if the employer's non-FWS employees must also pay dues.

The Fair Labor Standards Act of 1938, as amended, prohibits employers (including schools) from accepting voluntary services from any paid employee. Any student employed under FWS must be paid for all hours worked.

Federal share may not be used to provide fringe benefits

The federal share may *not* be used to provide fringe benefits such as sick leave, vacation pay, or holiday pay, or employer's contributions to Social Security, workers' compensation, retirement, or any other welfare or insurance program. These restrictions on the federal share apply even when the Department authorizes a federal share of 100% of FWS wages.

Earning academic credit & compensation for FWS jobs

A student may earn academic credit as well as compensation for FWS jobs. Such jobs include but are not limited to internships, practica, assistantships (e.g., research or teaching assistantships), and service learning programs. However, a student employed in an FWS job and receiving academic credit for that job may not be:

- paid less than he or she would be if no academic credit were given;
- paid for time while receiving instruction in a classroom, laboratory, or other academic setting; and
- paid unless the employer would normally pay a non-FWS person for the same job.

FWS payments during period of nonattendance prior to study abroad

A student in an eligible program of study abroad may be employed during a period of non-attendance preceding the study abroad if she will be continuously enrolled in her American school while abroad and if her study is part of the American school's own program. In such a case, a student may be employed in a qualified position in the United States, at the American school's additional location in a foreign country, or at a U.S. government facility abroad.

FWS & mini-sessions

If a school combines a series of mini-sessions or modules into one term (e.g., three summer mini-sessions into one summer term), an FWS student attending any of the mini-sessions may earn FWS wages at any time throughout that term. The school may apply those earnings toward the student's financial need for the mini-session(s) attended or the next period of enrollment. The school must base the student's financial need for attending the summer term on the period of time for which the student is actually enrolled in the mini-sessions.

The amount of FWS wages a student may earn at any point in the term does not depend on whether the student is then enrolled in a mini-session. The school or student may choose how to distribute the hours worked throughout the summer term.

FWS JOBS & PERIODS OF ENROLLMENT/NONENROLLMENT

FWS earnings for the next period of enrollment

Many FWS students must pay the bulk of their education costs in the beginning of each period of enrollment before they have had a chance to earn FWS wages. To provide the opportunity to earn wages before incurring education costs, the Department allows students to earn FWS wages to cover expenses for the next period of enrollment offered by the school.

The student must be planning to enroll for that next period and must demonstrate financial need for it. The next period of enrollment is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year. A student may earn FWS wages toward the next period of enrollment during any period, including during a period of non-attendance (see below) or a period of enrollment made up, in whole or in part, of mini-sessions.

Periods of non-attendance for FWS students

A student may be employed under FWS during a period of nonattendance, such as a summer term, an equivalent vacation period, the full-time work period of a cooperative education program, or an unattended fall or spring semester. The student must be planning to enroll for the next period of enrollment and must have demonstrated financial need for that period. The student's net earnings (earnings minus taxes and job-related costs) during this period of nonattendance must be used to cover expenses associated with her financial need for the next period of enrollment, which is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year.

A student who was not attending school in the summer but who was eligible for summer FWS employment because he anticipated being enrolled in the fall may fail to then attend school. When a student fails to attend for the next period of enrollment, the school that employed him must be able to demonstrate that he was eligible for employment and that the school had reason to believe the student intended to study at that school in the next period of enrollment. At a minimum, the school that employed the student must keep a written record in its files showing that he had accepted the school's offer of admittance for the next period of enrollment.

COMMUNITY SERVICE JOBS

Your school must use at least 7% of its FWS allocation to employ students in community service jobs. Community Service jobs can be either on-campus or off-campus. *Nonprofit agencies* can qualify as community service employers if the work performed meets the definition of community services in the regulations. See the list of programs and activities that are recognized as appropriate work in community services at the end of this section. (Note that *private, for-profit organizations* do not qualify as employers for community service under the FWS Program.)

At least one of the FWS students your school employs to fulfill this requirement must:

- perform family literacy activities in a family literacy project that provides services to families with preschool age children or elementary school children; or
- serve as a reading tutor for children who are preschool age or are in elementary school.

To further encourage schools to employ FWS students in these positions and as mathematics tutors, FWS regulations authorize a 100% federal share of FWS wages. (See Chapter 1 for more information about Community Service funding and employment requirements, and waivers.)

Employing an FWS student in these positions serves the needs of the community and gives the FWS student an enriching and rewarding experience.

Schools must inform students of FWS community service opportunities available in the local community. The Program Participation Agreement also requires your school to work with local nonprofit, governmental, and community-based organizations to identify community service opportunities, including those that assist supportive services to students with disabilities. Schools should promote these opportunities to students by notifying each student individually or via general means such as campus Web sites or publications.

Community services eligible for FWS

Community services are defined as services that are identified by an institution of higher education through formal or informal consultation with local nonprofit, government, and community-based organizations, as designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to their needs. These services include:

- such fields as health care, child care, literacy training, education (including tutorial services), welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention and control,

Emergency response & preparedness NEW

HEOA 2008 amended the definition of community service jobs to include field of emergency preparedness and response.
HEOA 441(2)
HEA section 441(c)(1)
Effective August 14, 2008

More information

- Community service
Dear Colleague Letter CB-07-08
- Family literacy project
Dear Colleague Letter CB-98-6
- Reading tutor/family literacy project
34 CFR 675.18(g)
- 7% requirement
34 CFR 675.18(g)

Indirect services

The Department does not intend to indicate that certain activities are more important than others or that only jobs that have direct contact with community members are acceptable. For example, an FWS student working for the Meals on Wheels Program is performing community service when conducting research on where the program is needed, when recruiting or coordinating volunteers to distribute the meals, or when preparing meals for the program despite having no contact with the community residents. Such indirect services are very important in meeting community needs.

Civics, emergency response, and other teaching projects NEW

Schools can now use FWS funds to compensate students employed in projects that teach civics in schools, raise awareness of government functions or resources, or increase civic participation.

Additionally, to the extent practicable, a school must:

- give priority to the employment of students participating in projects that educate or train the public about evacuation, emergency response, and injury prevention strategies relating to natural disasters, acts of terrorism, and other emergency situations; and
- ensure that any student compensated with these funds receives appropriate training to carry out the educational services required.

Finally, the HEOA specifies that the Federal share of the compensation of FWS students may exceed 75%.

HEOA section 443
HEA section 443
Effective August 14, 2008

The Department is developing regulations to implement this new provision.

recreation, rural development, community improvement, and emergency preparedeness and response;

- work in service opportunities or youth corps under Americorps, and service in the agencies, institutions, and activities described in the box to the left;
- support services for students with disabilities (including students with disabilities who are enrolled at the school*); and
- activities in which an FWS student serves as a mentor for such purposes as tutoring (see below), supporting educational and recreational activities, and counseling, including career counseling.

To be considered employed in a community service job for FWS purposes, an FWS student does not have to provide a "direct" service. The student must provide services that are designed to improve the quality of life for community residents or to solve particular problems related to those residents' needs. A school may use its discretion to determine what jobs provide service to the community, within the guidelines provided by the statute, regulations, and this *Handbook*. See Appendix B at the end of this chapter for a model need assessment form that can be used with community service agencies.

There is no restriction as to whether these jobs must be on or off-campus. However, a university or college is not considered a community for the purposes of the FWS Program community service requirements. On-campus jobs can meet the definition of community services, provided that the services are designed to improve the quality of life for community residents, or to solve problems related to their needs, and that they meet the regulatory and statutory provisions pertaining to the applicable FWS Program employment limitations and conditions.

Employing FWS students as tutors

Many schools employ FWS students as reading or mathematics tutors. This type of employment allows students to help children develop reading or mathematics skills necessary for their education and future employment.

There is no limit on the amount of funds a school can spend from its FWS allocation to pay FWS reading or mathematics tutors. When employing students as reading tutors, schools must, to the maximum extent possible, give placement priority to schools that are participating in a reading reform project that is (1) designed to train teachers how to teach reading on the basis of scientific research on reading; and (2) is funded under the Elementary and Secondary Education Act of 1965. The school must further ensure that reading tutors receive training from the employing school in the instructional practices used by the school.

*This is the only statutory exception to the requirement that community service be open and accessible to the community.

Community service: service opportunities, youth corps programs, other programs and activities

The definition of community services for FWS includes work in "service opportunities" or "youth corps," as defined in Section 101 of the National and Community Service Act of 1990:

Service opportunity. A program or project, including a service learning program or project, that enables students or out-of-school youth to perform meaningful and constructive service in agencies, institutions, and situations where the application of human talent and dedication may help to meet human, educational, linguistic, and environmental community needs, especially those relating to poverty.

Youth corps program. A program, such as a conservation corps or youth service program, that offers full-time, productive work (to be financed through stipends) with visible community benefits in a natural resource or human service setting and that gives participants a mix of work experience, basic and life skills, education, training, and support services.

The definition of "community services" also includes service in agencies, institutions, and activities that are designated in Section 124(a) of the National and Community Service Act of 1990. These include the following conservation corps and human services corps programs, as well as programs that encompass the focus and services of both.

Conservation corps programs

Conservation corps programs that focus on:

- conservation, rehabilitation, and the improvement of wildlife habitat, rangelands, parks, and recreation areas;
- urban and rural revitalization, historical and site preservation, and reforestation of both urban and rural areas;
- fish culture, wildlife habitat maintenance and improvement, and other fishery assistance;
- road and trail maintenance and improvement;
- erosion, flood, drought, and storm damage assistance and controls;
- stream, lake, waterfront harbor, and port improvement;
- wetlands protection and pollution control;
- insect, disease, rodent, and fire prevention and control;
- the improvement of abandoned railroad beds and rights-of-way;
- energy conservation projects, renewable resource enhancement, and recovery of biomass;
- reclamation and improvement of strip-mined land;
- forestry, nursery, and cultural operations; and
- making public facilities accessible to individuals with disabilities.

Human services corps programs

Human services corps programs that include service in:

- state, local, and regional government agencies;
- nursing homes, hospices, senior centers, hospitals, local libraries, parks, recreational facilities, child and adult daycare centers, programs serving individuals with disabilities, and schools;
- law enforcement agencies and penal and probation systems;
- private nonprofit organizations that primarily focus on social service such as community action agencies;
- activities that focus on the rehabilitation or improvement of public facilities, neighborhood improvements, literacy training that benefits educationally disadvantaged individuals, weatherization of and basic repairs to low-income housing including housing occupied by older adults, energy conservation (including solar energy techniques), removal of architectural barriers to access by individuals with disabilities to public facilities, activities that focus on drug and alcohol abuse education, prevention and treatment, and conservation, maintenance, or restoration of natural resources on publicly held lands; and
- any other nonpartisan civic activities and services that the commission determines to be of a substantial social benefit in meeting unmet human, educational, or environmental needs (particularly needs related to poverty) or in the community where volunteer service is to be performed.

See 34 CFR 675.2 Definitions; "Community Service"

34 CFR 675.2(b)

ESTABLISHING FWS COMMUNITY SERVICE JOBS

In contacting potential community service agencies, schools should place a priority on jobs that will meet the human, educational, environmental, and public safety needs of low-income individuals.*

Step #1: Identify Potential Jobs and Employers

Identify jobs

- Brainstorm types of jobs that would meet the community service requirement. What jobs do your students currently hold, on campus or off-campus, that meet the community service definition?
- Communicate the community service requirements to your school's student employment office.

Identify employers

- Which local community service organizations might be interested in employing your FWS students?
- Contact local nonprofit, government, and community-based organizations to assess their needs and determine what interest exists for employing FWS students.

Talk to colleagues

- Talk to colleagues at other schools to get ideas on implementing, locating, and developing the community service jobs.

Step #2: Research Your Students' Interest in Community Service

- Research your FWS students' degrees or certificate programs, interests, and skills to determine which recipients might find community service jobs appealing.

Step #3: Promote Community Service Jobs

- Devise a plan to market community services under the FWS Program to eligible student employers and the community;
- obtain a listing of potential community service agencies;
- ask to be a presenter at various organizations' meetings;
- engage in networking activities;
- hold and attend job fairs;
- host a financial aid office "open house;" and
- visit local agencies.

* There is no formal definition of "low-icome individuals" for this purpose, and there is no statutory requirement that a particular number or proportion of the individuals must be low-income persons. Some examples of jobs that provide services to persons in the community who may not necessarily be low-income individuals are jobs that provide supportive services to individuals with disabilities or that prevent or control crime in the community.

What is a Family Literacy Project? How are Family Literacy activities defined?

Research shows that children whose parents work with them on literacy skills during early childhood have a better chance of reading well and independently. The family literacy concept recognizes the family as an institution for education and learning and the role of parents as their children's first teachers.

A family literacy program integrates four components. It provides:

- literacy or pre-literacy education to children,
- literacy training for parents or other caregivers of children in the program,
- a means of equipping parents or other caregivers with the skills needed to partner with their children in learning, and
- literacy activities between parents or other caregivers and their children.

This definition is consistent with the Even Start and Head Start definitions of family literacy programs.

The Department does not define "family literacy activities" for purposes of the community service expenditure requirement or the waiver of the institutional share requirement. The Department gives schools reasonable flexibility to determine the job description and duties for an FWS student performing family literacy activities.

Family literacy activities are not limited to just tutoring positions. For example, family literacy activities may include training tutors, performing administrative tasks such as coordinating the tutors, or working as an instructional aide who prepares the materials for the project. However, it would not be reasonable to include janitorial or building repair jobs as family literacy activities.

WORK ON CAMPUS (SCHOOL IS EMPLOYER)

A student may be employed on campus at any type of postsecondary institution, including at a proprietary school.

A school, other than a proprietary school, may employ a student to work for the school itself, including certain services for which the school may contract, such as food service, cleaning, maintenance, and security. Work for the school's contractors is acceptable as long as the contract specifies the number of students to be employed and specifies that the school selects the students and determines their pay rates.

A proprietary school also may employ a student to work for the school itself with certain restrictions (discussed below under "Work for Proprietary School").

At any type of postsecondary institution, including proprietary schools, an FWS student may be assigned to assist a professor if the student is doing work the school would normally support under its own employment program. Having a student serve as a research assistant to a professor is appropriate, as long as the work is in line with the professor's official duties and is considered work for the school itself.

On-campus employment
34 CFR 675.21

Employment in a foreign country
Normally, employment in a foreign country is not permissible under the law. However, a school with an additional location in a foreign country may employ students under FWS if the branch has its own facilities, administrative staff, and faculty. Students may also be employed by a U.S. government facility such as an embassy or a military base. A student may not be employed for a nonprofit organization in a foreign country.

Proprietary school employment
34 CFR 675.21(b)

A proprietary school also may employ a student to work for the school itself with certain restrictions (see "Work for Proprietary School" in this section).

Student services ~~definition cite~~

Student services may include:
- jobs in financial aid
- jobs in a library
- peer guidance counseling
- job placement
- assisting an instructor with curriculum-related activities (e.g., teaching assistant)
- security
- social and health services
- tutoring

Student services never include:
- facility maintenance
- cleaning
- purchasing
- public relations

34 CFR 675.2(b)

Work for proprietary school

A proprietary school may employ a student to work for the school itself but only in jobs that meet certain criteria.

If the jobs are in community service, they may be either on or off-campus. Students employed by a proprietary school and performing community service do not have to furnish student services that are directly related to their education.

If the jobs are *not* in community service, they must be on campus and must provide student services that are directly related to the FWS student's training or education. To the maximum extent possible, the job must complement and reinforce the FWS student's educational program or vocational goals. The job *may not* involve soliciting potential students to enroll at the proprietary school.

In general, jobs that primarily benefit the proprietary school are not student services. For example, jobs in facility maintenance or cleaning are never student services. See the sidebar for a list of examples of jobs that do not provide student services. Again, this list is not exhaustive. Jobs in the admissions or recruitment area of a school are not acceptable student services because such jobs are considered to involve soliciting potential students to enroll at the school.

The non-community service job must provide student services that are directly related to the FWS student's training or education. This does not mean that the FWS student must be enrolled in an academic program for that field. Instead, it means that the FWS student must be receiving work experiences that are directly applicable to the skills needed for his or her career path. For example, an FWS student enrolled in an air-conditioning repair program wants to work in the school's library. Although the student is not pursuing a career as a librarian, the student would still be able to work in the library. The job is directly related to his or her training because he or she is learning customer service and basic office functions that are applicable to work in an air-conditioning repair shop or dealership. Similarly, a job in another student service office such as financial aid, registrar, and job placement would also be considered directly related to the FWS student's training.

Student services are services that are offered to students. Students are persons enrolled or accepted for enrollment at the school. An FWS student who provides services only to the school's former students is not providing student services because the services are not offered to currently enrolled students. However, an FWS student who provides services to both current students and former students *is* providing student services, because the services *are* offered to currently enrolled students. For example, an FWS student provides job placement assistance to current students and alumni of the school. The FWS student is considered to be providing student services because his or her services are offered to current students, as well as alumni.

Student services do not have to be direct services or involve personal interaction with other students. Services are considered student services if the services provide a benefit either directly or indirectly to students. For example, an FWS student may work in assisting an instructor in the lab or in other work related to the instructor's official academic duties at the school. See the sidebar for an expanded list of examples of jobs that provide student services. The list is not exhaustive. The fact that a job has some operational functions does not preclude it from being an acceptable FWS job as long as it furnishes student services.

Work for private for-profits
34 CFR 675.23

WORK OFF-CAMPUS

A postsecondary school (including a proprietary school) may use FWS funds to pay a portion of the wages of a student who is employed off campus by certain nonprofit agencies or private employers.

Work off-campus for nonprofit or government agency

If a student is employed off-campus by a federal, state, or local public agency or by a private nonprofit organization, providing jobs related to the student's academic or vocational goals is encouraged, but not required.

A private nonprofit organization is one in which no part of the net earnings of the agency benefits any private shareholder or individual. An organization must be incorporated as nonprofit under federal or state law. A school classified as a tax-exempt organization by either the federal or state Internal Revenue Service meets this requirement. Examples of private nonprofit organizations generally include hospitals, daycare centers, halfway houses, crisis centers, and summer camps.

Work must be "in the public interest"

Work performed off-campus *must be in the public interest.* Work in the public interest is defined as work performed for the welfare of the nation or community, rather than work performed for a particular interest or group.

Work is not "in the public interest" if:

- it primarily benefits the members of an organization that has membership limits, such as a credit union, a fraternal or religious order, or a cooperative;
- it involves any partisan or nonpartisan political activity or is associated with a faction in an election for public or party office;
- it is for an elected official unless the official is responsible for the **regular** administration of federal, state, or local government;
- it is work as a political aide for any elected official;
- it takes into account a student's political support or party affiliation in hiring him or her; or
- it involves lobbying on the federal, state, or local level.

Political activity, whether partisan or nonpartisan, does not qualify as work in the public interest. For example, a student is not considered to be working in the public interest if working at voting polls—even if he or she only checks off the names of those who came to vote and does not pass out flyers supporting a particular candidate. Also, a student is not considered to be working in the public interest if working to support an independent candidate. Another example of nonpartisan political activity is work for a city political debate.

Working for an elected official as a political aide also does not qualify as work in the public interest. For example, a student could not represent a member of Congress on a committee. However, a student could be assigned to the staff of a standing committee of a legislative body or could work on a special committee, as long as the student would be selected on a nonpartisan basis and the work performed would be nonpartisan.

Under certain circumstances, work for an elected official responsible for the *regular administration* of federal, state, or local government may be considered to be in the public interest. "Regular administration" means the official is directly responsible for administering a particular function. Such a person would not create, abolish, or fund any programs, but would run them. Working for a sheriff would be acceptable, as would working for an elected judge (because he or she has direct responsibility for the judicial system).

As stated above, any *political* activity would not be acceptable—raising funds for the official's reelection, for example. An FWS position that involves lobbying at the federal, state, or local level is not work in the public interest. FWS students are prohibited from working for the Department of Education due to the potential appearance of conflict of interest.

Work off-campus for private for-profit companies

Schools also may enter into agreements with private for-profit companies to provide off-campus jobs for students; however, these jobs must be academically relevant, to the maximum extent practicable, to the student's program of study. (A student studying for a business administration degree could work in a bank handling customer transactions, for example.) Private for-profit organizations do not qualify as employers for community service under the FWS Program.

Off-campus agreements

If your school would like an off-campus organization to employ FWS students, your school must enter into a written agreement–a contract with the off-campus organization. A written agreement is required with the off-campus organization even if your school is considered the employer of the FWS student. The school must make sure the off-campus organization is a reliable agency with professional direction and staff and that the work to be performed is consistent with the purpose of the FWS Program. (See Appendix A at the end of this chapter for a model off-campus agreement. The model need not be followed exactly but serves as a guide.)

The agreement should specify what share of student compensation and other costs will be paid by the off-campus organization. For-profit organizations **must** pay the nonfederal share of student earnings. Any off-campus organization **may** pay:

- the nonfederal share of student earnings;
- required employer costs, such as the employer's share of Social Security or workers' compensation; and

Rules for private for-profit organizations

Private for-profit organizations may not hire FWS employees to replace regular employees. Also note that the federal share of FWS wages paid to a student working for a private for-profit organization may not exceed 50% (see Chapter 1).

Work in the public interest: examples

However, in deciding whether work is in the public interest, schools must consider the nature of the work as well as that of the organization. For example, a private nonprofit civic club may employ a student if the student's work is for the club's community drive to aid handicapped children. If the student's work is confined to the internal interests of the club, such as a campaign for membership, the work would benefit a particular group and would not be in the public interest. As another example, a student may work for a private nonprofit membership organization, such as a golf club or swimming pool, if the general public may use the organization's facilities on the same basis as its members. If only members may use the facilities, FWS employment is not in the public interest.

Off-campus agreements
34 CFR 675.20(b)

Treatment of excess funds from an off-campus agreement
If a school receives more money under an employment agreement with an off-campus agency than the sum of
(1) required employer costs,
(2) the school's nonfederal share, and
(3) any share of administrative costs the employer agreed to pay, the school must handle the excess in one of three ways:
• use it to reduce the federal share on a dollar-for-dollar basis;
• hold it in trust for off-campus employment during the next award year; or
• refund it to the off-campus employer.

Reading reform cite
34 CFR 675.18(g)(3)

Reading and math tutors
Dear Colleague Letter CB-97-12, dated July 1999
Dear Partner Letter CB-99-12, dated July 1997

- the school's administrative costs not already paid from its Administrative Cost Allowance (ACA).

The agreement sets forth the FWS work conditions and establishes whether the school or the off-campus organization will be the employer for such purposes as hiring, firing, and paying the student. The employer is generally considered to be the entity that will control and direct the work of the FWS students–supervising them at the work site, regulating their hours of work, and generally ensuring that they perform their duties properly. However, the school is ultimately responsible for making sure that payment for work performed is properly documented and that each student's work is properly supervised.

The agreement should define whether the off-campus organization will assume payroll responsibility and bill the school for the federal share of the students' wages, or whether the school will pay the students and bill the off-campus organization for its contribution. The school must make up any payments the off-campus organization does not make. It is the school's responsibility to ensure that FWS payments are properly documented, even if the off-campus organization does the payroll. To fulfill that responsibility, the school must keep copies of time sheets and payroll vouchers and keep evidence that the students were actually paid (usually copies of the canceled checks or receipts signed by the students). Payroll records are discussed in detail later in this chapter.

The school is also responsible for ensuring that each student's work is properly supervised. School officials should periodically visit each off-campus organization with which they have an off-campus agreement to determine whether students are doing appropriate work and whether the terms of the agreement are being fulfilled.

The agreement must state whether the school or off-campus organization is liable for any on-the-job injuries to the student. The employer is not automatically liable. Federal FWS funds cannot be used to pay an injured student's hospital expenses.

In determining whether to continue an off-campus agreement, many schools have found it helpful to require that students submit a formal evaluation of their work experience at the end of the assignment. The school may also use the evaluation to help off-campus agencies improve their work programs.

Staff members of the off-campus organization must become acquainted with a school's financial aid and student employment programs to better understand the school's educational objectives. The school must supply the off-campus organization with this information.

EMPLOYING FWS STUDENT AS TUTORS: FAQs

What are the requirements for a "reading tutor" or "math tutor?"

The Department does not define "tutor" for the FWS Program. This gives schools flexibility in determining the job description and duties of a tutor. For example, a reading tutor could be an FWS student who reads to a group of preschoolers in a public library.

An FWS student employed as a tutor does not have to meet certain statutory (for reading tutors) or regulatory (for reading and mathematics tutors) educational standards or qualifications for the school to receive an institutional-share waiver. However, an FWS reading or math tutor must have adequate reading or math skills, as appropriate, and the Department strongly recommends that the tutors be well trained before they tutor.

The Department does not require background checks of FWS tutors. However, some state and local jurisdictions may require such checks. The requirements will vary according to the agency or organization involved.

What is a preschool age child?

A preschool age child is a child from infancy to the age at which his or her state provides elementary education.

What is the definition of an elementary school?

The definition of an elementary school varies from state to state. Because the Department does not wish to interfere with a state's determination of what constitutes children who are in elementary school, we will not provide guidance on the maximum grade level for elementary school for purposes of the institutional-share waiver for tutoring.

What setting must the tutoring take place in?

Tutoring may be one-on-one or in a group. Tutoring sessions can take place in a school setting or another location, such as a public library or community center. Tutoring sessions can be held during regular school hours, after school, on weekends, or in the summer.

Can FWS students tutor children in parochial schools?

An FWS student can tutor a child in a parochial school under certain conditions:

- The parochial school must be classified as a private, nonprofit school by the Internal Revenue Service or a state taxing body;
- The work may not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction; and
- The FWS tutor may not use religious material to tutor the child.

Should tutors be trained?

The Department strongly recommends that the tutors be well trained before they tutor. When an FWS student receives training from a specialist or expert for sufficient duration and intensity, he or she is more likely to be successful with the child he or she is tutoring. Tutor training should emphasize the importance of the tutor's communication with the regular classroom teacher to maximize effectiveness. The amount and type of training will often vary, depending on the needs of the child who is being tutored and the subject being studied. (See Chapter 1 for information on using the administrative cost allowance to pay for the cost of training tutors.)

Can students be paid while in training?

Under limited circumstances, an FWS tutor can receive FWS wages while he or she is being trained, and these wages can qualify for a waiver of the institutional share. This training period must be only for a reasonable and limited length of time. The Department would not consider a training period of an academic term to be reasonable. The Department would consider a reasonable training period to be one that occurs before the student begins tutoring and that does not exceed approximately 20 hours. A school may not pay an FWS student to take an academic course the school developed to provide classroom training on tutoring children. An FWS student may take such a course as long as he or she is not paid for taking the course (34 CFR 675.18(h)). See Chapter 4 for more information.

Can students be paid during preparation and evaluation activities?

The preparation time and evaluation time worked by an FWS tutor qualify for a 100% federal share as long as the time spent for this purpose is reasonable. For example, the Department would consider attending evaluation and preparation meetings once a week for approximately one hour to be reasonable. The Department wants to give some flexibility because of the value of evaluation and preparation time. However, the goal is to spend funds for FWS students to interact with the children in family literacy programs, not for other activities.

Will a tutoring job always satisfy the community service requirement?

An FWS tutor job might qualify for a waiver of the institutional share (100% federal share) but not qualify as part of the 7% community service requirement. If, for example, a postsecondary school employs FWS students to tutor young children in its daycare center and the center is not open and accessible to the community, the job would qualify for the waiver, but would not qualify as part of the 7% community service requirement.

What if the FWS student is training tutors, performing related administrative tasks, or works another FWS job?

The wages of an FWS student who is training tutors or who is performing administrative tasks related to supporting other people who are actually providing the reading or mathematics tutoring do not qualify for a federal share of up to 100%; rather, an institutional share is required.

Remember that it is the FWS reading or mathematics tutor job, not the student working in the job, that qualifies for the institutional-share waiver. Thus, an FWS student who is working another FWS job in addition to the tutor job can be paid with 100% federal funds only for the time he or she is working as a tutor, not for time spent on the other job. If, for example, an FWS student spends only half of his or her time working as a reading tutor (including preparation and evaluation time) and the other half on non-tutoring tasks, the student may be paid 100% federal funds only for half the time and the other half must be paid with a maximum of 75% federal funds and a minimum of 25% nonfederal funds.

How can my school start placing FWS students as tutors?

Your school may construct its own reading tutor program or join existing community programs.

You may use the Job Location and Development (JLD) Program to locate or develop jobs for FWS students as tutors of children. However, you may not use JLD funds exclusively for this purpose because you would be in violation of the JLD statutory requirement to expand off-campus jobs for currently enrolled students who want jobs regardless of their financial need.

JOB LOCATION AND DEVELOPMENT PROGRAM

The Job Location and Development (JLD) Program is one of the FWS Programs. An institution is allowed to use part of the federal funds it receives under the FWS Program to establish or expand a JLD Program.

The JLD Program locates and develops off-campus job opportunities for students who are currently enrolled in eligible institutions of higher education and who want jobs regardless of financial need. This means that jobs may be located and developed under the JLD Program for FWS and non-FWS eligible students.

Under the JLD Program, your school must locate and develop off-campus jobs that are suitable to the scheduling and other needs of the employed student and must, to the maximum extent practicable, complement and reinforce the educational program or vocational goal of the student.

JLD jobs may be part-time or full-time, for either a for-profit or nonprofit employer.

JLD Program Participation

A school that participates in the FWS Program is also eligible to participate in the JLD Program. A school that has an executed Program Participation Agreement (PPA) for the FWS Program may participate in the JLD Program without any prior contact with the Department and without any revision to its PPA. Under the PPA, the school agrees to administer the JLD Program according to the appropriate statutory and regulatory provisions.

If the Department terminates or suspends a school's eligibility to participate in the FWS Program, that action also applies to the school's JLD Program.

Student Eligibility

Any student employed in a job developed under the JLD Program must be currently enrolled at the school placing him or her in a job. A school may place in JLD jobs both students who do not meet FWS student eligibility criteria and those who do meet those criteria. However, using JLD funds to find jobs only for FWS students would not satisfy the program purpose of expanding off-campus jobs for students who want jobs regardless of financial need.

Use of FWS Allocation for JLD Program

When establishing or expanding a program to locate and develop off-campus jobs, including community service jobs, a school may use up to the lesser of the following two amounts:

- 10% of its FWS allocation and reallocation; or
- $75,000.

JLD purpose cite
34 CFR 675.31

NEW **Increase in JLD limits**
Effective August 14, 2008, the amount of FWS funds institutions of higher education may use for Job Location and Development programs increases to not more than 10% or $75,000 of their Federal Work-Study allocations, up from not more than 10% or $50,000.
HEOA section 445
HEA section 445(a)(1)
Effective date: August 14, 2008

JLD & community service
The JLD Program encourages students to participate in community service activities. Your school must inform all eligible students of the opportunity to perform community services and must develop and make available information about community service opportunities. The JLD Program uses the same definition of community services that the FWS Program employs. However, the JLD Program does not have a specific minimum community service requirement, as does the FWS Program.

Maximum federal funds for JLD Programs cite
34 CFR 675.32

Use of JLD funds cite
34 CFR 675.35(a)(2)

Federal and institutional shares
34 CFR 675.33(b)
34 CFR 675.33(c)

Allowable costs cite
34 CFR 675.33(a)

Use of JLD Program Funds

Your school may use federal JLD funds to pay for the cost of establishing and administering the JLD Program. You may not use JLD funds to:

- pay students whose jobs were located and developed through the JLD Program;
- locate and develop jobs at your school or other eligible schools;
- place students upon graduation; and
- displace employees or impair existing service contracts.

A school is expected to generate total student wages exceeding the total amount of the federal funds spent under JLD.

Federal share limitation

You may use federal FWS funds to pay up to 80% of the allowable costs (listed below). Your school must provide the remaining 20% of allowable costs either in cash or in services. This requirement, unlike the institutional-share requirement for FWS earnings, cannot be waived.

Your school's 20% share may be either (1) 20% of each allowable cost, or (2) varying percentages of allowable costs, as long as its total expenditures of institutional funds and/or provision of services equals at least 20% of the total allowable costs for the JLD Program.

You must maintain records that indicate the amount and sources of your school's matching share. Procedures and records requirements for JLD are the same as those for all Campus-Based programs.

Allowable program costs

Allowable costs of carrying out the JLD Program include:

- staff salaries (and fringe benefits, if they are the same as those paid to other institutional employees in comparable positions and are not paid to a student employed through the FWS Program);
- travel expenses related to JLD activities;
- printing and mailing costs for brochures about the JLD Program;
- JLD telephone charges, including installation of a separate line for off-campus employers;
- JLD costs for supplies, equipment, and furniture;
- newspaper or other types of advertising that inform potential employers of the services JLD offers; and
- JLD workshops for students and employers.

Costs that are not allowable are costs related to purchasing, constructing, or altering the facilities that house a JLD project. Indirect

administrative costs also are not allowable. One example of an indirect administrative cost is a portion of the salary of someone who is not directly involved in the program, such as the JLD director's supervisor. Other examples of indirect administrative costs are lighting, heating, or custodial costs incurred as part of the normal operations of the facility in which the JLD program is administered, such as the financial aid or placement offices.

Students as staff in the JLD program office

The prohibition against using JLD funds to locate and develop jobs at any school **does not** mean that your school is also prohibited from employing FWS and non-FWS students as staff in the JLD Program office. Your school may employ FWS and non-FWS students as staff in the JLD Program office as long as you do not use JLD funds to locate and develop these jobs. For example, your school could use the FWS Program to employ an FWS student as a staff member in the JLD Program office.

If your school places an FWS student as staff in the JLD program office, there are some important points to note. The statute and the FWS regulations prohibit the use of any funds allocated under the FWS Program from being used to pay the institutional share of FWS compensation to its students. Hence, your school may not use federal JLD funds to pay the institutional share of FWS wages earned by an FWS student working as staff in the JLD Program office. Instead, you must use your school's funds to pay the institutional share of these wages.

Multi-institutional JLD programs

Your school may enter a written agreement with other eligible schools for those schools to establish and to operate a JLD Program for its students. The agreement must designate the administrator of the program and must specify the terms, conditions, and performance standards of the program. Each school that is part of the agreement retains responsibility for properly disbursing and accounting for the federal funds it contributes under the agreement.

For example, each school must show that its own students have earned wages that exceed the amount of federal funds the school contributed to locate and develop those jobs. This fiscal information must be reported on each school's FISAP.

If your school uses federal funds to contract with another school, suitable performance standards must be part of that contract. Performance standards should reflect each school's philosophy, policies, and goals for the JLD Program. You may not develop performance standards, conditions, or terms that are inconsistent with the statute or regulations. In all cases, the performance standards should be clearly understandable, because they will be included in the formal written agreement that each party must observe as part of its responsibility within the particular arrangement.

JLD reporting on the FISAP

If your school participates in the JLD Program during an award year, you must provide information about its JLD activities on the *Fiscal Operations Report and Application to Participate* (FISAP). You must report the total JLD expenditures, federal expenditures for JLD, institutional expenditures for JLD, number of students for whom jobs were located or developed, and total earnings for those students.

Your school **may not** include student staff jobs in the JLD Office on the FISAP in the JLD section for reporting the count of students and the earnings of students for whom jobs were located or developed through the JLD Program. However, if your school used its own funds to pay the institutional share of wages for student staff jobs, you may count those funds in meeting the minimum 20% institutional-share requirement for the JLD Program.

Multi-institutional programs cite

34 CFR 675.34

Work Colleges Program

The Higher Education Amendments of 1992 authorized the Work-Colleges Program. The Work-Colleges Program recognizes, encourages, and promotes the use of comprehensive work-learning-service programs as a valuable educational approach when used as an integral part of the school's educational program and as a part of a financial plan that decreases reliance on grants and loans. The program also encourages students to participate in community service activities.

Purpose of Work-Colleges Program cite
34 CFR 675.43
Definition of Work-College cite
34 CFR 675.41
Application to participate in the Work-Colleges Program
DCL CB-08-02

Additional citations

Additional requirements for the Work-Colleges Program are found in 34 CFR 675, Subpart C. The Higher Education Opportunity Act of 2008 introduced the term "work-learning-service" and revised the definition of "Work College."
HEOA section 447
HEA section 448

Definition: Comprehensive student work-learning-service program

A student work/service program that:
is an integral and stated part of the institution's educational philosophy and program;
• requires participation of all resident students for enrollment and graduation;
• includes learning objectives, evaluation, and a record of work performance as part of the student's college record;
• provides programmatic leadership by college personnel at levels comparable to traditional academic programs;
• recognizes the educational role of work-learning-service supervisors; and
• includes consequences for nonperformance or failure in the work-learning-service program similar to the consequences for failure in the regular academic program.
HEA Section 448
34 CFR 675.41(b)

WORK-COLLEGES PROGRAM

Schools that satisfy the definition of "work-college" may apply to the Department to participate in the program. A work-college may transfer funds from its FWS and/or Perkins Loan allocations to fund its Work-Colleges Program.

The term "work-college" is defined as an eligible school that:

- has been a public or private nonprofit, 4-year, degree-granting institution with a commitment to community service;
- has operated a *comprehensive work-learning-service program* (see sidebar for definition) for at least two years;
- requires students, including at least one-half of all students who are enrolled on a full-time basis, to participate in a comprehensive work-learning-service program for at least 5 hours each week, or at least 80 hours during each period of enrollment, except summer school, unless the student is engaged in an institutionally-organized or approved study abroad or externship program; and
- provides students participating in the comprehensive work-learning-service program with the opportunity to contribute to their education and to the welfare of the community as a whole.
- requires all students who reside on campus to participate in a comprehensive work-learning-service program; and
- requires providing services as an integral part of the school's educational program and as part of the school's educational philosophy.

Allowable costs

Allocated program funds may be used to:

- support the educational costs of students through self-help provided under the work-learning-service program within the limits of their demonstrated financial need;
- promote the work-learning-service experience as a tool of education and community service;
- carry out FWS and JLD program activities;
- administer, develop, and assess comprehensive work-learning-service programs;
- coordinate and carry out joint projects and activities to promote work-service learning; and
- conduct a comprehensive longitudinal study of academic progress and academic and career outcomes.

Model Off-Campus Agreement

APPENDIX *a*

The paragraphs below are suggested as models for the development of a written agreement between a school and a Federal, State, or local public agency or a private nonprofit organization that employs students who are attending that school and who are participating in the Federal Work-Study (FWS) Program. Institutions and agencies or organizations may devise additional or substitute paragraphs as long as they are not inconsistent with the statute or regulations.

This agreement is entered into between _____, hereinafter known as the "Institution," and _____, hereinafter known as the "Organization," a (Federal, State, or local public agency), (private nonprofit organization), (strike one), for the purpose of providing work to students eligible for the Federal Work-Study Program [FWS].

Schedules to be attached to this agreement from time to time must be signed by an authorized official of the institution and the organization and must set forth—

1. brief descriptions of the work to be performed by students under this agreement;
2. the total number of students to be employed;
3. the hourly rates of pay; and
4. the average number of hours per week each student will be used.

These schedules will also state the total length of time the project is expected to run, the total percent, if any, of student compensation that the organization will pay to the institution, and the total percent, if any, of the cost of employer's payroll contribution to be borne by the organization. The institution will inform the organization of the maximum number of hours per week a student may work.

Students will be made available to the organization by the institution to perform specific work assignments. Students may be removed from work on a particular assignment or from the organization by the institution, either on its own initiative or at the request of the organization. The organization agrees that no student will be denied work or subjected to different treatment under this agreement on the grounds of race, color, national origin, or sex. It further agrees that it will comply with the provisions of the Civil Rights Act of 1964 (Pub. L. 88-352; 78 Stat. 252) and Title IX of the Education Amendments of 1972 (Pub. L. 92-318) and the Regulations of the Department of Education which implement those Acts. Two examples of Off-Campus Agreements are included to provide additional guidance.

Where appropriate, any of the following 3 paragraphs or other provisions may be included

1. Transportation for students to and from their work assignments will be provided by the organization at its own expense and in a manner acceptable to the institution.
2. Transportation for students to and from their work assignments will be provided by the institution at its own expense.
3. Transportation for students to and from their work assignments will not be provided by either the institution or the organization.

Sample language to specify employer

Whether the institution or the organization will be considered the employer of the students covered under the agreement depends upon the specific arrangement as to the type of supervision exercised by the organization. It is advisable to include some provision to indicate the intent of the parties as to who is considered the employer. As appropriate, one of the following two paragraphs may be included.
Although the following paragraphs attempt to fix the identity of the employer, they will not necessarily be determinative if the actual facts indicate otherwise. Additional wording that specifies the employer's responsibility in case of injury on the job may also be advisable, since federal funds are not available to pay for hospital expenses or claims in case of injury on the job. In this connection it may be of interest that one or more insurance firms in at least one state have in the past been willing to write a workers' compensation insurance policy which covers a student's injury on the job, regardless of whether it is the institution or the organization that is ultimately determined to have been the student's employer when he or she was injured.

1. The institution is considered the employer for purposes of this agreement. It has the ultimate right to control and direct the services of the students for the organization. It also has the responsibility to determine whether the students meet the eligibility requirements for employment under the Federal Work-Study Program, to assign students to work for the organization, and to determine that the students do in fact perform their work. The organization's right is limited to direction of the details and means by which the result is to be accomplished.
2. The organization is considered the employer for purposes of this agreement. It has the right to control and direct the services of the students, not only as to the result to be accomplished, but also as to the means by which the result is to be accomplished. The institution is limited to determining whether the students meet the eligibility requirements for employment under the Federal Work-Study Program, to assigning students to work for the organization, and to determining that the students do perform their work in fact.

Sample language to specify responsibility for payroll disbursements and payment of employers' payroll contributions

Compensation of students for work performed on a project under this agreement will be disbursed–and all payments due as an employer's contribution under State or local workers' compensation laws, under Federal or State social security laws, or under other applicable laws, will be made–by the (organization) (institution) (strike one).

If appropriate, any of the following paragraphs may be included

1. At times agreed upon in writing, the organization will pay to the institution an amount calculated to cover the organization's share of the compensation of students employed under this agreement.
2. In addition to the payment specified in paragraph (1) above, at times agreed upon in writing, the organization will pay, by way of reimbursement to the institution, or in advance, an amount equal to any and all payments required to be made by the institution under State or local workers' compensation laws, or under Federal or State social security laws, or under any other applicable laws, on account of students participating in projects under this agreement.
3. At times agreed upon in writing, the institution will pay to the organization an amount calculated to cover the Federal share of the compensation of students employed under this agreement and paid by the organization. Under this arrangement the organization will furnish to the institution for each payroll period the following records for review and retention:
   a) Time reports indicating the total hours worked each week in clock time sequence and containing the supervisor's certification as to the accuracy of the hours reported;
   b) A payroll form identifying the period of work, the name of each student, each student's hourly wage rate, the number of hours each student worked, each student's gross pay, all deductions and net earnings, and the total Federal share applicable to each payroll;* and
   c) Documentary evidence that students received payment for their work, such as photographic copies of canceled checks.

* These forms, when accepted, must be countersigned by the institution as to hours worked as well as to the accuracy of the total Federal share which is to be reimbursed to the organization or agency.

Need Assessment for FWS Community Service Program

APPENDIX *b*

Agency Name:_____

Date:_____

Contact Name:_____

Phone:_____

Address:_____

1. _____ Non-Profit _____For Profit

2. Agency Mission Statement and Description of Clients Served:

_____

_____

_____

_____

3. Agency Funding Sources (check all that apply):

_____Federal

_____State

_____County/City

_____United Way

_____Other (explain)

4. Agency's Fiscal Year:_____ to _____

5. Agency's Staffing (number of positions):

_____Full-time paid staff

_____Part-time paid staff

_____Student employees

_____Volunteers

6. How many student jobs may be available at your agency during:

Summer 20xx _____

20xx-20xx Academic Year _____

Summer 20xx _____

7. For each student job expected to be available as indicated in #6, provide the following information, attaching a separate sheet for each position.

Job Title

Rate or Range of Pay per Hour

Begin and End Dates

Work Schedule-Days and Hours

Total Hours/Week

Description of Duties

Qualifications and Experience (indicate preferred or required)

8. Has your agency hired students through the Federal Work-Study Program in the past?

_____YES _____NO

If YES:

Number of students: _____

Dates employed: _____

Average length employed: _____

9. Additional Comments:

Making Perkins Loans

CHAPTER 3

The Federal Perkins Loan Program includes Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). (No new Defense Loans were made after July 1, 1972, but a few are still in repayment.) Perkins Loans and NDSLs are low-interest (currently 5%), long-term loans made through school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education. For Perkins disbursement rules, see Volume 4.

MAKING A PERKINS LOAN

A Perkins Loan (or NDSL) is made when the borrower has signed the Perkins Master Promissory Note (MPN) and the school makes the first disbursement of loan funds under that promissory note for that award year. The student is required to sign the MPN only once. Additional Perkins Loans may be disbursed to a student for up to 10 years after the date the MPN is signed. Although the borrower is only required to sign the MPN once, a school may choose to require a borrower to sign a new MPN for each award year. A student may also make a written request to sign a separate MPN for each award year.

After a student files a FAFSA and the Department determines an official Expected Family Contribution (EFC) for the student, the school must award financial aid based on the student's loan eligibility and the maximum amounts for each FSA program. For a complete explanation of awarding Perkins funds, see *Volume 3, Chapter 7: Awarding Campus-Based Aid.* As with the other Campus-Based programs, funds from the Perkins Loan Program must be "packaged" with other expected financial assistance to ensure that the student's total aid does not exceed his/her cost of attendance. The packaging process is discussed in *Volume 3, Chapter 8.*

Chapter 3 Highlights

- Making a Perkins Loan
- Disclosure to student prior to 1st loan
- Perkins Promissory Note
  - →Retaining the e-MPN
  - →Customizing the MPN
- Subsequent disclosures & notifications

Perkins Loan limits

NEW

Annual maximum loan:
Undergraduate: $5,500
Graduate: $8,000
Aggregate maximum loan:
Undergraduate:
Grade levels 1 & 2: - $11,000
Grade levels 3 & 4 - $27,500
Graduate: $60,000

See *Volume 3* for more detailed information on loan limits, award amounts, and packaging rules.

Making a loan

The ***making of a loan*** occurs when the school makes the first disbursement of a loan to a student.
34 CFR 674.2

Older loans (NDSL/Defense)

If a borrower has an outstanding balance on a Defense Loan or NDSL when the new loan is obtained, the new loan is an NDSL. Loans made from July 1, 1972 through June 30, 1987 were NDSLs. Loans made before July 1, 1972 were Defense Loans.

Collecting additional contact information

A school should also attempt to collect the following contact information at the time of disclosure :

- the name, address, and telephone/ numbers of the borrower's parents and spouse;
- the spouse's employer; and
- the names and addresses of two or three of the student's personal acquaintances.

A school may not require a borrower to provide this additional contact information as a condition for receiving a subsequent Perkins Loan. However, the additional contact information gained during loan counseling could be valuable later for use in collection procedures, to locate a student who leaves school without notice or who does not attend the exit interview. This counseling may not be used to satisfy the requirement for an exit interview. (See Chapter 5 of this volume.)

Regulation cites

Disclosure
34 CFR 674.16(a)

DISCLOSURE TO STUDENTS PRIOR TO FIRST DISBURSEMENT

Before making the first Perkins Loan disbursement for an award year, the school must inform the student of his or her rights and responsibilities under the Federal Perkins Loan Program. The school must also remind the student that the loan may be used only for educational expenses and that the loan must be repaid. The school should also inform the student that the *school* holds the MPN.

The school must disclose all information to the student *in writing*–as part of the application material, as part of the promissory note, or on a separate form. Although the information can be mailed to a student, it is preferable for the aid administrator to meet with the student to answer any questions and to emphasize his or her responsibility to repay the loan.

The school must review all of the repayment terms in the promissory note. In addition, the school must give the following information to the student:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the maximum annual and aggregate amounts the student may borrow;
- the effect that accepting the loan will have on the borrower's eligibility for other types of student aid;
- a statement of the total cumulative balance owed by the student to that school and an estimate of the monthly payment amount needed to repay that balance;
- options the borrower may have to consolidate or refinance;
- a brief notice about the Department of Defense program for repaying loans based on certain military service;
- a complete list of charges connected with making the loan, including whether those charges are deducted from the loan or whether the student must pay them separately; and
- a notice that the school will report the outstanding balance of the loan to a national credit bureau **at** *least annually*.

The school should also update the identification and contact information in the promissory note (see sidebar).

Your school must provide the disclosure information annually before the first disbursement of each Perkins Loan made under the MPN.

PERKINS PROMISSORY NOTE

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to a school. The note includes information about the loan's interest rate, repayment terms, and minimum rates of repayment; deferment, forbearance, and cancellation provisions; credit-bureau reporting; late charges, attorney fees, collections costs, and consequences of default.

You must ensure that each Perkins Loan is supported by a legally enforceable promissory note. If the school does not have a valid note or other written evidence that would be upheld in a court of law, the school has no recourse against a borrower who defaults. Two examples of invalid notes are notes that have been changed after they were signed and notes without proper signatures or dates. In such cases, the school would have to repay to its Perkins Loan Fund any amounts loaned, whether recovered from the borrower or not, as well as any Administrative Cost Allowance (ACA) claimed on those amounts.

If an error is discovered in a promissory note, the school should obtain legal advice about what action it should take. The appropriate school official and the student should sign by or initial all approved changes in the note.

When the borrower has fully repaid the Perkins Loan, your school is no longer required to mark the original note "paid in full," have it certified by an official of the school, and give it back to the borrower. It is sufficient to notify the borrower in writing that the loan is paid in full. The school must keep a copy of the note for at least three years after the date the loan was paid in full.

It is also essential to report to the National Student Loan Data System that the loan has been paid.

Single vs. Multi-Year use of the MPN

The **Master Promissory Note (MPN)** for the Perkins Loan Program is a promissory note under which the borrower may receive loans for a single award year or multiple award years.

Because the MPN can be used to award Perkins Loans on a multi-year basis, there is no box for loan amount or loan period on the note. When used as a multi-year note, the borrower signs the MPN only once, before the first disbursement of the borrower's first Perkins Loan. The signed MPN covers all loans that the school makes to the borrower until the MPN expires.

You may make Perkins Loans under an MPN for up to 10 years from the date the borrower signed the MPN. However, the first disbursement must be made within 12 months of the date the borrower signed the MPN. If no disbursements are made within that 12-month period, the borrower must sign another MPN before receiving a Perkins Loan. In addition, no further loans may be made under an MPN after the school receives written notice from the

School must use ED-approved MPN

A school must use the Federal Perkins MPN that the Department has approved for all Perkins loans.

NEW The most recent version of the Perkins MPN was circulated with Dear Colleague Letter CB-09-05 (September 28, 2009), with minor corrections made based on CB-09-06.

CB-09-07 provided a revised implementation date of December 31, 2009. As of December 31, 2009, schools may no longer distribute the previous Perkins MPN with the June 30, 2009 expiration date. Only the revised Perkins MPN with the August 31, 2012 expiration date may be distributed on or after December 31, 2009.

However, if a school has already sent the Perkins MPN with the June 30, 2009 expiration date to a borrower before October 1, 2009, that MPN remains valid for making loans. Similarly, if a school uses the Perkins MPN as a multi-award year promissory note, students who previously signed the Perkins MPN with the June 30, 2009 expiration date may continue to receive loans under that MPN for future award years and are not required to sign the revised Perkins MPN.

For more information, see CB-09-05, CB-09-06, and CB-09-07.

MPN cites

Promissory Note
34 CFR 674.31
Retention of records
34 CFR 674.19(e)(4)(iii)
Limits to promissory note changes
34 CFR 674.31(a)

Limits on multi-year use of the MPN

You can no longer make a loan under an MPN:
- more than 10 years from the date the borrower signed the MPN or the date you received the MPN (schools can still disburse a remaining portion of a loan after this date);
- more than 12 months after the date the borrower signed the MPN, if you make no disbursement under that MPN;
- after the date you are notified by the borrower to stop using the MPN.

borrower requesting that the MPN no longer be used as the basis for additional loans.

If you choose to use the MPN as a single award-year promissory note, the borrower must sign a new Perkins MPN for each subsequent award year.

Retaining the electronic MPN

If the student completes an electronic MPN, your school must maintain the original electronic promissory note, plus a certification and other supporting information, regarding the creation and maintenance of any electronically-signed Perkins Loan promissory note or Master Promissory Note (MPN) and provide this certification to the Department, upon request, should it be needed to enforce an assigned loan. Schools and lenders are required to maintain the electronic promissory note and supporting documentation for at least 3 years after all loan obligations evidenced by the note are satisfied.

Using ED-approved MPN language & customizing the MPN

You must use an MPN using ED-approved language (see sidebar). You may not make changes to, deletions from, or additions to the prescribed language on the MPN. However, you may delete bracketed text and you may print information (name, address, and telephone number) identifying your school in Section B, Item 6. You may also use appropriate coding (for example, bar coding to reflect the source, type, or other identification system for filing or processing) in this area.

You may print bar coding or coding identifiers, such as student ID number or loan number, in the side or bottom margins to meet the requirements of your school's processing systems. You may not print these coding identifiers on the promissory note in a way that would alter the general layout of the note. You may also print in the lower margin of the note a reference to the type, for example: original, student copy, file copy.

You may adjust the height of the boxes in Sections A and B to meet the requirements of individual processing systems, as long as the change doesn't alter the general format of the form, result in reduced point size, move text from one page to another, or otherwise change the general presentation of the form.

You must print the original and borrower copies of the promissory notes with black ink on white paper. You may not change the typeface, point size, and general presentation of the form from the documents approved by the Department. However, you may print your school's identifying information located in Section B, Item 6 in another color to make your school's name and address more pronounced. It is preferable to print the MPN on two sheets of paper, front and back. However, you may print the MPN on four single-sided pages as well.

Implementing an electronic Perkins MPN

NEW A school that offers an electronic Perkins MPN must ensure that the text of their electronic version is updated to exactly match the text of the revised Perkins MPN with the August 31, 2012 expiration date. No changes may be made to the text of the MPN except as provided in Dear Colleague Letter CB-09-05 under "Document formats for the revised Perkins MPN and Addendum." Schools using an electronic Perkins MPN should review the Department's standards for electronic signatures as provided in Dear Partner Letter GEN-01-06 before implementing an electronic Perkins MPN.

Schools wishing to obtain an electronic version (HTML) of the revised Perkins MPN should send a request to: Neil.Sattler@ed.gov.

Source: DCL CB-09-07

Prior guidance

The Perkins closed-end and open-end promissory notes expired on October 31, 2004. You must use the MPN for all loans made on or after November 1, 2004. Implementation guidance for the Perkins closed-end and open-end promissory notes was provided in Volume 5, Chapter 3, of the 2003–2004 FSA Handbook.

The Department issued instructions in Dear Colleague Letter CB-06-10 for using the revised Perkins Master Promissory Note (MPN)

Perkins Paper MPN mailing address

Department of Education
P.O. Box 5692
Montgomery, AL 36104

Standards for electronic signatures: highlights for eNotes

In Dear Colleague Letter CB-06-11 ED issued a revised **electronic** version of the Perkins Master Promissory Note (Perkins eMPN).

Before implementing the eMPN, your school should review the *Standards for Electronic Signatures in Electronic Loan Transactions* published in Dear Colleague Letter GEN-01-06.

The standards are voluntary; however, adherence to the standards will provide your school some protection should a court find a loan unenforceable due to the processing of an electronic signature or related records (see boxed text for more information).

Why apply these standards?

If your school's system for processing Perkins eNotes adheres to the standards and a court finds the loan legally unenforceable based solely on the processing of the electronic signature or related records, the Department will not consider your school liable for the loan and will not require your school to reimburse its Perkins Loan Fund.

If your school's system for processing Perkins eNotes does not adhere to the standards and a court finds the loan legally unenforceable based solely on the processing of the electronic signature or related records, the Department has the option to require your school to reimburse its Perkins Loan Fund.

Verify the borrower's identity. Verify the borrower's electronic signature.

Collect at least the following identifying information: name, Social Security number, driver's license number, date of birth. Verify the borrower's identity by authenticating this data with an independent source such as a national commercial credit bureau, a commercial data service, a state motor vehicle agency, or a government database.

The electronic signature may be a PIN, a password, another unique credential, a biometric value unique to the borrower, such as a fingerprint or retinal pattern, or a signature image. A typed name must be paired with one of the above to constitute an electronic signature.

Ensure that the electronic signature is secure.

Get the borrower's consent. Make sure the borrower understands.

Obtain consent from the borrower to use an electronic record. It must be clear that the borrower has consented to use a Perkins eNote in place of a paper promissory note. Require the borrower to confirm that he or she has the necessary hardware and software to view, print, download, or otherwise complete the electronic signature process. Keep a record showing that the borrower gave this consent prior to electronically signing the Perkins eNote.

Ensure that the borrower understands he or she is signing a promissory note. The borrower must click through all terms and conditions of the Perkins eNote and acknowledge that he has read the terms and conditions.

Notify the borrower when his or her electronic signature is about to be applied to the Perkins eNote. Give the borrower an opportunity to cancel the signature process.

After the borrower signs the Perkins eNote, provide the borrower with reasonable access to the full electronic record of the eNote.

Minimum monthly payment option

The optional provision regarding a minimum monthly repayment amount is included as a single, optional sentence at the end of the repayment paragraph on page 1 of the MPN. You would include this sentence in the MPN if your school is exercising the minimum monthly payment amount provision. Page 2 of the MPN includes a summary of this provision.

If the optional provision is included in the school's note, a minimum monthly payment of $40 is required for a loan made on or after October 1, 1992, to a borrower who had no outstanding balance on a Perkins Loan, NDSL, or Defense Loan on the date the loan was made (for other borrowers, the monthly minimum amount remains $30).

MASTER PROMISSORY NOTE–QUESTIONS AND ANSWERS

LOAN AMOUNT AND LOAN PERIOD

Q. Why are there no boxes for the loan amount and loan period on the MPN?

A. The borrower only signs the MPN once, prior to disbursement of the borrower's first loan. Since the MPN can be used as either an annual or multi-year promissory note, it does not contain specific reference to the dollar amount of the loan to be disbursed, the disbursement dates, or the enrollment or award period covered by the loan.

Q. If a school chooses to use the MPN on an annual basis, can the school put boxes on the MPN for the award amount and the loan period?

A. No. The MPN is a federal form approved by the Office of Management and Budget (OMB). Schools may not add data elements to an OMB-approved form. Schools may only make minimal modifications to the MPN, as described in Dear Colleague Letter CB-03-14 and elsewhere in this chapter.

RECORD RETENTION

Q. Should a school retain a record of the date and amount of each disbursement in the borrower's file to document that the borrower received the loan?

A. Yes. Since this information is not shown on the MPN, the school should maintain documentation of the loan amount, award period, and disbursement dates as part of the borrower's records. Disbursement records or student account records showing a Perkins Loan credit would serve this purpose.

Q. Are third party servicers' records sufficient to satisfy a school's need to retain supporting records showing loan amount, award period, and disbursement dates?

A. Unless the servicer is performing loan origination and disbursement functions for the school, only school records definitively show that the borrower was enrolled, the borrower's account was credited from Perkins loan funds, and the date and amount of disbursements. With certain borrower challenges, third party servicer records may not be sufficient.

OTHER TRANSITION ISSUES

Q. After implementing the MPN, can a school add disbursements from a previous Perkins or NDSL open-end promissory note, rather than close that previous note?

A. No. A school may not add disbursements from a previous Perkins or NDSL promissory note to an MPN. The school must close the previous open-end notes and make all subsequent loans on or after November 1, 2004 using the MPN.

Q. Will the Department be issuing an NDSL MPN to replace the NDSL promissory notes that will expire on October 31, 2004?

A. No. Because there are so few NDSL borrowers who are likely to be enrolled, the Department has determined that it is unnecessary to continue to issue separate NDSL promissory notes. The bracketed sentence at the end of the repayment paragraph of the MPN provides for a $30 minimum monthly payment for borrowers who have an outstanding balance on an NDSL. With the 1998 Amendments to the Higher Education Act, most of the remaining terms and conditions of an NDSL became the same as those of a Perkins Loan.

SUBSEQUENT DISCLOSURES & NOTIFICATIONS

Loan amount, loan period & cumulative balance

Schools must provide loan amount and loan period information to the borrower through a means other than the MPN. Schools may provide this information in any number of formats, such as award letters or other written notifications and disclosures that schools are required to provide to the borrower.

Each Perkins Loan received under an MPN is a separate and distinct loan. The disclosure information must be provided to the borrower annually, before the first disbursement of each new Perkins Loan awarded under the MPN. The disclosure information must include a statement of the total cumulative balance owed by the borrower to the school and an estimate of the monthly payment amount needed to repay the balance. In the case of a borrower who makes payments on the loan while still in school, the statement of cumulative balance owed by the borrower should be adjusted to reflect those payments.

Loan disbursements

When a school credits a Perkins Loan disbursement to a borrower's account, the school must notify the borrower of the date and amount of the disbursement, the borrower's right to cancel all or part of the disbursement, and the procedures for notifying the institution that the borrower wishes to cancel the loan or the loan disbursement. The school must send this notification to the borrower no earlier than 30 days before, and no later than 30 days after, crediting the borrower's account.

You will need to retain subsidiary records of disbursements and adjustment to ensure that each Perkins Loan is legally enforceable. Actual disbursement records or student account records would serve this purpose.

Since a change in loan amount will not be reflected on the MPN, the school should notify the borrower, in writing, of any increase or decrease.

Notification of disbursement

You must notify the borrower of each disbursement of a Perkins Loan made under the MPN. This notification should inform the borrower of the amount disbursed, and provide the borrower with an opportunity to cancel the disbursement, or cancel the Perkins Loan.

Perkins Repayment, Forbearance, & Deferment

CHAPTER 4

Repayment terms vary substantially among Perkins Loans, National Direct Student Loans, and National Defense Student Loans. Schools may obtain software from third-party vendors that have automated many of the following requirements and calculations. The Federal Perkins Loan Program offers borrowers a variety of forbearance and deferment options. These options do not allow for capitalization of interest at the end of any forbearance or deferment period.

GRACE PERIODS

A "grace period" is the period of time before the borrower must begin or resume repaying a loan. There are two kinds of grace periods for Perkins loans:

- *Initial grace period*–a 9-month grace period that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin *for the first time.* A borrower is only entitled to one initial grace period.

- *Postdeferment grace period*–a 6-month grace period that follows any subsequent period of deferment.

Initial Grace Periods

A Perkins borrower is entitled to an initial grace period of 9 consecutive months after dropping below 1/2-time enrollment. If the borrower who returns to school on at least a 1/2-time basis before the 9 months have elapsed, the initial grace period has not been used. The borrower will be is entitled to a full initial grace period (9 consecutive months) from the date that he or she graduates, withdraws, or drops below 1/2-enrollment again.

Post-deferment grace periods

A "post-deferment grace period" is the period of 6 consecutive months that immediately follows the end of a period of deferment and precedes the date on which the borrower must resume repayment on the loan. Neither the deferment nor the grace period is counted as part of the 10-year repayment period.

Except for hardship deferments on loans made before July 1, 1993, all deferments for all loans made under the Federal Perkins Loan Program have post-deferment grace periods of 6 consecutive months.

Chapter 4 Highlights

- Grace periods
  - →Calculating the grace period
- Establishing a repayment plan
  - →Multiple loans
- Minimum monthly payments
- Establishing repayment dates
- Payment processing
- Forbearance
- Deferment procedures

Grace Period

Definitions
34 CFR 674.2
Length of initial grace period;
Grace period delayed during active duty;
Prepayment
34 CFR 674.31(b)
Less-than-1/2-time grace periods
34 CFR 674.32

Grace periods for NDSLs

Note that repayment of an NDSL made on or after October 1, 1980, begins **6 months** after the date that the borrower drops below at least 1/2-time enrollment.

NDSL on or after 10-1-80
- Initial grace period is 6 months
- Post-deferment period is 6 months

NDSL before 10-1-80
- Initial grace period is 9 months
- Post-deferment period is 6 months

Approved leaves of absence
34 CFR 668.22 (c)(1)(v) and (vi);
34 CFR 668.22 (d)

Deferment during initial grace period
If a borrower requests a deferment to begin during the initial grace period, the borrower must waive (in writing) his or her rights to the initial grace period. The request for a deferment alone is not sufficient documentation for a school to waive the initial grace period; the borrower must also acknowledge in writing that he or she wants the waiver.

Applicable grace period when student is attending less than 1/2-time

A borrower who is attending less than 1/2-time and who has no outstanding Perkin/NDSL Loan must begin repaying a new loan 9 months from the date the loan is made or 9 months from the date the student enrolled less than 1/2-time, whichever is earlier. (This 9-month period includes the date the loan was made.)

A borrower who is attending less than 1/2-time and who has an outstanding Perkins Loan or NDSL must begin repayment on an additional loan when the next scheduled installment of the outstanding loan is due; there is no formal grace period or in-school deferment on the new loan.

Calculating the grace period

A grace period is always day specific–an initial grace period begins the day after the day the borrower drops below 1/2-time enrollment. Similarly, a post-deferment grace period begins on the day immediately following the day on which an authorized period of deferment ends.

If a borrower has received loans with different grace periods (and different deferment provisions), the borrower must repay each loan according to the terms of its promissory note; the borrower must pay the minimum monthly payment amount that applies to each loan that is not in a grace or deferment period.

Grace period when student doesn't return from leave of absence

Students granted approved leaves of absence retain their in-school status for FSA loans. However, if a student does not return from an approved leave of absence, the student's grace period begins the date the student began the leave of absence. (If the school is required to take attendance, the grace period begins on the last date of academic attendance.)

For a student who does not return from an approved leave of absence, this withdrawal date might result in the exhaustion of some or all of the student's grace period.

Leaves of absence no longer qualify as approved leaves of absence for FSA purposes unless the school explains the effects that the student's failure to return from an approved leave of absence might have on the student's loan repayment terms, including the exhaustion of some or all of the student's grace period.

Use of initial grace period

Example: student returns before initial grace period elapses

Fenriz takes out a Perkins Loan in the fall quarter at Sims School of Botany, drops out of school for the winter quarter. He reenrolls as a 1/2-time student in the summer session, before the 9-month grace period has expired. Therefore, Fenriz is entitled to a full initial grace period once he again leaves school or drops below half-time status.

Example: different grace period for earlier loans

Steve took out several Perkins Loans while attending New Frontier Community College, and began repaying them 9 months after graduating. Later, he enrolled in a Bachelors degree program at Old Ivy College, and was able to defer his older Perkins Loans. He took out two additional Perkins Loans at Old Ivy.

When Steve graduates from Old Ivy, he is entitled to an initial grace period (9 months) for his Perkins Loans at Old Ivy, but must resume repaying his older Perkins loans (from New Frontier CC) at the end of the 6-month postdeferment period.

Exclusion for reservists on active duty

For a borrower who is a member of the Armed Forces Reserve, the initial grace period does not include any period up to 3 years during which the borrower is ordered to active duty for more than 30 days, including the period necessary for the borrower to resume enrollment at the next available enrollment period. The period necessary for the borrower to resume enrollment at the next available enrollment period may not exceed 12 months.

The borrower must notify you of the beginning and end dates of his or her service, and the date he or she resumes enrollment. A borrower who enrolls in a different educational program after returning from active duty is entitled to the same grace period benefits. A borrower who is in a grace period when called or ordered to active duty is entitled to a new grace period upon conclusion of the excluded period.

Grace periods & less than 1/2-time enrollment

Example: Perkins received while enrolled less than 1/2-time

Paula starts school full-time in September. She does not have an outstanding Perkins Loan or NDSL. In January, Paula drops to 1/4-time and in March, she receives a Perkins Loan.

Since Paula dropped below 1/2-time enrollment ***before*** the Perkins Loan was made, Paula must begin repayment 9 months after the date she dropped below 1/2-time enrollment—her first payment will be due in October.

Example: Second Perkins Loan received while first loan is in repayment

Jason has been making monthly payments on Perkins Loan #1, which went into repayment 9 months after he completed a one-year program at a career school.

He subsequently enrolls in a new program at a community college and takes out Perkins Loan #2 in September. He is only enrolled 1/4-time at the community college, so he is not eligible for in-school deferment. His next payment on Loan #1 is due October 15. Jason will begin repaying Loan #2 at the same time. *Remember that the repayment status of the outstanding loan determines the repayment status of the second loan*.

Calculating payment amount example

Bernadine received a $2,500 Perkins Loan to attend Jordan College, which requires quarterly payments. To calculate Bernadine's quarterly payment, Jordan College multiplies the original principal by the constant multiplier for a quarterly payment frequency:
$2,500 X .0319214 = $79.80

Incentive repayment program cite

34 CFR 674.33(f)

Interest rate on older Perkins, NDSLs, etc.

National Defense Student Loans (Defense Loans), NDSLs, and older Perkins Loans have different interest rates. The interest rate is stated in the borrower's promissory note. The annual interest rate for loans made before July 1, 1981, was 3%; between July 1, 1981, and September 30, 1981, was 4%; on or after October 1, 1981, is 5%.

ESTABLISHING A REPAYMENT PLAN

A borrower must repay his or her loan, plus interest, in 10 years. This repayment period never includes authorized periods of deferment, forbearance, or cancellation.

The repayment plan must be established and disclosed to the student before the student ceases to be enrolled at least half-time.

If a borrower wants to repay the loan in graduated installments, he or she must request permission to do so from the school; if the school agrees to this type of repayment, a graduated installment schedule is prepared and submitted to the Department for approval. If the Department approves the school's request, the borrower may use the graduated method of repayment.

If a student receives loans from more than one school, the repayment of each loan is made to (or default is attributed to) the school where the student received the loan.

Calculating the payment amount

Schools may require the borrower to make payments on a monthly, bimonthly, or quarterly basis. Each of the borrower's payments must sufficiently cover the interest accruing between payments to ensure that the loan is repaid in 10 years. Schools calculate the correct payment amount by multiplying the principal by the appropriate constant multiplier (see table). Schools using the minimum monthly payment plan option, introduced in the next section, may require the borrower to pay a minimum monthly amount of $40 instead.

If the installment for all loans a school made to a borrower is not a multiple of $5, the school may round the installment payments to the next highest dollar amount that is a multiple of $5.

If the last scheduled payment is $25 or less, the school may combine it with the next-to-last payment.

10-year repayment table of constant multipliers

Annual Rate	Payment Frequency	Payments per year	Total Payments	Constant Multiplier
5%	Monthly	12	120	**.0106065**
5%	Bimonthly	6	60	**.0212470**
5%	Quarterly	4	40	**.0319214**

Principal X Constant Multiplier = Payment Amount

Interest accrual

Interest on a Perkins Loan must be computed at the rate of 5% per annum simple interest on the unpaid principal balance. Although interest accrues on a Perkins Loan, *your school may not capitalize it*. This means that your school may not add unpaid interest to the principal balance to increase the principal balance of the Perkins Loan. Instead, your school must track principal and interest as separate figures, adding accrued interest to the interest balance, *not* the principal balance.

Generally, interest is computed from the date a payment is received rather than from the due date. However, there are exceptions. Interest charges may be computed to the nearest first-of-the-month, or they may be computed in accordance with the borrower's established schedule of payments of principal and interest if the borrower is making payments on a regular basis according to that schedule. For example, if a grace period expires in the middle of a month, interest may be computed to the beginning of the next month. Also, if a past-due payment is received before the next regularly scheduled payment, the interest may be computed according to the established payment schedule–no adjustments are necessary.

Incentive repayment program

To encourage repayment, a school may:

- reduce a loan's interest rate by up to 1% if the borrower makes 48 consecutive monthly payments;
- discount by up to 5% the balance a borrower owes on a loan if he or she pays the loan in full before the end of the repayment period; or
- with the Secretary's approval, establish any other repayment incentive options that reduce default and replenish student loan funds.

A school may not use federal funds or school funds from the Perkins Loan revolving fund to absorb the costs associated with repayment incentives. On at least a quarterly basis, schools must reimburse the Perkins Loan Fund for income lost as a result of the discounts offered through the Incentive Repayment Program.

Prepayment

If the borrower repays more than the amount due for any repayment period after the initial grace period has ended, the school must use the excess to prepay principal, unless the borrower designates the excess as an advance payment on the next regular installment. If the borrower designates the excess as an advance payment on the next installment and that advance payment exceeds the amount of the next regularly scheduled installment, the school must use the excess to prepay principal.

The borrower may prepay all or part of the loan at any time without penalty. Amounts repaid during the academic year the loan was made and before the initial grace period has ended are not considered prepayments but must be used to reduce the original loan amount.

Payment made during initial grace period example

Shannon applies her yearly birthday check of $400 to her $1,000 Perkins Loan before the initial grace period ends. The principal advanced to Shannon becomes $600. This is not considered a prepayment because payment was made before the end of the initial grace period.

Simple interest accrual example

Fred has been granted a hardship forbearance for a year. At the beginning of his forbearance period, Fred's loan balance is $1,000:

Principal: **$1,000**
Interest: **$0**

Interest accrues throughout the forbearance period at a simple rate of 5% per annum. At the end of the year-long forbearance period, Fred's loan balance is $1050:

Principal: **$1,000**
Interest: **$50**

When Fred makes his first payment after the end of the forbearance, his payment is applied to interest first, then principal. Fred makes a payment of $25, reducing his balance to $1025:

Principal: **$1,000**
Interest: **$25**

Minimum monthly repayment cite

34 CFR 674.33(b)

Minimum monthly repayment amount for older loans

The minimum monthly repayment amount is **$30** for NDSLs, Perkins Loans made before October 1, 1992, and Perkins Loans made after October 1, 1992, to borrowers who have an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a $30 minimum monthly repayment provision. The minimum monthly repayment amount is **$15** for Defense Loans.

If a borrower has both Defense and NDSL or Perkins Loan from one or more schools and the total monthly repayment is less than $30 and the monthly repayment on a Defense Loan is less than $15, the amount applied to the Defense Loan may not exceed $15.

Hardship payment reduction

A school may reduce a borrower's scheduled payments for up to one year at a time if the borrower is scheduled to pay the $40 minimum monthly payment and the school determines that the borrower is unable to make the scheduled payments due to hardship, such as prolonged illness or unemployment.

MINIMUM MONTHLY REPAYMENT AMOUNTS

Schools may choose to include a minimum monthly repayment requirement in the Perkins Loan promissory note. The minimum monthly repayment amount is $40, unless the borrower on the date the new loan is made has an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a $30 minimum monthly repayment provision. (See sidebar.)

To determine the minimum repayment for bimonthly and quarterly payment schedules, schools should multiply $40 by 2 (months) and 3 (months), respectively.

Conditions for minimum monthly repayment

A school may require a borrower to pay a minimum monthly payment amount of $40 on a Perkins Loan if:

- the promissory note includes a provision specifying a minimum monthly repayment of $40 and the monthly repayment of principal and interest for a 10-year repayment period (as calculated using a constant multiplier) would be less than $40; or
- the borrower has received Perkins Loans with different interest rates at the same school and the total monthly payment would otherwise be less than $40 (provided any of the promissory notes includes the minimum monthly repayment provision).

Under no circumstances may a school require a minimum monthly repayment of more than $40.

Multiple loans at same school

If a borrower has multiple Perkins Loans from the same school, any of which include the minimum monthly payment provision, the school may require the borrower to make a minimum monthly payment if the borrower's total monthly payment on all the loans totals less than $40. (A student's monthly payment amount may need to be higher than $40, of course, so that his or her debt is repaid by the end of 10 years.)

If the school exercises this option, the school must divide each monthly payment among all the loans proportionate to the amount of principal advanced under each loan. If the borrower's total monthly payment equals or exceeds $40 for all of the loans made at that school, the school may not exercise the minimum monthly payment on any loan. The school determines the minimum monthly repayment in this manner even if the Perkins Loans have different interest rates.

If the borrower has received Perkins Loans with different grace periods and deferments, the school must treat each note separately. The school still divides the minimum monthly payment proportionately among the loans. However, the borrower must pay each loan's portion when it is due.

Loans from multiple schools

A borrower may have received Perkins Loans from more than one school. If the borrower wants your school to coordinate minimum monthly payments with another school, he or she must request such coordination.

If the total of the monthly payments is

- *at least equal to $40,* none of the lending schools may exercise the minimum monthly repayment requirement.
- *less than $40, but only one school exercises the minimum monthly payment option,* that school receives the difference between $40 and the repayment owed to the second school.
- *less than $40 and each school exercises the minimum repayment option,* the $40 minimum repayment is divided among the schools in proportion to the total amount of principal each has advanced.

If the borrower requests that your school coordinate minimum monthly payment amounts with another school, you should ask the borrower for

- the names of all other schools to which the borrower owes funds under the Federal Perkins Loan Program,
- the approximate amount borrowed from, and the current indebtedness to, each school, and
- any information that would help identify the loans–for example, the loan number and the dates of loan advances.

Using this information, the schools should contact each other and negotiate the amount each should receive from the borrower.

Two schools/minimum monthly payment amount example

Betsy has Perkins Loans from Heinz College and Elise University. Heinz does not exercise the minimum monthly payment option and receives from Betsy $25 a month (the amount due under its established 10-year repayment plan). Elise exercises the $40 option and receives from Betsy $15, the difference between $40 and the amount of principal and interest paid to Heinz.

Minimum monthly payment for multiple loans (same school)

Harv has Perkins Loans of $1,500 and $1,000 (for a total debt of $2,500) and has a promissory note that includes the minimum monthly payment provision. Using the constant multiplier table, the total monthly payment on the two loans would be less than $40:

Monthly payment on loan #1	
$1,500 X .0106065 =	$15.91
+ Monthly payment on loan #2	
$1,000 X .0106065 =	$10.61
= Total payment per month	$26.52

Because the monthly payment on the two loans is less than $40, Moore University may decide to exercise the minimum $40 payment option. If the school does so, it calculates the monthly payment for each loan by dividing the original principal of the loan by the total original principal of all loans:

Monthly payment on loan #1	
$1,500 ÷ $2,500 =	.600000
	X $40
	$24
Monthly payment on loan #2	
$1,000 ÷ $2,500 =	.400000
	X $40
	$16

Monthly payment on loan #1	$24
+ Monthly payment on loan #2	$16
= Total payment per month	$40

Use of fixed repayment dates

For collection and bookkeeping purposes, a fixed repayment date is preferred. Otherwise, if the borrower is entitled to a deferment, the school may have problems computing payments due.

ESTABLISHING REPAYMENT DATES

Depending on the repayment schedule (monthly, bimonthly, or quarterly), the borrower's first payment is due one, two, or three months from the date the grace period expires. Repayment schedules must be adjusted (preferably on the first installment) so that the loan will be repaid within the normal 10-year period or as prescribed in the terms of the promissory note.

For convenience, a school may establish standard repayment dates for borrowers who are on quarterly repayment schedules. The first repayment date may be the first day of the calendar quarter after the grace period has expired. Four standard repayment dates would be used: January 1, April 1, July 1, and October 1. (See the chart below.)

Alternatively, a school may adopt a "rolling" quarterly repayment schedule in which each borrower's first payment is due exactly three months after the date his or her grace period expires. For example, if a borrower's first grace period expires on May 17, the first installment payment is due August 18. Another borrower's grace period expires May 18, so the first installment payment on that loan is due August 19.

Once the payment date is established, the borrower will owe principal and interest for any portion of a scheduled installment period not covered by a deferment. However, if the borrower is in deferment on a due date, any amounts owed are carried over and paid on the first due date on which the borrower is out of deferment.

Perkins Loan Quarterly Billing Example
(with four standard repayment dates)

Borrower's Termination Date	Initial 9-Month Grace Period Ends	Installment Due
January 1	September 30	January 1
February 1	October 31	"
March 1	November 30	"
April 1	December 31	April 1
May 1	January 31	"
June 1	February 28	"
July 1	March 31	July 1
August 1	April 30	"
September 1	May 31	"
October 1	June 30	October 1
November 1	July 31	"
December 1	August 31	"

Extending repayment period for illness, unemployment, or low income

A school may extend a repayment period if the borrower is experiencing a period of prolonged illness or unemployment.

A school may also extend the repayment period for a Perkins Loan if, during the repayment period, the school determines that the borrower qualifies as a *low-income individual.* A low-income individual is one whose total income for the preceding calendar year does not exceed the maximum income level for his/her family size (see chart).

In the case of low-income individuals, the repayment period may be extended up to 10 additional years. The school must review the borrower's income status annually to determine whether he or she still qualifies as a low-income individual.

Once a borrower ceases to qualify for one of these extensions, his or her repayment schedule must be amended so that the number of months in it does not exceed the number of months remaining on the original repayment schedule (not counting the extension period).

There are two other ways that a school may adjust the repayment schedule for a borrower who qualifies as a low-income individual:

- The school may require the borrower to pay a reduced amount for a limited time and then later increase the payment amount so that the borrower catches up on payments. The repayment period does not have to be extended. For example, a school reduces the payment amount to $10 per month for six months and then increases it to $50 per month until the borrower catches up.
- The school may allow the borrower to pay $10 per month for a year and then resume normal payments. This type of adjustment extends the repayment period.

Interest continues to accrue during an extension of a repayment period for any of these reasons.

PAYMENT PROCESSING

Any payment a school receives must be applied in the following order:

1. collection costs;
2. late charges (or penalty charges);
3. accrued interest; and
4. principal

Past-due payments should be applied in the same order as other payments, except that past-due payments must be applied to the "oldest" past-due dollars first.

Forms/procedures for disability discharge

See Dear Colleague Letter GEN-06-14 for total and permanent disability discharge forms and procedures.

Low-income maximum income levels

The following amounts are applicable for the 2009–2010 award year.

Number of family members:
1.....$10,967
2.....$19,800
3.....$24,663
4.....$30,463
5.....$35,938
6.....$42,038

For families of more than 6, add $4,000 for each additional family member.
These amounts are derived from the Income Protection Allowance published in the May 29, 2008 Federal Register.
See 34 CFR 674.33(c)

Repayment period extension

34 CFR 674.33(c)

Forbearance
34 CFR 674.33(d)
The HEOA eliminates the requirement that a forbearance request be in writing.
HEOA 464
HEA 464(e)

Paying interest during forbearance period
Unlike deferment, interest continues to accrue during any period of forbearance. The borrower may request to pay interest as it accrues during periods of forbearance, but the school *may not* require the borrower to do so.

Calculating equivalent monthly payment (hardship forbearance)
If the borrower's loan payments are due less frequently than monthly, a proportional share of the payments is used to determine the equivalent in total monthly payments. For example, if a payment is due quarterly, divide the amount by 3 (because the payment covers 3 months) to determine the equivalent monthly payment amount.

FORBEARANCE

Forbearance is usually a temporary postponement of payments. Forbearance is available for all loans made under the Federal Perkins Loan Program, regardless of when they were made.

The borrower may alternatively request an extension of time allowed for making payments or the acceptance of smaller payments than were previously scheduled.

Schools may grant forbearance to borrowers who are experiencing financial hardship, poor health, or for other acceptable reasons. For example, the Department strongly encourages schools to grant periods of forbearance to borrowers who are serving in AmeriCorps. Also, the Department may authorize periods of forbearance due to national military mobilization or other national emergency.

Borrowers must request forbearance and provide supporting documentation of the reason for forbearance. (Schools may now process forbearance requests based on a verbal request from a borrower.) The school and borrower must agree to the terms of the forbearance. The school confirms this agreement by notice to the borrower, and by recording the terms in the borrower's file.

Schools may grant the borrower forbearance for a period of up to 1 year at a time. The forbearance may be renewed, but the periods of forbearance collectively may not exceed a total of 3 years. A school may apply an authorized period of forbearance to begin retroactively (that is, to begin on an earlier date than the date of the borrower's request) if the borrower requests that the school do so and if he or she provides adequate documentation to support the request.

Schools may not include periods of forbearance in determining the 10-year repayment period.

Hardship

A school must grant forbearance if the total amount the borrower is obligated to pay monthly on all FSA loans is equal to or greater than 20% of the borrower's total monthly gross income. Total monthly gross income is the gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources.

To receive forbearance for hardship, the borrower must submit at least the following documentation:

- evidence of the amount of the borrower's most recent total monthly gross income; and
- evidence of the amount of the monthly payments the borrower owes for the most recent month on his or her FSA loans.

DEFERMENT PROCEDURES

Under certain circumstances, a borrower is entitled to have the repayment of a loan deferred. During deferment, the borrower is not required to pay loan principal and interest does not accrue. After each deferment, the borrower is entitled to a post-deferment grace period of 6 consecutive months.

In most cases, the borrower must request deferment *unless* the borrower is engaged in service that may qualify for loan cancellation or the school can determine that the borrower is enrolled at least half-time at an eligible school. Borrowers are no longer required to request deferments in writing. However, a borrower who requests deferment must provide the school with all the information and documents the school requires by the school's deadline. Borrowers must immediately report any change in their deferment status to lending schools.

You may grant a deferment, at the borrower's request, based on the information from another Perkins school, a FFEL loan holder, the Department of Education or the National Student Loan Data System (NSLDS) that a borrower has been granted a deferment for the same reason and the same time period on the borrower's FFEL loan or Direct Loan. This simplified deferment granting process is optional, and only applies to in-school deferments, graduate fellowship deferments, rehabilitation training program deferments, unemployment deferments, economic hardship deferments, military service deferments, and active duty student deferments.

If a borrower is currently in deferment, the school must reaffirm continued eligibility for deferment on at least an annual basis (except for Peace Corps service—see sidebar). Schools may not include periods of deferment in the 10-year repayment period.

Concurrent deferment/cancellation

Schools must automatically defer loans during periods when the borrower is performing service that will qualify him or her for loan cancellation. Borrowers do not need to apply for concurrent deferment. Schools may grant concurrent deferment for up to 12 months at a time. Concurrent deferment is available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date and contrary provisions on the promissory note.

A borrower who receives concurrent deferment is also entitled to a post-deferment grace period of 6 consecutive months. Therefore, regardless of the length of time that the eligible service is performed, repayment is deferred during that period of service and does not resume until 6 months after the cessation of service.

Schools exercising the minimum monthly payment provision listed in the promissory note must cease doing so and grant a deferment to cover any period of qualifying service. The amount to be deferred and subsequently canceled must be calculated using the 10-year repayment period.

Deferments–Perkins regulations

§ 674.34 Deferment of repayment—Federal Perkins loans, NDSLs and Defense loans.
§ 674.35 Deferment of repayment—Federal Perkins loans made before July 1, 1993.
§ 674.36 Deferment of repayment—NDSLs made on or after October 1, 1980, but before July 1, 1993.
§ 674.37 Deferment of repayment—NDSLs made before October 1, 1980 and Defense loans.
§ 674.38 Deferment procedures.

Deferment forms

The Department does not approve or supply deferment forms, with the exception of the military deferment form, see DCL GEN-07-04 for more detail.

Postponement for loans made Prior to October 7, 1998

Prior to October 7, 1998, a borrower of a Perkins Loan, National Direct Student Loan (NDSL), or National Defense Student Loan (Defense Loan) made before July 1, 1993, could not receive a deferment during a period while he or she was performing a service that would subsequently qualify him or her for cancellation of all or a portion of the loan; rather, he or she could qualify for loan postponement. For information on postponement, see Chapter 6 of the ***Federal Student Financial Aid Handbook, 1998–99***.

Concurrent deferment cites

34 CFR 674.34(c)
34 CFR 674.52(d)

Peace Corps deferment

If the borrower is currently in economic hardship deferment for service in the Peace Corps, the school may grant deferment for the full term of the borrower's service, not to exceed 3 years or for the remaining period of economic hardship deferment eligibility, if it is less than the remaining period of service.

Deferments on defaulted loans

The policy permitting deferments on defaulted loans applies to all requests for deferment received after February 3, 1988, regardless of the date the loan was made.

Acceleration

Loan acceleration is one of the penalties a school may impose on a defaulted loan. A loan that has been accelerated becomes due and payable immediately in one lump sum. See Chapter 6 of this Volume.

NEW Elimination of the 20/220 Criterion

34 CFR 674.34

Beginning July 1, 2009 the 20/220 criterion for receiving an economic hardship deferment will be eliminated except for eligible borrowers who requested a deferment after July 1, 2009 for a period that began prior to July 1, 2009. The deferment period is limited to 12 months from the pre-July 1, 2009 start date. No additional economic hardship deferment periods may be granted to the borrower at the end of that deferment period, or for any deferment request on or after July 1, 2009, for a deferment period that begins on or after that date.

Approval for graduate fellowship and rehabilitation training programs

The Department bases its approval of graduate fellowship and rehabilitation training programs on the requirements for the Federal Family Education Loan Program— see 34 CFR 682.210(d) and 34 CFR 682.210(e).

Deferment and default

A borrower is not entitled to a deferment on a defaulted loan. If the borrower signs a new repayment agreement, however, a school may grant a deferment even if the school has "accelerated"* the loan. The school would have to de-accelerate the loan before granting the deferment.

The borrower must file for deferment by a deadline that the school establishes and provide satisfactory documentation that he or she qualifies for the deferment.

Before granting a deferment on a defaulted loan, the school may require the borrower to pay immediately late fees, collection costs, and some or all of the amount past due as of the date on which the school determined that the borrower had demonstrated eligibility for a deferment. The Department encourages schools to require the borrower to do so, thus "curing" the default.

A school is not required to grant deferments on loans in default. However, if a school does so, it is expected to calculate past-due accrued interest. If a school believes this is too burdensome, it may deny deferments on defaulted loans.

Maintaining in-school enrollment status vs. in-school deferment

When a student borrower graduates or leaves school, and subsequently reenroll at another school before the initial grace period expires, he or she retains "in-school" enrollment status and does not "use up" the 9-month initial grace period.

The borrower is entitled to a full initial grace period when he or she ceases half-time enrollment in the new program.

The borrower may submit proof at any time–even after a loan has been accelerated–that he or she reenrolled at least half-time before the initial grace period expired. Upon receipt of this proof, *the school must recalculate the first date of repayment*. The school must also deduct from the loan balance any interest accrued and any late charges added before the date the repayment period actually should have begun.

Note that the borrower remains responsible for payments that would have been due under the recalculated repayment period and that the school is not obligated to grant a deferment for any payments past due under that period.

If a Perkins borrower graduates or leave school, and reenrolls at least half-time in an eligible postsecondary school *after* the initial grace period has expired, the student is no longer in in-school enrollment status. However, the student may be eligible for an in-school *deferment* (see box on next page). Keep in mind that the grace period after a *deferment* is only 6 months.

Deferments for all Perkins Loans

The deferments that follow are available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date or contrary provisions in the promissory note.

In-school deferment

A borrower may defer repayment of a Perkins Loan if he or she is enrolled at least half-time in an eligible school.

To receive an in-school deferment, the borrower must be enrolled as a regular student in an eligible institution of higher education or a comparable institution outside the United States approved by the Department for deferment purposes. A regular student is one who is enrolled for the purpose of obtaining a degree or certificate. (The eligible institution need not participate in the Federal Perkins Loan Program.)

If the borrower is attending at least half-time as a regular student for a full academic year and intends to do so in the next academic year, he or she is entitled to a deferment for **12 months**. This means that a school must continue to apply the in-school deferment through the summer session, even if the borrower does not attend classes during the summer session. In-school deferment ends on the day the borrower graduates or drops below half-time enrollment.

Schools may grant in-school deferments to borrowers based on student enrollment information provided by third-party servicers or other schools. The enrollment information must establish that the borrower is enrolled as a regular student on at least a half-time basis. If a school grants deferment based on this information, the school must notify the borrower of the deferment and offer the option to cancel deferment and continue repayment of the loan.

If a borrower is attending a school that ceases to qualify as an institution of higher education, the borrower's deferment ends on the date the school ceases to qualify.

Except for a program in dentistry, an in-school deferment may not be granted to a borrower who is serving in a medical internship or residency program.

Graduate fellowship

A borrower may defer repayment if he or she is enrolled and in attendance as a regular student in a course of study that is part of a graduate fellowship program approved by the Department, including graduate or postgraduate fellowship-supported study (such as a Fulbright grant) outside the United States. To receive deferment for enrollment in a graduate fellowship program, the borrower must provide certification that he or she is engaged in full-time study in an approved graduate fellowship program (or has been accepted by the program).

Rehabilitation training

A borrower may defer repayment if he or she is enrolled in a course of study that is part of a Department-approved rehabilitation training program for disabled individuals.

To receive this deferment, the borrower must provide the school with certification that:

- the borrower is receiving, or scheduled to receive, rehabilitation training from the agency;
- the agency is licensed, approved, certified, or otherwise recognized by a state agency responsible for programs in vocational rehabilitation, drug abuse treatment, mental health services, or alcohol abuse treatment; or by the Department of Veterans Affairs; and
- the agency provides or will provide the borrower rehabilitation services under a written plan that (1) is individualized to meet the borrower's needs; (2) specifies the date that services will end; and (3) is structured in a way that requires substantial commitment from the borrower.

A substantial commitment from the borrower is a commitment of time and effort that would normally prevent the borrower from holding a full-time job either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation.

Seeking full-time employment

A borrower may defer repayment on a Perkins Loan for up to 3 years, regardless of disbursement date and contrary provisions on the promissory note, if the borrower is seeking and unable to find full-time employment. Schools may determine the documents the borrower must provide to apply for this deferment.

Economic hardship

A borrower is entitled to an economic hardship deferment for periods of up to 1 year at a time, not to exceed 3 years cumulatively, if the borrower provides the school with satisfactory documentation showing that:

1. The borrower has been granted an economic hardship deferment for either a Stafford or PLUS Loan for the same period of time for which the Perkins Loan deferment has been requested.
2. The borrower is receiving federal or state general public assistance, such as Temporary Assistance to Needy Families, Supplemental Security Income, or Food Stamps.
3. The borrower is working full-time* and is earning a total monthly gross income that does not exceed (1) the monthly earnings of someone earning the minimum wage, or (2) 150% of the poverty line** for the borrower's family size.***
4. The borrower is not receiving total monthly gross income that is more than twice the amount in (3) above and that income minus an amount equal to the borrower's monthly payments on federal postsecondary education loans does not exceed the amount specified in (3) above.

   The borrower must submit at least the following documentation:***

   - evidence showing the amount of the borrower's most recent total monthly gross income from all sources—that is, the gross amount of income the borrower received from employment (either full-time or part-time) and from other sources; and
   - evidence showing the most recent monthly amount due on each of the borrower's federal postsecondary education loans, as determined by the method described below

   If the repayment schedule for the loan is *10 years or less*, use the actual monthly payment amount. If the repayment schedule for the loan is *more than 10 years*, use a monthly payment amount that would have been due for a 10-year repayment schedule. If the borrower's payments are due less frequently than monthly, use the payment amount that is proportional for a month.
5. The borrower is serving as a volunteer in the Peace Corps. Schools may grant deferments for Peace Corps service for periods longer than 1 year at a time, but these periods must not collectively exceed 3 years.

Note that the deferment provision for borrowers whose debt burden exceeds 20% of total monthly gross income has been eliminated. See the *2008–09 FSA Handbook* for details on the 220% limitation for that deferment.

* a borrower is considered to be working full-time if he or she is expected to be employed for at least 3 consecutive months for at least 30 hours per week.

** The poverty guidelines are published annually by the Department of Health and Human Services. If a borrower is not a resident of a State identified in the poverty guidelines, the poverty guideline to be used for the borrower is the poverty guideline (for the relevant family size) used for the 48 contiguous States.

***To qualify for a *subsequent* period of deferment that begins less than1 year after the end of the deferment described in option 3 or 4 above, the borrower must submit a copy of his or her federal income tax return if the borrower filed a tax return within the 8 months preceding the date the deferment is requested.

Determining maximum monthly gross income & 150% of poverty line (#3)

Monthly gross income at minimum at minimum wage

The current hourly minimum wage is available at **www.dol.gov/dol/topic/wages/minimumwage.htm**

To find monthly gross income, multiply the minimum wage by the typical work-hours in a year (2008), and then divide this amount by 12 months.

As of July 24, 2008, the minimum wage is $6.55, making the current monthly gross income of a minimum wage earner $1,135.33.

Determining 150% of the poverty line for the borrower's family size

Annual poverty line guidelines, as defined by Section 673(2) of the Community Service Block Grant Act, are available at **http://aspe.hhs.gov/poverty/poverty.shtml**

Note that an unborn child may be included if that child will be born during the year the borrower certifies family size or for the period the borrower requests an economic hardship deferment.

Military service deferment

A borrower who is serving on active duty or performing qualifying National Guard duty in connection with a war, military operation, or national emergency does not need to pay principal or interest on Perkins, NDSLs, and Defense Loans.

The overall 3-year limit for this deferment was eliminated in October of 2007, as was the provision that limited the availability of the deferment to loans first disbursed on or after July 1, 2001. A borrower may receive deferment for all eligible outstanding loans in repayment as of October 1, 2007. A borrower whose deferment eligibility had expired due to the prior 3-year limitation and who was still serving on eligible active duty on or after October 1, 2007 may receive the deferment retroactively from the date the prior deferment expired until the end of the borrower's active duty service.

Effective October 1, 2007, the deferment now is extended 180 days for qualifying periods of service that include October 1, 2007 or that begin on or after that date. This additional period is available each time a borrower is demobilized at the conclusion of qualifying service. This additional 180 day deferment may not be granted without documentation supporting the borrower's claim of end-of-military-service date.

A borrower may not be reimbursed for any payments made by or on behalf of a borrower during a period for which the borrower qualified for a deferment.

13-month post-active duty deferment

Effective October 1, 2007, borrowers who are members of National Guard or Armed Forces Reserve, and members of the Armed Forces who are in retired status, are eligible for a 13-month period of deferment on repayment of their Perkins loans following the completion of their active duty military service if they were enrolled in a postsecondary school at the time of, or within 6 months prior to, their activation. Many borrowers may also be eligible for the military service deferment described above, and a student may receive both deferments if eligible. If a student receives both, the overlapping periods of deferment will run concurrently.

A borrower returning from active duty who is in a grace period is not required to waive the grace period to use the 13-month post-active duty student deferment. If the borrower reenrolls in postsecondary school (at least half-time) prior to the expiration of the 13-month period, the deferment ends on the date the student re-enrolls.

Unlike the military service deferment described above, students receiving the active duty student deferment need not be activated during a war, national emergency, or other military operation.

For purposes of the active duty student deferment, "active duty" has the same meaning as in Section 101(d)(1) of Title 10, United States Code, but does not include active duty for training or attendance at a service school/academy.

Members of the National Guard may qualify for this deferment for Title 32 full-time National Guard duty under which a Governor is authorized, with the approval of the President or the U.S. Secretary of Defense, to order a member to State active duty and the activities of the National Guard are paid for by federal funds; or for State active duty under which a Governor activates National Guard personnel based on State statute or policy, and the activities of the National Guard are paid for by State funds. Active duty does not include a borrower who is serving full-time in a permanent position with the National Guard, unless the borrower is reassigned as part of a call-up to active duty service.

Military service definitions

For purposes of the military service deferment–

Active duty means full-time duty in the active military service of the United States, except that it does not include active duty for training or attendance at a service academy.

Performing National Guard duty means training or other duty, other than inactive duty, when called to active service authorized by the President of the United States or Secretary of Defense for a period of more than 30 consecutive days in connection with a war, national emergency, or other military operation.

Military operation means a contingency operation that is designated by the Secretary of Defense as an operation in which members of the armed forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States or an opposing military force.

National emergency means a national emergency by reason of terrorist attacks as declared by the President on September14, 2001, or subsequent national emergencies declared by the President by reason of terrorist attacks.

Deferments for Loans Made Before July 1, 1993

The deferments in this section are only available for Perkins Loans made before July 1, 1993, and NDSLs made between October 1, 1980 and July 1, 1993. For information on deferment provisions exclusive to loans made before October 1, 1980, see the ***1994–95 Federal Student Financial Aid Handbook*** or 34 CFR 674.37.

Military & related service deferments

A borrower may defer repayment for up to 3 years and interest will not accrue while he or she is:

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the armed forces;
- an officer in the Commissioned Corps of the U.S. Public Health Service;
- (for Perkins Loans made before July 1, 1993, only) on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps.

Parenting deferments [for Perkins Loans made before July 1, 1993, only.]

A borrower may defer repayment (and interest will not accrue) during a period of up to 1 year if the borrower is a mother of a preschool-age child, provided the mother is working (or going back to work) at a salary that is no more than $1.00 above the minimum hourly wage.

A borrower may also defer repayment for up to six months if the borrower is pregnant, or if he or she is taking care of a newborn or newly adopted child. This deferment is called a parental leave deferment. The borrower must be unemployed and not attending school and must apply for deferment within 6 months of leaving school or dropping below half-time status.

Hardship deferments

Loans disbursed before July 1, 1993 are eligible for an additional type of hardship deferment, which is ***separate and different*** from an ***economic*** hardship deferment.

A borrower may defer repayment for hardship, as determined by the school (for example, if the borrower is facing a prolonged period of illness or unemployment). A borrower may qualify for ***unlimited*** deferments due to hardship.

Interest will continue to accrue during the hardship deferment. Also, hardship deferments ***do not*** have post-deferment grace periods.

Service as (or comparable to) Peace Corps/Americorps*VISTA Volunteer

A borrower may defer repayment for up to three years and interest will not accrue while he or she is a Peace Corps or AmeriCorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer or providing comparable service. A borrower is considered to be providing service comparable to Peace Corps or AmeriCorps*VISTA service if he or she meets ***all*** of the following five criteria:

1. The borrower serves in an organization that is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954;
2. The borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions;
3. The borrower does not receive compensation that exceeds the rate prescribed under Section 6 of the Fair Labor Standards Act of 1938 (the federal minimum wage), except that the tax-exempt organization may provide the volunteer with health, retirement, and other fringe benefits that are substantially equivalent to the benefits offered to other employees of the organization;
4. The borrower, as part of his or her duties, does not give religious instruction, conduct worship service, engage in religious proselytizing, or engage in fund-raising to support religious activities; and
5. The borrower has agreed to serve on a full-time basis for a term of at least 1 year.

Temporary Total Disability Deferment

An affidavit from a qualified physician is required to prove disability. (A qualified physician is a doctor of medicine or osteopathy who is legally authorized to practice medicine.) A borrower is temporarily totally disabled if he or she is, due to illness or injury, unable to attend an eligible school or to be gainfully employed during a reasonable period of recovery.

A borrower may receive deferment for temporary total disability of a spouse or dependent if the spouse or dependent requires continuous nursing or other services from the borrower for a period of at least 3 months due to illness or injury.

The definition of dependent for temporary total disability deferment purposes is the same as the definition used in the ***Free Application for Federal Student Aid*** (FAFSA) for a member of the independent applicant's household: A borrower's dependent is a child who receives more than half of his or her financial support from the borrower or another person who lives with the borrower and who receives more than half of his or her financial support from the borrower.

Internship/Residency Deferment

A borrower who is serving in a medical internship or residency program is not considered to be in school for deferment purposes and may not receive an in-school deferment on that Perkins Loan for the internship or residency program; however, the borrower is eligible for an ***internship deferment*** for up to 2 years.

While the borrower is serving an eligible internship, he or she may defer repayment for up to 2 years. Interest will not accrue during the internship deferment. An eligible internship is one that requires the borrower to hold at least a bachelor's degree before beginning the program.

The internship must also be ***required by a state licensing agency*** as a prerequisite for certification of the individual for professional practice or service. The borrower must provide the school certification from an official of the appropriate state licensing agency indicating that the successful completion of the internship is required by the state licensing agency as a prerequisite for certification for professional practice or service. The borrower must further provide a statement from the organization where the borrower will be an intern certifying:

- that applicants must hold a bachelor's degree to be admitted into the internship program;
- that the borrower has been accepted into the internship program; and
- the dates when the borrower is expected to begin and complete the program.

Borrowers of Perkins Loans made before July 1, 1993, may alternatively show that the internship or residency program ***leads to a degree or certificate*** awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training. The borrower must provide the school with a statement from an authorized official of the internship program certifying that:

- an individual must have a bachelor's degree to be admitted into the program;
- the borrower has been accepted into the program; and
- the internship or residency program leads to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

Perkins Cancellation

CHAPTER 5

*A borrower may have all or part of his or her loan (including interest) cancelled for engaging in teaching, public service, service in the Peace Corps or AmeriCorps*VISTA, or service in the military. In addition, loans may be discharged if the borrower becomes disabled or dies, or in certain cases involving bankruptcy.*

GENERAL CANCELLATION PROVISIONS

Application for cancellation

The following cancellation application procedures apply to any loan under this program.

The borrower applies for cancellation of his or her loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan (or from the school's billing service if it uses one). The borrower submits the form to the school, along with any supporting documentation the school requests, by the deadline the school establishes. Schools determine, based on the borrower's documentation, whether the borrower is entitled to have any portion of his or her loans cancelled. This responsibility cannot be delegated. For information on documentation, see the appropriate cancellation category in this section.

For teacher cancellations, the cancellation form the borrower files must be signed by an official in the school system or agency to certify the borrower's service.

ED reimbursement to school

For Perkins Loans and NDSLs, the Department will reimburse each school every award year for the principal and interest cancelled from its Perkins Loan Fund for all of the cancellation provisions except for death, total and permanent disability, bankruptcy, and closed school discharge. The school must deposit in its fund the amount reimbursed. Note that interest does not accrue on any loan during the period that a borrower is performing service to qualify for cancellation benefits. Schools are not required to deposit reimbursements for loans made prior to July 1, 1972, into the Perkins Loan Fund. These reimbursements are considered institutional funds. For more information and a full Q&A on reimbursing amounts cancelled, see Dear Colleague Letter CB-05-08.

Concurrent deferment

Schools must automatically defer loans during periods of service for which schools also grant loan cancellation. Borrowers do not need to apply for these automatic deferments.

Chapter 5 Highlights

- General cancellation provisions
- Cancellation restrictions
- Elementary/Secondary teacher cancellation
  - → teaching in low-income schools
  - → teaching in special education
  - → teaching in teacher shortage fields
  - → low-income educational service agency
- Public service cancellations
  - → New cancellations for public service
  - → Nurse or Medical Technician
  - → Child or Family Services
  - → Early Intervention
  - → Prekindergarten, childcare, Head Start
  - → Law enforcement, corrections officer, public defender
  - → Military service (active duty)
  - → Volunteer Service
- Definitions of terms
- Discharging Perkins Loans
  - → Death or permanent disability discharge
  - → Closed school discharge
  - → Bankruptcy discharge
  - → Discharge for 9-11 victims

Perkins cancellation extended to loans prior to 10-7-1998

The Higher Education Act was amended to extend all service cancellations to all Perkins, NDSL, and Defense Loan borrowers who were previously ineligible as of October 7, 1998. However, only periods of qualifying service performed on or after October 7, 1998, are eligible for cancellation benefits if the borrower was not previously eligible due to the date the loan was made.

Cancellation procedures

34 CFR 674.52

Cancellation rates for military, teachers/public servants

With the exception of cancellations for Head Start and volunteer service, the cancellation rate per completed year of qualifying full-time service is:

- 15% of the original principal loan amount–plus the interest that accrued during the year–for each of the first and second years;
- 20% of the original principal loan amount–plus the interest that accrued during the year–for each of the third and fourth years; and
- 30% of the original principal loan amount–plus any interest that accrued during the year–for the fifth year.

A "year of service" consists of 12 consecutive months of service, except for teaching service, where the borrower must teach full-time for a full academic year or its equivalent.. For cancellation rates for Head Start and volunteer service, please see the corresponding sections in this chapter.

Payment refund cite
34 CFR 674.62(b)

Prior service cite
34 CFR 674.62(a)

Defaulted loans cite
34 CFR 674.52(c)

National community service cite
34 CFR 674.52(e)

CANCELLATION RESTRICTIONS

Prior service & payments prior to cancellation

Schools may not cancel any portion of a loan for services the borrower performed either before the date the loan was disbursed or during the enrollment period covered by the loan.

Schools may not refund payments made during a period for which the borrower qualified for a cancellation, unless the borrower made the payment because of the school's error. To reduce the chance of error, a school should keep the borrower informed of any new cancellation benefits.

Defaulted loans

A school may cancel a defaulted loan if the only reason for the default was the borrower's failure to file a cancellation request on time. If the loan has already been **accelerated**, only eligible service performed **prior** to the date of acceleration can be considered for cancellation. A borrower is not entitled to cancellation for any eligible service performed **after** the date of acceleration.

Americorps recipients

Schools may not grant cancellation of a Perkins Loan or National Direct Student Loan (NDSL) to a borrower who has received a national service education award for volunteer service with Americorps (Subtitle D of Title I of the National and Community Service Act of 1990).

ELEMENTARY/SECONDARY TEACHER CANCELLATION

Schools may cancel up to 100% of a Perkins Loan if the borrower has served full-time in a *public or nonprofit elementary or secondary school system* as:

- a teacher in a school serving students from low-income families;
- a *special-education* teacher, including teachers of infants, toddlers, children, or youth with disabilities,
- a teacher in a *teacher shortage field*, including mathematics, science, foreign languages, or bilingual education,
- in any other field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state,
- a teacher in a low-income educational service agency (including special education teachers). See sidebar. NEW

Eligibility for teacher cancellation is based on the duties presented in an official position description, not on the position title. To receive a cancellation, the borrower must be **directly employed** by the school system.

Cancellation for teaching in low-income schools

A cancellation based on teaching in a school serving students from low-income families or a location operated by an educational service agency may be granted only if the borrower taught in an eligible school or ESA that is listed in the *Directory of Designated Low-Income Schools for Teacher Cancellation Benefits.* (See sidebar.)

If a borrower is teaching at a school that is on the list one year but not in subsequent years, the borrower may continue to teach in that school and remain eligible to receive a cancellation for service in that school.

Cancellation for teaching in special education

A school must cancel up to 100% of the outstanding balance on a borrower's Perkins loan for a full-time special education teacher of infants, toddlers, children, or youth with disabilities. The teaching service must be performed in a public or other nonprofit elementary or secondary school system.

A person peforming one of the following services is considered a teacher if the service is part of the educational curriculum for handicapped children:

- speech and language pathology and audiology;
- physical therapy;
- occupational therapy;
- psychological and counseling services; or
- recreational therapy

To qualify for cancellation, the borrower must be licensed,

Teacher cancellation

Teacher definition 34 CFR 674.51(q)
Academic year definition: 34 CFR 674.51(a)
Part-time 34 CFR 674.52(b)(1)(i)
Low-income schools 34 CFR 674.53(a)
Teaching children & adults 34 CFR 674.53(f)
Field of expertise 34 CFR 674.51(r)

Teacher Loan Forgiveness Application and Forbearance Forms
Dear Colleague Letter CB-06-13

NEW Teachers in a low-income education service agency

Cancellations are for eligible service that includes August 14, 2008, or begins on or after that date, regardless of whether the cancellation category appears on the borrower's promissory note.
HEOA section 465
HEA section 465(a)
DCL GEN-08-12

Teacher cancellation directory

You can identify schools that are eligible for Perkins deferment and cancellation by searching the *Teacher Cancellation Low-Income Directory* online at:
https://www.tcli.ed.gov

BIA schools

All elementary and secondary schools operated by the Bureau of Indian Affairs (BIA) are considered to qualify as schools serving low-income families for the purpose of teacher cancellations of Perkins Loans and NDSLs. Elementary and secondary schools operated on reservations by Indian tribal groups under contract with the BIA are also considered to qualify for this purpose.
34 CFR 674.53(a)(5)

Job Corps teachers

Teaching service performed in a Job Corps Project does not qualify for Perkins cancellation unless the teaching is conducted in an elementary or secondary school or school system.

Who is a teacher?

A teacher is a person who provides students direct classroom teaching, classroom-type teaching in a non-classroom setting, or educational services directly related to classroom teaching (e.g., school librarian, guidance counselor).

It is not necessary for a teacher to be certified or licensed to receive cancellation benefits. However, the employing school must consider the borrower to be a full-time professional for the purposes of salary, tenure, retirement benefits, and so on. In other words, to qualify, the borrower should accrue the same benefits as teachers who are licensed and/or certified.

A supervisor, administrator, researcher, or curriculum specialist is not a teacher unless he or she primarily provides direct and personal educational services to students.

Under certain conditions, a teacher's aide may be considered eligible for teacher cancellation. The teacher's aide must meet the definition of a "full-time teacher." He or she must have a bachelor's degree and be a professional recognized by the state as a full-time employee rendering direct and personal services in carrying out the instructional program of an elementary or secondary school.

Volunteer teachers are not professionally employed on a full-time basis and, therefore, are not eligible for teacher cancellation benefits.

Teaching full-time for a full academic year

The borrower must teach full-time for a full academic year or its equivalent. There is no requirement that a teacher must teach a given number of hours a day to qualify as a full-time teacher; the employing school is responsible for determining whether or not the individual is considered to be a full-time teacher.

An "academic year or its equivalent" for teacher cancellation purposes is defined as one complete school year. Two half-years count as an academic year if they are complete, consecutive, from different school years (excluding summer session), and generally fall within a 12-month period.

A borrower who cannot complete the academic year because of illness or pregnancy may still qualify for cancellation if he or she has completed the first half of the academic year and has begun teaching the second half, but the borrower's employer must consider the borrower to have fulfilled his or her contract for the academic year.

Teaching part-time at multiple schools

Schools must grant cancellation to a borrower who is simultaneously teaching part-time in 2 or more schools ***if*** an official at one of the schools where the borrower taught certifies that the borrower taught full-time for a full academic year. For example:

- under a consortium agreement, a borrower may be employed by the consortium and teach at member schools;
- two or more schools, by mutual agreement, could arrange to have one school employ the borrower on a full-time basis and then hire out his or her services to the other school(s) involved in the agreement; or
- a borrower can be considered to have been a full-time teacher for an academic year if he or she can obtain appropriate certifications that he or she has taught in two half-time teaching positions for a complete academic year in two elementary or secondary schools or in two secondary schools.

A school may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily determine that the teaching was full-time.

Teaching in a private school

A borrower may receive teacher cancellation for services performed in a private elementary or secondary school or academy, if the private school or academy has established its nonprofit status with the Internal Revenue Service (IRS) and if the school or academy is providing elementary or secondary education according to state law. The school or academy does not necessarily need to be accredited for a borrower teaching there to qualify for teacher cancellation.

Teaching in a preschool or prekindergarten program

A borrower may receive teacher cancellation for teaching service performed in a preschool or prekindergarten program the state considers the program to be a part of its elementary education program. A low-income-school-directory designation that includes prekindergarten or kindergarten does not suffice for a state determination of program eligibility. The school must check with the state superintendent of public instruction to determine whether these programs are part of the state elementary education program.

Teaching both children and adults

If the borrower teaches both children and adults, the majority of students must be children for the borrower to qualify for cancellation.

Low-income school directory

The Department maintains a *Teacher Cancellation Low-Income Directory* of elementary/secondary schools and educational service agencies providing services to low-income students, in consultation with each state's educational agency. The Department considers a school to be a low-income school only if:

- it is in a school district that qualifies for federal funding based on the large number of low-income families in the district; and
- more than 30% of the school's enrollment is made up of children from low-income families.

Information about the compilation and publication of the directory is available from the Campus-Based Call Center at: 1-877-801-7168 or Pamela Wills (pamela.wills@ed.gov).

certified, or registered by the appropriate state education agency for that area in which he or she is providing related special educational services.

Cancellation for teaching in a teacher shortage field

A school must cancel up to 100% of the outstanding balance on a borrower's Perkins loan for a full-time teacher in a field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state. A borrower who is teaching in science, mathematics, foreign language, or bilingual education qualifies for cancellation even if the state has not designated the subject area in which he or she is teaching as a shortage area.

For a borrower to be considered as teaching in a field of expertise that has been identified by a state education agency to have a shortage of teachers, the majority of classes taught must be in that field of expertise.

Low-income educational service agency

A teacher in a designated low-income elementary or secondary school who is employed by an educational service agency may qualify for a teacher cancellation. In addition, a teacher in a designated low-income elementary school, secondary school, or location operated by an educational service agency may qualify for a teacher cancellation.

An "educational service agency" is a regional public multi-service agency authorized by State law to develop, manage, and provide services or programs to local educational agencies. The Department will determine whether a school or location operated by an educational service agency is low-income pursuant to regulations of the Department and after consultation with the State education agency.

Educational service agency

Definitiion

The term "educational service agency" has the meaning given the term in section 9101 of the Elementary and Secretary Education Act of 1965.

NEW

HEOA section 481

HEA sections 481(e) and (f)

PUBLIC SERVICE CANCELLATIONS NEW

New cancellations for public service

Schools may now cancel loans for borrowers who are

- full-time fire fighters with a local, State, or Federal fire department or fire district,
- full-time faculty members at a Tribal College or University,
- librarians with a master's degree in library science who are employed in an elementary or secondary school that qualifies for Title I funding, or in a public library that serves a geographic area that includes one or more Title I schools, and
- full-time speech-language pathologists with a master's degree who are working exclusively with Title I-eligible schools.

Cancellations are for eligible service that includes August 14, 2008, or begins on or after that date, regardless of whether the cancellation category appears on the borrower's promissory note.

Cancellation cites

Nurse or medical technician
34 CFR 674.56(a)

Child or family services agency
34 CFR 674.56(b)
GEN-05-15
Sec. 465(a)(2)(I) of the HEA

New cancellation provisions in HEOA NEW

- Cancellation for firefighters, Tribal College/University faculty, librarians and speech-language pathologists at Title I-funded schools.
- Expansion of eligibility for Teacher, Head Start, and Law Enforcement cancellations
- Increase in military service cancellation amounts

HEOA section 465
HEA section 465(a)
Effective August 14, 2008

Nurse or Medical Technician Cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time as a *nurse* or *medical technician* providing health care services. The borrower must provide health care services *directly* to patients. (See definitions at the end of this chapter and Dear Colleague Letter CB-08014.)

Child or Family Services Cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time as a employee of an eligible public or private nonprofit child or family service agency and has directly and exclusively provided services to *high-risk children* who are from *low-income communities* or has supervised the provision of such services.

To receive loan cancellation for being employed at a child or family service agency, a borrower employed in a non-supervisory capacity must be providing services only to high-risk children who are from low-income communities. The borrower must provide services directly and exclusively to high-risk children from low-income communities. The borrower may also be providing services to adults, but these adults must be members of the families of the children for whom services are provided, and the services provided to adults must be secondary to the services provided to the high-risk children.

The types of services a borrower may provide to qualify for a child or family service cancellation include child care and child development services, health, mental health and psychological services, as well as social services. The Department has determined that an elementary or secondary school system or a hospital is not an eligible employing agency. When reviewing child or family service cancellation requests, Perkins schools and their servicers should refer to Dear Colleague Letter GEN-5-15, which provides a more detailed discussion of the eligibility requirements for child or family service cancellations.

Early Intervention cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has been employed full-time as a *qualified professional provider of early intervention services* in a public or other nonprofit program under public supervision.

Prekindergarten, childcare, Head Start cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time as a staff member in a prekindergarten or childcare program, or in the educational part of a preschool program carried out under the Head Start Act.

A full-time staff member is someone who is regularly employed in a full-time professional capacity to carry out the educational part of a Head Start Program. The program must operate for a full academic year, or its equivalent, and the borrower's salary may not be more than that of a comparable employee working in the local educational agency. An authorized official of the Head Start Program must sign the borrower's cancellation form to certify the borrower's service.

The cancellation rate is 15% of the original principal loan amount–plus the interest that accrued during the year–for each complete school year.

Law enforcement, corrections officer, public defender cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time as a qualifying law enforcement, corrections officer, or attorney employed in Federal Public Defender Organizations or Community Defender Organizations (see sidebar).

To establish the eligibility of a borrower for the law enforcement or corrections officer cancellation provision, the school must determine that (1) the borrower's employing agency is eligible and that (2) the borrower's position is essential to the agency's primary mission.

A local, state, or federal agency is an eligible employing agency if it is publicly funded and its activities pertain to crime prevention, control, or reduction, or to the enforcement of the criminal law. Such activities include, but are not limited to

- police efforts to prevent, control, or reduce crime or to apprehend criminals;
- activities of courts and related agencies having criminal jurisdiction;
- activities of corrections, probation, or parole authorities; and
- the prevention, control, or reduction of juvenile delinquency or narcotic addiction.

Agencies that are primarily responsible for enforcement of civil, regulatory, or administrative laws are ineligible. However, because the activities of many divisions and bureaus within local, state, and

Reg citations

Early intervention 34 CFR 674.56(c)
Law enforcement 34 CFR 674.57
Head Start 34 CFR 674.58
Military service 34 CFR 674.59
Volunteer service 34 CFR 674.60

Cancellation reimbursement
34 CFR 674.63(b)
DCL CB-06-07

Early childhood education program cancellation NEW

Proposed regulations for Perkins would expand the Head Start cancellation to cover qualifying early childhood education programs.
See Federal Register for July 28, 2009

Public Defender cancellation NEW

The law enforcement/corrections officer cancellation has been expanded to include full-time attorneys employed in Federal Public Defender Organizations or Community Defender Organizations, established in accordance with Section 3006A(g)(2) of Title 18, U.S.C.

Cancellations are for eligible service that includes August 14, 2008, or begins on or after that date, regardless of whether information on the expansion of the cancellation category appears on the borrower's promissory note.

Change to military service cancellation limitation

The HEOA removes the 50% limitation on military service cancellations. Borrowers may now receive military service cancellation of up to 100% percent of the loan.
Effective date: August 14, 2008
HEOA 465
HEA 465(a)

Cancellations for Defense Loans

Borrowers of Defense Loans are eligible for additional teaching cancellations.
See 34 CFR 674.55.

Armed forces in areas of hostilities/imminent danger area

The Department of Defense maintains an updated listing of hostile fire/imminent danger pay areas at the following URL: **www.dod.mil/comptroller/fmr/07a/index.html**

Eligibility for special pay for service in an ***area of hostilities*** or an ***area of imminent danger*** is defined in Section 310 of Title 37 of the U.S. Code.

The "U.S. armed forces" are the United States Army, Navy, Air Force, Marine Corps, or Coast Guard.

NOTE: for Defense Loan cancellation, the service does not have to be in an area of hostilities or area of imminent danger.

The Department of Defense does not prorate or reduce a hostile fire/imminent danger pay area payment if the service in the hostile fire/imminent danger pay area is for a period of time less than a full month. If a member of the U.S. Armed forces is on active duty in a hostile fire/imminent danger pay area for any part of a month, the service member qualifies for the full payment of hostile fire/imminent danger pay for that month.

federal agencies pertain to crime prevention, control, or reduction, or to the enforcement of criminal law, a sub-unit within a larger, non-law enforcement agency may qualify as a law enforcement agency for purposes of a law enforcement cancellation.

For the borrower's position to be considered essential to the agency's primary mission, he or she must be a full-time employee of an eligible agency and a sworn law enforcement or corrections officer or person whose principal responsibilities are unique to the criminal justice system and are essential in the performance of the agency's primary mission. The agency must be able to document the employee's functions.

Prosecuting attorneys whose primary responsibilities are to prosecute criminal cases on behalf of public law enforcement agencies are eligible for cancellation benefits. Full-time attorneys employed in Federal Public Defender Organizations or Community Defender Organizations, are now also eligible.

Individuals whose official responsibilities are supportive, such as those that involve typing, filing, accounting, office procedures, purchasing, stock control, food service, transportation, or building, equipment, or grounds maintenance are not eligible for the law enforcement or correction officer loan cancellation, regardless of where these functions are performed.

Military service cancellation for active duty

Schools must cancel up to 100% of a Perkins Loan if the borrower is serving or has served a period of full-time active duty in the U.S. armed forces in an *area of hostilities* or an *area of imminent danger* that qualifies for special pay (see sidebar). The borrower's commanding officer must certify the borrower's service dates.

Effective August 14, 2008, the cancellation rates are: NEW

- 15% for the first and second years of service,
- 20% for the third and fourth years of service, and
- 30% for the fifth year of service.

Service for less than a complete year or a fraction of a year beyond a complete year does not qualify. A complete year of service is 12 consecutive months. If a borrower is on active duty in a hostile fire/imminent danger pay area for any part of a month, that month counts towards the borrower's eligibility for a military cancellation.

Volunteer Service Cancellation

Schools must cancel up to 70% of a Perkins Loan if the borrower has served as a Peace Corps or AmeriCorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer. An authorized official of the Peace Corps or AmeriCorps*VISTA program must sign the borrower's cancellation form to certify the borrower's service.

Americorps volunteers do not qualify for this cancellation unless their volunteer service is with AmeriCorps*VISTA. An AmeriCorps*VISTA volunteer may only qualify for this cancellation if the AmeriCorps*VISTA volunteer elects not to receive a national service education award for his or her volunteer service The AmeriCorps*VISTA volunteer must provide appropriate documentation showing that the volunteer has declined the Americorps national service education award.

Schools apply cancellation for volunteer service in the following increments:

- 15% of the original principal loan amount–plus any interest that accrued during the year–for each of the first and second 12-month periods of service; and
- 20% of the original principal loan amount–plus any interest that accrued during the year–for each of the third and fourth 12-month periods of service.

U.S. Army loan repayment program

It is useful to know that the U.S. Army offers a loan repayment program as an enlistment incentive. If a Perkins Loan (or Stafford Loan) borrower serves as an enlisted person in the U.S. Army, in the Army Reserves, or in the Army National Guard, the U.S. Department of Defense will repay a portion of the loan. For more information, the student should contact his or her local military recruiting office. This is a recruitment program, not a cancellation, and does not pertain to an individual's prior Army service.

DEFINITIONS

The following are definitions of terms used in this chapter (from 34 CFR 674.51):

Children and youth with disabilities. Children and youth from ages 3 through 21, inclusive, who require special education and related services because they have disabilities as defined in Section 602(3) of the Individuals with Disabilities Education Act (the Act).

The Act defines a "child with a disability" as one (1) with mental retardation, hearing impairments (including deafness), speech or language impairments, visual impairments (including blindness), serious emotional disturbance, orthopedic impairments, autism, traumatic brain injury, other health impairments, or specific learning disabilities; and (2) who, by reason thereof, needs special education and related services.

For a child age 3 through 9, the term a "child with a disability" may include, at the discretion of a state and the local education agency, individuals (1) experiencing developmental delays, as defined by the state and as measured by appropriate instruments and procedures, in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development; and (2) who, by reason thereof, require special education and related services.

Early intervention services. Those services defined in Section 632(4) of the Individuals with Disabilities Education Act that are provided to infants and toddlers with disabilities.

High-risk children. Individuals under the age of 21 who are low-income or at risk of abuse or neglect, have been abused or neglected, have serious emotional, mental, or behavioral disturbances, reside in placements outside their homes, or are involved in the juvenile justice system.

Infants and toddlers with disabilities. Infants and toddlers under age 3, inclusive, who need early intervention services for specified reasons, as defined in Section 632(5)(A) of the Individuals with Disabilities Education Act.

The Act defines an infant or toddler with a disability as an individual under 3 years of age who needs early intervention services because the individual (1) is experiencing developmental delays, as measured by appropriate diagnostic instruments and procedures in one or more of the areas of cognitive development, physical development, communication development, social or emotional development, and adaptive development; or (2) has a diagnosed physical or mental condition which has a high probability of resulting in developmental delay.

The term **infants and toddlers with disabilities** may also include, at a state's discretion, individuals under age 3, who are at risk of having substantial developmental delays if early intervention services are not provided.

Low-income communities. Communities in which there is a high concentration of children eligible to be counted under Title I of the Elementary and Secondary Education Act of 1965, as amended.

Medical Technician. An allied health professional (working in fields such as therapy, dental hygiene, medical technology, or nutrition) who is certified, registered, or licensed by the appropriate state agency in the state in which he or she provides health care services; an allied health professional is someone who assists, facilitates, or complements the work of physicians and other specialists in the health care system.

Nurse. A licensed practical nurse, a registered nurse, or other individual who is licensed by the appropriate state agency to provide nursing services.

Qualified professional provider of early intervention services. A provider of services, as defined in Section 632 of the Individuals with Disabilities Education Act.

Section 632 of that Act defines early intervention services as developmental services that:

- are provided under public supervision;
- are provided at no cost except where federal or state law provides for a system of payments by families, including a schedule of sliding fees;
- are designed to meet the developmental needs of an infant or toddler with a disability in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development;
- meet the standards of the state in which they are provided;
- are provided by qualified personnel, including: special educators; speech and language pathologists and audiologists; occupational therapists; physical therapists; psychologists; social workers; nurses; nutritionists; family therapists; orientation and mobility specialists; and pediatricians and other physicians;
- to the maximum extent appropriate, are provided in natural environments, including the home, and community settings in which children without disabilities participate; and
- are provided in conformity with an individualized family service plan adopted in accordance with Section 636 of the Individuals with Disabilities Education Act.

Under the Individuals with Disabilities Education Act, early intervention services include: family training, counseling, and home visits; special instruction; speech-language pathology and audiology services; occupational therapy; physical therapy; psychological services; service coordination services; medical services only for diagnostic or evaluation purposes; early identification, screening, and assessment services; health services necessary to enable the infant or toddler to benefit from the other early intervention services; social work services; vision services; assistive technology devices and services; and transportation and related costs necessary to enable infants, toddlers, and their families to receive other services identified in Section 632(4).

Teaching in a field of expertise. The majority of classes taught are in the borrower's field of expertise.

PROPOSED PERKINS CANCELLATION DEFINITIONS NEW

The following are proposed definitions of key terms used in this chapter from 34 CFR 674.56 (Employment cancellation--Federal Perkins, NDSL and Defense loans) to incorporate the new public service employment cancellations reflected in amended section 465(a) of the HEA.

The following definitions were included in a Notice of Proposed Rulemaking published in the Federal Register on July 28, 2009. Final regulations governing the new Perkins cancellations will be published in the Oct., 2009 Federal Register. Schools may use these definitions as guidelines for making determinations of eligibility for the new Perkins cancellation categories prior to the publication of the final regulations.

Child care program. [674.58(c)(3)]. A child care program would be defined as a program that is licensed and regulated by the State and provides child care services for fewer than 24 hours per day per child, unless care in excess of 24 consecutive hours is needed due to the nature of the parents' work (see proposed § 674.58(c)(3)).

Community defender organization. A defender organization established in accordance with section 3006A(g)(2)(B) of title 18, United States Code.[674.51(e)]

Educational service agency. A regional public multi-service agency authorized by State law to develop, manage, and provide services or programs to local educational agencies as defined in section 9101 of the Elementary and Secondary Education Act of 1965, as amended.

Faculty member at a Tribal College or University. An educator or tenured individual who is employed by a Tribal College or University, as that term is defined in section 316 of the HEA, to teach, research, or perform administrative functions. For purposes of this definition an educator may be an instructor, lecturer, lab faculty, assistant professor, associate professor, full professor, dean, or academic department head. [674.51(i)]

Federal public defender organization. A defender organization established in accordance with section 3006A(g)(2)(A) of title 18, United States Code.

Firefighter. A firefighter is an individual who is employed by a Federal, State, or local firefighting agency to extinguish destructive fires; or provide firefighting related services such as--

(1) Providing community disaster support and, as a first responder, providing emergency medical services;

(2) Conducting search and rescue; or

(3) Providing hazardous materials mitigation (HAZMAT).

Librarian with a master's degree. A librarian with a master's degree is an information professional trained in library or information science who has obtained a postgraduate academic degree in library science awarded after the completion of an academic program of up to six years in duration, excluding a doctorate or professional degree.

Pre-Kindergarten program. [674.58(c)(2)] A prekindergarten program would be defined as a State-funded program that serveschildren from birth through age six and addresses the children's cognitive (including language, early literacy, and early mathematics), social, emotional, and physical development (see proposed § 674.58(c)(2)).

Speech language pathologist with a master's degree. An individual who evaluates or treats disorders that affect a person's speech, language, cognition, voice, swallowing and the rehabilitative or corrective treatment of physical or cognitive deficits/disorders resulting in difficulty with communication, swallowing, or both and has obtained a postgraduate academic degree awarded after the completion of an academic program of up to six years in duration, excluding a doctorate or professional degree.

Tribal College or University. A Tribal College or University is an institution that qualifies for funding under the Tribally Controlled Colleges and Universities Assistance Act of 1978 (25 U.S.C. 1801 et seq.), or the Navajo Community College Assistance Act of 1978 (25 U.S.C. 640a note), or is cited in section 532 of the Equity in Education Land Grant Status Act of 1994 (7 U.S.C. 301 note) (see proposed§ 674.51(bb)).

Total and Permanent Disability loan discharge

34 CFR 674.61
GEN 06-14

For additional information on assigning loans for discharge contact:

Disability Discharge Loan Servicing Center
Phone: 1-888-869-4169
TDD: 1-888-636-6401
e-mail: **disability_discharge@afsa.com**

VA disability discharge

Borrowers who receive a permanent total disability rating from the Secretary of Veterans Affairs due to a service-connected condition will be considered permanently and totally disabled. See CB 09-04

Deceased student & family estate

NEW

The HEOA provides that a deceased student, a deceased student's estate, or the estate of such student's family does not have to repay any Federal Student Aid, including interest, collection costs and other charges.
HEOA section 486 HEA section 484A
Effective date: August 14, 2008

Discharge due to inability to engage in gainful activity

NEW

Effective July 1, 2010, the HEOA provides for a discharge of a borrower's Perkins Loan if the borrower is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that

- can be expected to result in death;
- has lasted for a continuous period of not less than 60 months; or
- can be expected to last for a continuous period of not less than 60 months.

In addition, a borrower who is determined by the VA to be unemployable due to a service-connected disability also qualifies for a discharge on his or her Perkins Loan.

The Department will issue additional guidance to Perkins loan holders describing the procedures for discharging these loans after working with the VA to identify the appropriate documentation to support a borrower's eligibility for the discharge.

DISCHARGING PERKINS LOANS

Discharge due to Death or Total and Permanent Disability

You must discharge the remaining balance of any Perkins Loan, NDSL, or Defense Loan if the borrower dies or becomes totally and permanently disabled. Total and permanent disability is the inability to work and earn money because of an injury or illness that is expected to continue indefinitely or to result in death. Your school does not receive reimbursement for discharges due to death or disability.

You must base your determination of death of the borrower on an original or certified copy of the death certificate, or an accurate and complete photocopy of the death certificate. Under exceptional circumstances and on a case-by-case basis, your school's chief financial officer may approve a discharge based upon other reliable documentation supporting the discharge request.

The borrower must submit a completed total and permanent disability (TPD) discharge request application to your school within 90 days of the date the physician signs the TPD application. The 90 day submission deadline applies to the initial TPD application; should your school's evaluation result in requests for additional supporting documentation, this does not break the 90 day deadline. By signing the TPD form, the physician certifies that the borrower is totally and permanently disabled, as defined in the Perkins Loan Program regulations.

If your school determines, based on certification from the borrower's physician, that the borrower is totally and permanently disabled, your school must assign the account to the Department. You must notify the borrower that you have assigned the account to the Department for determination of eligibility for a total and permanent disability discharge. If the Department makes an initial determination that the borrower is eligible for discharge, the Department will place the loan in a conditional discharge status for up to 3 years after the date the borrower's TPD application is certified.

A borrower does not qualify for final discharge if he or she has a loan awarded after the date the TPD certification is certified. If a borrower receives a disbursement of a Title IV loan awarded prior to the date the TPD application was certified, the borrower must cancel or repay the disbursement within 120 days of the disbursement date in order to retain eligibility for final TPD discharge.

A borrower may receive income from employment during the conditional discharge period, as long as the earnings do not exceed 100% of the poverty line for a family of two. A borrower loses eligibility for final discharge if he or she has employment earnings over this limit.

A loan placed in conditional discharge status is not considered past due or in default unless the loan was past due or in default at the time the conditional discharge was granted.

If your school receives payments from a borrower on a loan that is in conditional discharge status, you must forward these payments to the Department and notify the borrower that there is no need to make payments on the loan while it is in conditional discharge status.

- For applications processed under the new regulations (received on or after July 1, 2008), loan holders must inform the Department of the amount of any payments received after the date the physician signed the aplication.
- For applications processed under the old regulations (received before July 1, 2008), loan holders must inform the Department of the amount of payments received after the date provided in Section 3, line 3b of the application.

If the Department grants final discharge to the borrower, your school must refund any payments received after the date the physician signed the discharge application. (For applications received prior to July 1, 2008, your school must refund any payments received after the date provided in Section 3, line 3b of the application.

Closed School Discharge

Your school must assign to Federal Student Aid (FSA) Collections all its outstanding Perkins and NDSL loans if it is closing (see Chapter 1 of this volume for assignment procedures).

FSA Collections may discharge a Perkins Loan or NDSL made on or after January 1, 1986 if the borrower is unable to complete his or her program of study due to the closure of the school. FSA Collections must reimburse borrowers for payments made voluntarily or by forced collection.

A borrower whose loan was in default and then discharged under this provision is not considered to have been in default and reestablishes FSA eligibility, provided he or she meets all other eligibility criteria. FSA Collections reports the discharge to the credit bureaus to which the previous loan status was reported.

Bankruptcy Discharge

The basic actions a school must take when a borrower files for bankruptcy protection are covered here, in Dear Colleague Letter GEN-95-40, dated September 1995, and in 34 CFR 674.49. For the best advice on how to proceed when a borrower files for bankruptcy protection, a school should consult its attorney. The school should ensure that the attorney is aware of the due diligence provisions that apply to school actions.

If a school receives notice that a borrower has filed for bankruptcy protection, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser.

Disability discharges received on or after July 1, 2008 NEW

For all applications for disabilty discharge received by the loan holder on or after July 1, 2008 on the current loan discharge application, the following fields no longer need to be completed:

1. Section 3 (Physician's Certification), Line 2 (When did the borrower's medical condition begin?); and
2. Section 3 (Physician's Certification), Line 3b (If Yes, when did the borrower become unable to work and earn money in any capacity?)

The Department will not reject an assignment due to either of these fields being missed or incomplete, as long as the application was received by the loan holder on or after July 1, 2008.

Earlier disability loan discharges

If the borrower's TPD application receipt date is on or after July 1, 2008, you must use the TPD guidance in the 2008–2009 edition of the FSA Handbook.

If the borrower's TPD application receipt date is before July 1, 2008, you must use the TPD guidance published in the *2007–2008 FSA Handbook*.

For more information, see the July 9, 2008 Electronic Announcement posted on IFAP.

Closed schools

You can find a searchable database of closed schools online at **http://wdcrobcolp01.ed.gov/CFAPPS/FSA/closedschool/searchpage.cfm.**

Closed school discharge cite
34 CFR 674.33(g)

Bankruptcy laws

11 U.S.C. 1307, 1325, and 1328(b) are laws applicable to bankruptcy cases in general, not just to Perkins Loan bankruptcy cases.
11 U.S.C. 1307 concerns the dismissal of a Chapter 13 case or the conversion of a case filed under Chapter 13 to a Chapter 7 proceeding.
11 U.S.C. 1325 concerns the confirmation by the court of a borrower's proposed repayment plan.
11 U.S.C. 1328(b) allows a debtor who fails to complete the payments required under the plan to obtain a discharge if conditions are met. A school should consult an attorney for the best advice in bankruptcy cases.

Bankruptcy and student eligibility

See Volume 1 of the *FSA Handbook* for a discussion of how bankruptcy affects a student's eligibility for aid.

9-11 public service discharge

The Third Higher Education Extension Act of 2006 (THEAA) authorized the discharge of the outstanding balance of a Perkins Loan made to the spouse of an eligible public servant.

September 11 Perkins Discharge application GEN-07-08

The school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Effective for bankruptcies filed on or after October 8, 1998, a borrower who receives a general discharge in bankruptcy does not by that order obtain a discharge of a loan that has been in repayment for 7 years or more at the time of the bankruptcy filing. For these bankruptcies, a student loan is discharged by a general discharge order only if the borrower also obtains a court ruling that repayment of the loan would impose an undue hardship on the borrower and his or her dependents.

Discharge for spouses of 9-11 victims

Schools must discharge the outstanding balance of a Perkins Loan that was made to the spouse of an eligible public servant who died or became permanently and totally disabled due to injuries suffered in the September 11, 2001 terrorist attacks. An eligible public servant is a police officer, firefighter, or other safety or rescue personnel, or a member of the Armed Forces, who died or became permanently and totally disabled due to injuries suffered in the September 11, 2001 terrorist attacks. This discharge is only available on Perkins, NDSL, or Defense Loan amounts that were owed on September 11, 2001. The law doesn't authorize refunding of any payments made on a loan prior to the loan discharge date.

Bankruptcy procedures

Responding to complaint for determination of dischargeability

Customarily, a borrower obtains a judicial ruling of undue hardship by filing an adversary proceeding—a lawsuit within the bankruptcy proceeding—in the bankruptcy court seeking to prove undue hardship. If a borrower files an adversary proceeding to prove undue hardship under 11 U.S.C. 523(a)(8), the school must decide, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents.

If the school concludes that repayment would not impose an undue hardship, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, the school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. If necessary, the school may compromise a portion of that amount to obtain a judgment.

If the school opposes a request for determination of dischargeability on the ground of undue hardship, a school may also file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

Schools that are state instrumentalities may, as an alternative, oppose an undue hardship claim by asserting their immunity from suit in bankruptcy. As with any other action in defending student loans in bankruptcy, the school should consult with counsel and should ensure that counsel is fully informed about recent changes in Department regulations to support this position.

Procedures for responding to proposed Chapter 13 repayment plan

Under Chapter 13, the borrower may generally obtain an adjustment in repayment terms of all of his/her debts. The borrower proposes a repayment plan that addresses whether and how each debt or class of debts will be paid. If the court approves the plan, creditors are bound to the terms of that plan for duration of the plan, typically 3 to 5 years. If the borrower's repayment plan proposes full repayment of the Perkins Loan, including all principal, interest, late charges, and collection costs on the loan, no response from the school is required. The school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the Perkins Loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed and that the remainder be discharged, the school must determine, from its own records and court documents, the amount of the loan dischargeable under the plan. The school does this by subtracting the total proposed payments from the total amount owed. The school must also determine from its own records and court documents whether the borrower's proposed repayment plan meets the requirements of 11 U.S.C. 1325. Two of those requirements are particularly relevant:

- First, the amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.
- Second, to pay creditors under the plan, the debtor must use all income not needed to support himself or herself and his or her dependents.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, the school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, the school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, the school must determine whether grounds exist under 11 U.S.C. 1307 for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges. If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

After a borrower's proposed repayment plan is confirmed by the court, the school must monitor the borrower's compliance with the repayment plan. If the school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b), the school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, the school must move to convert or dismiss the case. If a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), the school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.

Resuming/terminating billing and collection

A school must resume billing and collection procedures after the borrower has received a discharge under 11 U.S.C. 727, 11 U.S.C. 1141, 11 U.S.C. 1228, 11 U.S.C. 1328(a), or U.S.C. 1328(b) unless the court has found that repayment would impose an undue hardship. If the court has found that repayment would impose an undue hardship, the school must terminate all collection action and write off the loan. If a school receives a repayment from a borrower after a loan has been discharged, it must deposit that payment in its Perkins Loan Fund.

Bankruptcies filed before October 8, 1998

See previous editions of the *FSA Handbook* for discussion of bankruptcies filed before October 8, 1998.

Perkins Billing, Collection, and Default

CHAPTER 6

When a Perkins Loan enters repayment, your school must follow the Due Diligence requirements of Subpart C of the Perkins regulation (34 CFR 674.41-50). You must afford the borrower maximum opportunity to repay a Federal Perkins Loan. Specific steps the school must take include (but are not limited to) billing the borrower, sending overdue notices, and conducting address searches if the borrower cannot be located. If billing procedures fail, a school must take more aggressive collection steps such as hiring a collection firm and/or litigating. Default in the Federal Perkins Loan Program is defined as "the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement."

COMMUNICATION WITH BORROWER

While billing and collection activities involve many steps, there are general requirements that your school must adhere to at all times. You must inform the borrower of all program changes that affect his or her rights and responsibilities. Your school must respond promptly to the borrower's inquiries. If a borrower disputes a loan and you cannot resolve the dispute, you must explain the services provided by the Department's Federal Student Aid (FSA) Ombudsman's office.

Keeping current information on a borrower makes it easier for the school to know when repayment must begin and where to send billing notices. The various offices at the school–the admissions, business, alumni, placement, financial aid, and registrar's offices, and others, as necessary–must provide any available information about the borrower that is relevant to loan repayment, including:

- the borrower's current enrollment status;
- the borrower's expected graduation or termination date;
- the date the borrower officially withdraws, drops below half-time enrollment, or is expelled; and
- the borrower's current name, address, telephone number, Social Security number, and driver's license number (if any).

Chapter 6 Highlights

- Billing procedures
  - Exit interviews
  - Grace periods
  - Overdue payments
  - Acceleration
- Disclosure of repayment
- Default and collection
- Procedures
- Billing and collection costs
- Default status and eligibility
  - Satisfactory repayment
- Perkins rehabilitation
- Perkins assignment
- Default reduction
- Assistance program
- Cohort default rates
  - Defining and calculating

General requirements

General
34 CFR 674.41(a)
Coordination of information
34 CFR 674.41(b)
Exit interview
34 CFR 674.42(b)
Disclosure of repayment information
34 CFR 674.42(a)

For information about maintaining billing and collection records, see Chapter 1 of this volume.

Exit interviews for students enrolled in a correspondence or study-abroad program.
In the case of students enrolled in a correspondence program or a study-abroad program that your school approves for credit, you may provide written counseling materials by mail within 30 days after the borrower completes the program.

Perkins NSLDS Reporting
34 CFR 674.16
You must report enrollment and loan status information to NSLDS by the deadline date established in the Federal Register Web site
http://www.nslds.ed.gov
Phone number: 1 (800) 999-8219

REQUIREMENTS AT END OF ENROLLMENT

Exit Interviews

Contact with the borrower becomes even more important as the borrower's last day of attendance approaches. Your school must conduct exit counseling with borrowers either in person, by audiovisual presentation, or by interactive electronic means. (If you conduct exit counseling through interactive electronic means, you must take reasonable steps to ensure that each student borrower receives the counseling materials and participates in and completes the exit counseling.)

Schools must conduct this counseling shortly before the student graduates or drops below half-time enrollment (if known in advance). If individual interviews are not possible, group interviews are acceptable. Your school may employ third-party servicers to provide Perkins Loans borrowers with exit counseling. In the case of correspondence study, distance education, and students in the study-abroad portion of a program, you may provide written counseling materials by mail within 30 days after the borrower completes the program.

During the exit interview, the financial aid counselor must review and update all of the repayment terms and information addressed in the initial loan counseling session. (See the sidebar on the next page for a list of information included in the loan counseling session.)

The exit interview must also discuss:

- debt-management strategies that would facilitate repayment;
- the availability of FSA loan information on the National Student Loan Database System (NSLDS); and
- how to contact the FSA Ombudsman's office and an explanation of the services this office provides.

As part of the exit information, you must collect the name and address of the borrowre's expected employer.

FSA Ombudsman

The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman.

Office of the Ombudsman
U.S. Dept. of Education
830 First St NE
Mailstop #5144
Washington, DC 20202-5144

Toll-free: 1 (877) 557-2575
1 (202) 377-3800
Fax: 1 (202) 275-0549

http://fsahelp.ed.gov

The financial aid counselor must emphasize the seriousness and importance of the repayment obligation the borrower is assuming, describing the likely consequences of default, including adverse credit reports, litigation, and referral to a collection agency. The counselor must further emphasize that the borrower is obligated to repay the full amount of the loan even if the borrower has not completed the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with the school's educational or other services.

If the borrower withdraws from school without the school's prior knowledge or fails to complete an exit counseling session, the school must provide exit counseling through either interactive electronic means or by mailing counseling material to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from school or failed to complete exit counseling.

Finally, schools must document all exit interviews.

Disclosure of repayment information

Either shortly before the borrower ceases at least half-time study or during the exit interview, schools must disclose critical repayment information to the borrower *in a written statement*. Most of the repayment terms that the school must disclose to the borrower already appear in the promissory note. The school must also give the borrower the following information:

- contact information for requesting a copy of the signed promissory note;
- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the name and address of the party to which payments should be sent;
- the estimated balance owed by the borrower on the date on which the repayment period is scheduled to begin;
- the repayment schedule for all loans covered by the disclosure including the date the first installment payment is due, the rate of interest, and the number, amount, and frequency of required payments; and
- the total interest charges that the borrower will pay on the loan pursuant to the projected repayment schedule.

If your school exercises the minimum monthly payment option, you must inform the borrower that if he or she wants your school to coordinate payments with another school, he or she must request such coordination.

If a borrower enters the repayment period without the school's knowledge, the school must provide the required disclosures to the borrower in writing immediately upon discovering that the borrower has entered the repayment period.

Exit counseling requirements

The HEOA requires each eligible institution, through financial aid offices or otherwise, to conduct exit counseling for borrowers receiving loans made through the Federal Perkins Loan program.

The counseling must include:

- information on repayment plans which includes a description of the different features of each plan and samples showing average anticipated monthly payments with the difference in interest paid and total payments shown with each plan;
- debt management strategies to assist the borrower in repaying the debt;
- options the borrower has to prepay each loan or pay each loan on a compressed schedule or to change repayment plans;
- information on loan forgiveness and cancellation provisions and the conditions under which the borrower may obtain full or partial forgiveness or cancellation of principal and interest;
- information on forbearance provisions and a general description of terms and conditions under which the borrower may defer repayment of principal or interest or be granted forbearance;
- information on the consequences of default on a loan which includes adverse credit reports and Federal delinquent debt collection procedures and litigation;
- a general description of the types of tax benefits that might be available to borrowers; and
- information on how a borrower can use NSLDS to get information on the status of their loans.

The school must also include information with respect to Consolidation loans to discharge FFEL, Direct Loan, and Perkins Loan program loans which includes:

- the effects of the consolidation on total interest to be paid, fees, and length of repayment;
- the effect on a borrower's underlying loan benefits, which includes grace periods, loan forgiveness, cancellation and deferment;
- the option the borrower has to prepay the loan or to change repayment plans; and
- that borrower benefit programs may vary depending on the lender.

HEOA section 488(b)
HEA section 485(b)(1)(A)

Grace period contact
34 CFR 674.42(c)

Contact during grace periods

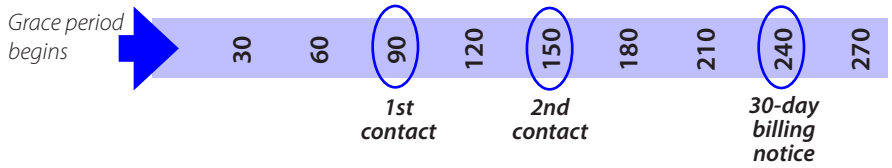
A school must contact the borrower during both initial and post-deferment grace periods to remind him.her when repayment will begin or resume.

Your school must contact the borrower 3 times during the 9-month initial grace period. The school must also contact the borrower twice during any 6-month post-deferment grace period. The chart below shows the length of initial and post-deferment grace periods for NDSLs and Perkins Loans.

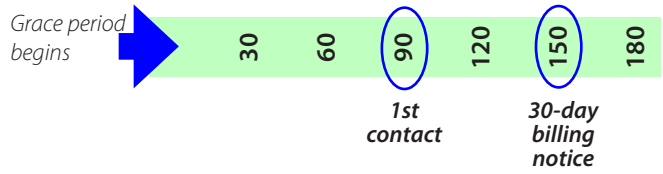
- The *first contact* must be *90 days* after any grace period (initial or post-deferment) begins. The school must remind the borrower that he or she is responsible for repaying the loan. The school must also inform the borrower of the amount of principal and interest, as projected for the life of the loan, and the due date and amount of the first (or next) payment.
- The *second contact* must be *150 days* after any grace period begins, when the school must again remind the borrower of the due date and amount of the first (or next) payment. For 6-month grace periods, the second contact should coincide with the first billing notice. These two notices may be combined.
- For 9-month grace periods, the school must make a *third contact 240 days* after the grace period begins to remind the borrower of the date and amount of the first payment. This contact should coincide with the first billing notice. Again, the school may combine the two notices.

Contact with borrower during grace period

9-month grace period



6-month grace period



Applicable grace periods	perkins	ndsl *on/after 10/1/80*	ndsl *before 10/1/80*
initial grace period	9 months	6 months	9 months
postdeferment period	6 months	6 months	6 months

BILLING PROCEDURES AND OVERDUE PAYMENTS

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

The school may choose a coupon payment system as its method of billing. If so, the school must send the coupons to the borrower at least 30 days before the first payment is due.

If the school does not use a coupon system, it must, at least *30 days* before the first payment is due, send the borrower a statement of account and a written notice giving the name and address of the party to which payments should be sent. The statement of account includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment. For subsequent payments, the school must send the borrower a statement of account at least *15 days* before the due date of the payment.

If the borrower chooses to make payments through electronic funds transfer, the school doesn't have to send the borrower a statement of account before each payment. However, the school must send the borrower an annual statement of account.

Notices of overdue payments

If a payment is overdue and you have not received a request for forbearance, deferment, or cancellation, you must send the borrower:

- the *first* overdue notice 15 days after the payment due date;
- the *second* overdue notice 30 days after the first overdue notice;
- the *final demand letter* 15 days after the second overdue notice.

The assessment of late charges on an overdue Perkins Loan borrower is now optional. The final demand letter must inform the borrower that unless the school receives a payment or a request for forbearance, deferment, or cancellation *within 30 days* of the date of the letter, the school will refer the account for collection or litigation and will report the default to a credit bureau as required by law.

You may skip the first two letters and send just the final demand letter within *15 days* after a payment is overdue if the borrower's repayment history has been unsatisfactory or if you can reasonably conclude the borrower does not intend to repay the loan or to seek forbearance, deferment, or cancellation. A borrower is considered to have an unsatisfactory repayment history if he or she has failed to make payments when due, has failed to request deferment, forbearance, or cancellation on time, or has received a final demand letter.

Billing procedures
34 CFR 674.43

Overdue notices
34 CFR 674.43(b)
34 CFR 674.43(c)

Optional penalty or late charge for periods of enrollment beginning before 1/1/86
34 CFR 674.31(b)(5)(ii)
34 CFR 674 Appendix E

Schools are authorized but not required to assess a penalty or late charge for an overdue payment on a loan made for a period of enrollment that began before January 1, 1986. The maximum penalty charge that may be assessed on a loan payable monthly is $1 for the first month and $2 for each additional month a payment is overdue; the maximum penalty for a loan payable bimonthly is $3; the maximum penalty for loans payable quarterly is $6. Penalty or late charges on these loans may be assessed only during the billing process.

Billing procedures

- 30 days before due date
  - ▸▸ *send 30-day notice*
- Payment due date
- within 15 days after due date
  - ▸▸ *send 1st overdue notice*
- 30 days after 1st notice
  - ▸▸ *send 2nd notice*
- 15 days after 2nd notice ▸▸
  - ▸▸ *send final demand*
- within 30 days of final demand
  - ▸▸ *phone and refer for collection**
    (or litigation, if necessary)

** the school can use the services of the Default Reduction Assistance Program (DRAP) before the loan goes to a collection firm, as discussed in this chapter.*

Cites

Late charges
34 CFR 674.43(b)(2)
Telephone Contact
34 CFR 674.43(f)
34 CFR 675.46(a)(2)
Loan acceleration
34 CFR 674.43(e)
Address search
34 CFR 674.44

Contacting the endorser–loans Before July 23, 1992

For loans made prior to July 23, 1992, the school must also try to collect the amount owed from any endorser of the loan. It may help to send the endorser a copy of the final demand letter that was sent to the borrower and copies of all subsequent notices, including dunning letters. For loans made on or after July 23, 1992, an endorser is no longer required.

Late charges

A school that adopts a policy of assessing late charges on an overdue Perkins Loan must impose them on all borrowers with overdue payments. The charge is based either on the actual costs the school incurs in taking steps to obtain the overdue amount or on average costs incurred in similar attempts with other borrowers. The charge may not exceed 20% of the installment payment most recently due.

If your school assesses a late charge, it must also impose a late charge if a borrower's payment is overdue and the borrower has not filed a complete request for forbearance, deferment, or cancellation on time. (To be complete, the request must contain enough information for you to confirm the borrower's eligibility.) If a school opts to charge late fees, the school may charge late fees only during the billing process; a school may not charge late fees once the school begins collections procedures.

You may add the penalty or late charge to the principal amount of the loan as of the first day the payment was due. Alternatively, you may include the charge with the next payment that is scheduled after the date you notify the borrower that the charge must be paid in full by the next payment due date. You must inform the borrower of the late charge, preferably in the first overdue payment notice.

For a borrower who repays the full amount of past-due payments, the school may waive any late charges that were imposed.

Contacting the borrower by telephone

If the borrower does not respond to the final demand letter within 30 days, you must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, one call may avoid the more costly procedures of collection.

You should make at least two attempts to reach the borrower on different days and at different times. If the borrower has an unlisted telephone number, you must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If you are still unsuccessful, you should document the contact attempts in your files.

Loan acceleration

You may *accelerate* a loan if the borrower misses a payment or does not file for deferment, forbearance, or cancellation on time. Acceleration means immediately making payable the entire outstanding balance, including interest and any applicable late charges or collection fees.

Because this marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the

borrower a written acceleration notice at least 30 days in advance. The notice may be included in the final demand letter or in some other written notice sent to the borrower.

If the loan is accelerated, you must send the borrower another notice to inform him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. However, if you plan to assign the loan to the Department for collection, you must first accelerate the loan. Once a loan has been accelerated, the borrower loses all rights to deferment and cancellation benefits for qualifying service performed *after* the date of acceleration.

Address searches

The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail):

- review the records of all appropriate school offices and
- review printed or web-based telephone directories or check with information operators in the area of the borrower's last known address.

If these methods are unsuccessful, you must intensify efforts to locate the borrower, using either school personnel or a commercial skip-trace firm. If you use school personnel, you must employ and document efforts comparable to commercial skip-tracing firms. You may also choose to use the Internal Revenue Service skip-tracing service provided through the Department.

If you still can't locate the borrower after taking these steps, you must continue to make reasonable attempts at least twice a year until the account is assigned to the Department or the account is written off.

Default Reduction Assistance Program

To assist schools in bringing defaulted borrowers into repayment, the Department has established the Default Reduction Assistance Program (DRAP). Under DRAP, a school can request that the Department send a borrower a letter designed to warn the student of the seriousness of default. The Department provides these services at no cost to the school. Participation in DRAP is voluntary.

The new DRAP process is an entirely web-based process conducted at the new eCampus-Based website (**www.cbfisap.ed.gov**).

Once you have logged into the eCampus-Based website using your FSA User ID and password, select the "DRAP" link on the top navigation bar to begin.

As DRAP is intended to get the borrower back into repayment *before* the account goes to a collection firm, this service should *not* be requested once a collection agency is involved. DRAP service is usually provided during the 30-day period during which a school is awaiting response to the final demand letter.

Dear Colleague Letter CB-05-11

General questions about DRAP should be directed to the Campus-Based Call Center at 1-877-801-7168 Mon–Fri, 8 a.m. – 8 p.m. EST

Collection procedures
34 CFR 674.45
Ombudsman information
34 CFR 674.45(h)
Credit bureau reporting
34 CFR 674.45(a)(1)
34 CFR 674.45(b)
First effort to collect
34 CFR 674.45(a)(2)
Litigation or second effort
34 CFR 674.45(c)
Annual efforts to collect
34 CFR 674.45(d)

DEFAULT & COLLECTION PROCEDURES

Collection procedures are the more intensive efforts a school must make when borrowers have not responded satisfactorily to billing procedures and are considered seriously in default.

As part of the following collection activities, the school must inform the borrower of the availability of the FSA Ombudsman's Office.

Credit bureau reporting

A school must report an account to credit bureaus as being in default when a borrower fails to respond to the final demand letter or the following telephone contact. You must report the default to any one national credit bureau or to an affiliated credit bureau that transmits credit information to one of the three national credit bureaus with which the Department has an agreement (see box).

You must report any subsequent changes in the status of the borrower's account to the same national credit bureau, using the procedures required by that credit bureau. You must respond within 1 month to any inquiry received from any credit bureau about reported loan information. Finally, you must notify all credit bureaus to which you reported the default when a borrower makes consecutive, on-time monthly payments.

Reporting good credit history (as well as reporting defaulted loans) is essential to ensure that current and future creditors have complete information regarding the credit obligations of the borrower.

Under the Fair Credit Reporting Act, a borrower may appeal the accuracy and validity of the information reported to the credit bureau and reflected in the credit report. You should be prepared to handle the appeal and make necessary corrections to the report as required by the provisions of the act.

Efforts to collect

The school must make a *first effort* to collect using either its own personnel or hiring a collection firm.

If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, or cancellation), the school has two options–either to litigate or to make a second effort to collect.

A *second effort* to collect requires one of the following procedures if:

- the school first attempted to collect by using its own personnel, it must refer the account to a collection firm unless state law prohibits doing so.
- the school first used a collection firm, it must attempt to collect by using its own personnel or by using a different collection

National Credit Bureaus

The Department has entered into an agreement with the three national credit bureaus listed below:

Trans Union Corporation	(1-800-888-4213)
Experian (formerly TRW)	(1-888-397-3742)
Equifax	(1-888-202-4025)

National credit bureaus charge fees for their services. These fees differ from credit bureau to credit bureau. Credit bureaus affiliated with the above credit bureaus may have different fees from those of the national credit bureaus. The Department does not keep a list of these affiliated bureaus and their fees.

The Privacy Act authorizes disclosure of a borrower's account information to creditors without the borrower's consent if the disclosure helps enforce the terms and conditions of the loan. You may also make such disclosures about loans that haven't defaulted and/or are being disbursed.

firm, or the school must submit the account to the Department for assignment.

- a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the firm must return the account to the school.

If the school is unsuccessful in its effort to place the loan in repayment after following the procedures above, the school must continue to make yearly attempts to collect from the borrower until the loan is recovered through litigation; the account is assigned to the Department; or the loan is written off.

Ceasing collection

A school may cease collection activity on defaulted accounts with balances of less than $200 (including outstanding principal, accrued interest, collection costs, and late charges) if the school carried out the required due diligence and if the account has had no activity for four years. Although interest will continue to accrue and may put the account over $200, you will not have to resume collection activity if you document that you ceased collection activity when the account was under $200. The borrower will remain responsible for repaying the account, including accrued interest. The account will still be included in the school's cohort default rate, if applicable, and the borrower will still be in default and ineligible for FSA funds.

Alternatives to litigation

To avoid litigation, a school may offer to waive collection costs as incentive for repayment. You may waive *all* collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding, including principal and interest; a written repayment agreement is not required. You may also waive a *portion* of the collection costs on a loan if the borrower agrees to pay a corresponding portion of the loan within 30 days of entering into a written repayment agreement with the school. For example, if the

IRS Skip-Tracing Program

Previous Handbooks noted that schools could use IRS Skip-Tracing services to locate Perkins borrowers (See Dear Partner Letter CB-02-16, November 2002).
However, IRS Skip-Tracing is no longer available to schools that participate in the Perkins Loan Program. See the Electronic Announcement posted on July 10, 2009.

Account write-off ($25/$50)

Your school may write off an account with a balance of less than $25.00 (including outstanding principal, accrued interest, collection costs, and late charges). Your school may write off an account with a balance of less than $50, if your school appropriately billed the borrower for at least 2 years. If you write off an account, the borrower is relieved of all payment obligations and you must deduct the amount of the account from the Perkins Loan Fund. If you receive a payment from a borrower after you have written off the loan, you must deposit that payment into the Fund.
34 CFR 674.47(h)

Ceasing collections

34 CFR 674.47(g)

Litigation

34 CFR 674.46

Consolidating Defaulted Perkins Loans

A borrower with a defaulted Perkins Loan and an outstanding FFEL should contact his or her current FFEL lender for information about obtaining a Federal Consolidation Loan.
A borrower with a defaulted Perkins Loan and an outstanding Direct Loan can get information about obtaining a Direct Consolidation Loan by contacting the Direct Loan Consolidation Department at 1-800-557-7392 or by visiting the Direct Loan web site: www.direct.ed.gov.

Elimination of defense of infancy

NEW Schools in the Perkins Loan program are not subject to a defense raised by a borrower on the basis of a claim of infancy under state law. See General Proviisons relating to student assistance.
Effective August, 14, 2008
HEOA Section 486:

borrower repays one-half the outstanding balance on a loan within 30 days of the agreement, the school may waive one-half of the collection costs incurred through the date of that payment. The amount of waived collection costs may be charged to the Perkins Loan Fund.

You may compromise the repayment of a defaulted loan if you have fully complied with all due diligence requirements and the borrower pays, in a single lump-sum payment, at least 90% of the outstanding principal balance, plus all interest and collection fees. The federal share of the compromise repayment must bear the same relation to the school's share as the Federal Capital Contribution (FCC) bears to the Institutional Capital Contribution (ICC).

A borrower may rehabilitate a defaulted Perkins Loan by making 12 consecutive on-time payments. A rehabilitated loan is returned to regular repayment status. (See Rehabilitation later in this chapter.)

A borrower may include his or her defaulted Perkins Loan, NDSL, or Defense Loan in a Direct or Federal Consolidation Loan. The amount eligible for consolidation under either program is the sum of the unpaid principal, accrued unpaid interest, late charges, and outstanding collection costs. A defaulted loan that is being repaid under a court order remains in default status until paid and is not eligible for consolidation.

Litigation

If the collection procedures described in this section do not result in the repayment of a loan, the school must review the account for litigation once every 2 years. If all the conditions are met, the school must litigate. The conditions are:

- the total amount owed, including outstanding principal, interest, collection costs, and late charges, on all the borrower's Perkins Loans and NDSLs at the school is more than $500;
- the borrower can be located and served with process;
- the borrower either has enough assets attachable under state law to cover a major portion of the debt or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time (defining a "reasonable period of time" is left to the school);
- the borrower does not have a defense that will bar judgment for the school; and
- the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

Even if all the above conditions are not met, your school may still choose to sue a defaulted borrower. If the borrower has a partial defense that may bar judgment for the school, you must weigh the costs of litigation against the costs of recovery based on the amount of the enforceable portion of the debt. No federal or state statute of

limitation can apply to enforcement actions to collect Perkins Loans or NDSLs.

Your school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. You are also required to try to recover all costs previously incurred in the collection of overdue payments if the borrower has not paid these collection costs; a percentage of these unrecovered costs may be charged to the Fund as explained later in this chapter under "Billing and Collection Costs."

When a school has filed suit to collect a defaulted Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. A defaulted loan that is being repaid under court order remains in default status until paid and is not eligible for consolidation. After a judgment is satisfied on the defaulted loan, the student is again eligible for future awards under these programs if all other eligibility criteria are met.

Your school may assign the account to the Department for collection if the amount outstanding is $25 or more (including principal, interest, collection costs, and late charges) and your school cannot collect a payment after following all collection procedures (including litigation, if required). For more information about assignment of a loan, see "assignment procedures" at the end of this chapter.

Collection costs waiver
34 CFR 674.47(d)

Compromise
34 CFR 674.33(e)

Deceased student & family estate
The HEOA provides that a deceased student, a deceased student's estate, or the estate of such student's family does not have to repay any Federal Student Aid, including interest, collection costs and other charges. NEW
HEOA section 486
HEA section 484A
Effective date: August 14, 2008

Assessing and documenting collection costs

You may charge either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency.
Your school must assess all reasonable collection costs against the borrower despite any provisions of state law that would conflict with the above provisions.
You must document the basis for the costs assessed. For audit purposes, a school must keep documentation supporting costs, including telephone bills and receipts from collection firms.
You should provide a notice explaining to the borrower how your school calculates collection costs.

Billing & Collection

Billing and collection firms
34 CFR 674.48
Assessing costs
34 CFR 674.45(e)
Charging costs to the fund
34 CFR 674.47

Reasonable Collection Costs

34 CFR 674.45(e)(3)

For loans referred to a collection agency on or after July 1, 2008, collection costs charged the borrower may not exceed:

- first collection effort--30% of the principal, interest, and late charges collected;
- second and subsequent collection efforts--40% of the principal, interest, and late charges collected;
- for collection efforts resulting from litigation, 40% of principal, interest, and late charges collected, plus court costs.

BILLING AND COLLECTION COSTS

Your school must charge the borrower for reasonable collection costs associated with past-due payments, if your school opts to charge them (not routine billing costs, which are included in the administrative cost allowance [ACA]), and *collection* costs for address searches, use of contractors for collection of the loan, litigation, and/or bankruptcy proceedings.

If your school cannot recover billing and collection costs from the borrower, you may charge the costs to the Fund, provided the costs fall within the specifications described in the following paragraphs. (Collection costs are included in the ACA, but if collection costs exceed the ACA, you must report the additional costs in the separate collection costs category on the FISAP.)

The only *billing* costs a school may charge the Fund are the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower. Even if the amount recovered from the borrower does not suffice to pay the amount of the past-due payments and the penalty or late charges, the school may charge the Fund only for the unpaid portion of the actual cost of the calls.

The following *collection* costs may be charged to the Perkins Loan Fund if the costs are *waived* or *not paid by the borrower*:

- ***Collection costs waived.*** If your school waives collection costs as incentive for repayment, the amount waived may be charged to the Fund.
- ***Cost of a successful address search.*** You may charge to the Fund a reasonable amount for the cost of a successful address search if you used a commercial skip-tracing service or employed your school's personnel to locate the borrower using comparable methods. (Defining a reasonable amount is left to the school.)
- ***Cost of reporting defaulted loans to credit bureaus.*** You may charge to the Fund the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account, and responding to any inquiry from a credit bureau about the status of a loan.
- ***Costs of first and second collection efforts.*** You may charge to the Fund collection costs not paid by the borrower if they do not exceed–for first collection efforts–30% of the total principal, interest, and late charges collected and–for second collection efforts–40% of the principal, interest, and late charges collected. The school must reimburse the Fund for collection costs initially charged to the Fund but subsequently paid by the borrower.
- ***Collection costs resulting from rehabilitation.*** Collection costs charged to the borrower on a rehabilitated loan may not

exceed 24% of the unpaid principal and accrued interest as of the date following application of the twelfth payment. Until July 1, 2002, if the actual collection costs exceed 24% of the unpaid principal and accrued interest, the school may charge the Fund the remaining costs. Collection costs are not restricted to 24% in the event that the borrower defaults on the rehabilitated loan.

- ***Costs of firm performing both collection and litigation services.*** If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the Fund may not exceed the sum of **40%** of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.
- ***Collection costs resulting from litigation, including attorney's fees.*** Collection costs resulting from litigation, including attorney's fees, may be charged to the Fund if not paid by the borrower. (Note that there is a limit on litigation costs that may be charged–see sidebar.)

Due diligence activities involving *fixed costs* (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the Fund whether or not the actions are successful. Other activities, such as address searches, collection, and litigation (other than bankruptcy), are typically performed on a *contingent-fee* basis. If these activities are *unsuccessful*, there are no costs charged to the school and therefore no costs may be charged to the Fund. If these activities are *successful*, you may charge the associated allowable costs to the Fund.

Limit on charging costs due to litigation

The amount of litigation costs a school charged to the Perkins Loan fund may not exceed the sum of:

- court costs specified in 28 U.S.C. 1920;
- other costs incurred in bankruptcy proceedings in taking actions required or authorized under 34 CFR 674.49;
- costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- 40% of the total amount recovered from the borrower in any other proceeding.

Collection cost for loans made from 1981 through 1986

For loans made from 1981 through 1986, many promissory notes contain a limitation on the amount of costs that can be recovered from the borrower (25% of the outstanding principal and interest due on the loan). As this provision has not been applicable since the beginning of the 1987–1988 award year, if these borrowers ask for new advances, the Department strongly encourages schools to issue new promissory notes without this provision and to require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for all collection costs on all of his or her outstanding loans borrowed under this program. (However, the advances made prior to the signing of the new note do not qualify for new deferment and cancellation benefits.)

Using Billing and Collection Firms

Your school may use a contractor for billing or collection, but it is still responsible for complying with due diligence regulations regarding those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about cancelling, or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

If you use a billing service, you may not use a collection firm that owns or controls the billing service or is owned or controlled by the billing service. In addition, you may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Account protection: minimum bond/insurance amounts

A school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service.

At least once a year, the school must review the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

A school using a law firm to collect must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

If you **don't** authorize your collection firm to deduct its fees from borrowers' payments, the firm must be bonded or insured for at least the amount that you expect to be repaid over a two-month period on the assigned accounts.

If you **do** authorize your collection firm to deduct its fees from borrowers' payments, you must ensure that:

- if the amount you expect to be repaid over a two-month period is **less than $100,000**—the collection firm is bonded or insured for the lesser of (a) 10 times the amount the school expects to be repaid over a two-month period on assigned accounts; or (b) the amount the firm expects to collect in a two-month period on **all** accounts it has in its portfolio (not just the school's account).
- if the amount you expect to be repaid in a two-month period is **$100,000 or more**—the collection firm has a fidelity bond or comparable insurance **that names your school as the beneficiary** and is bonded or insured for an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period.

DEFAULT STATUS AND PERKINS ELIGIBILITY

A borrower who is in default on an FSA loan is not eligible for any other further FSA loans unless they have regained eligibility. (See *Volume 1, Student Eligibility* for guidance on how a student may regain eligibility). However, a borrower who satisfies any of the conditions that remove a Perkins loan from his or her school's cohort default rate calculation becomes eligible for additional Perkins loans only (see *Draft FiSAP Instruction Booklet*).

Satisfactory repayment arrangements

A borrower who is in default on a Perkins Loan may regain eligibility for further federal student aid by making satisfactory repayment arrangements. (See *Volume 1 - Student Eligibility.*) If the borrower has made satisfactory repayment arrangements, the school must appropriately update the loan status code in the National Student Loan Data System.

Perkins Loan rehabilitation

Your school must establish a rehabilitation program and notify all borrowers with defaulted loans of the option to rehabilitate and the advantages of rehabilitation. A borrower may now rehabilitate a defaulted Perkins Loan by making 9 consecutive on-time payments. (Previously, twelve payments were required–see sidebar.)

Borrowers may not rehabilitate loans on which the holder has obtained a judgment. However, your school may enter into an agreement with the borrower that provides the borrower with some of the benefits of rehabilitation. For example, your school could promise to vacate the current judgment and request the removal of the default from the borrower's credit after the borrower makes 12 consecutive payments and signs a new promissory note.

The rehabilitation payments should be sufficient to satisfy the outstanding balance on the loan within a 10-year repayment period. A school may not establish a loan rehabilitation policy that requires defaulted Perkins Loan borrowers to pay the full outstanding balance of the loan within the 12-month rehabilitation period, if such payments would create a hardship for the borrower. In most cases, such a policy would require a borrower to make excessively high monthly payments, and would, in effect, deny the borrower access to a statutorily mandated benefit of the Perkins Loan Program.

Within 30 days of receiving the borrower's last on-time consecutive monthly payment, you must:

- return the borrower to regular repayment status;
- treat the first of the 12 or 9 consecutive payments as the first payment in a new 10-year repayment schedule; and
- instruct any credit bureau to which the default was reported to remove the default from the borrower's credit history.

After rehabilitating a defaulted loan and returning to regular

Cites

Rehabilitation
34 CFR 674.39
Closed school discharge
34 CFR 674.33(g)

Change to rehabilitation requirement NEW

The HEOA reduces the number of on-time, consecutive, monthly payments required to rehabilitate a loan from 12 to 9. A school may consider borrowers who began making rehabilitation payments prior to August 14, 2008, to have successfully rehabilitated their loans after making nine qualifying monthly payments if at least one of those payments was made on or after August 14, 2008. A school must treat all of its Perkins Loan borrowers consistently in applying the 12-month or 9-month standard for borrowers who began making rehabilitation payments before August 14, 2008
HEOA section 464
HEA section 464

Rehabilitation agreements prior to November 1, 2002

If, prior to November 1, 2002, you offered rehabilitation to a borrower for loans with judgments, you should honor the rehabilitation agreement. You do not need to offer rehabilitation again if the borrower misses any of the required payments.

Involuntary payments

The term "voluntarily" excludes payments obtained by income tax offset, garnishment, income asset execution, or pursuant to a judgment.

repayment status, a borrower regains the benefits and privileges of the promissory note, including deferment and cancellation.

If a borrower chooses to rehabilitate a defaulted loan and then fails to make 12 consecutive on-time payments, the rehabilitation is unsuccessful, but the borrower may still make further attempts to rehabilitate the defaulted loan. Also, if a borrower successfully rehabilitates a defaulted loan and maintains good standing on the loan, the borrower may continue to attempt to rehabilitate other defaulted Perkins loans. However, if the borrower successfully rehabilitates a defaulted loan, but the loan later returns to default, the borrower may not attempt to rehabilitate that loan again or any other defaulted Perkins loan.

Loans with judgments

When a school has filed suit to collect a defaulted Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. If the judgment is for less than the outstanding balance on the loan, the school may write off the portion of the loan not covered by the judgment. After a judgment is satisfied on the defaulted loan, the student is again eligible for aid from FSA programs if all other eligibility criteria are met. However, if a borrower has previously satisfied a defaulted student loan *involuntarily* (for instance, through wage garnishment), you should consider this as evidence of unwillingness to repay and should not approve further loan assistance to the borrower.

Previously defaulted loans discharged for school closure

A Perkins Loan made on or after January 1, 1986, may be discharged if the borrower is unable to complete his or her program of study due to the closure of the school that made the loan. A defaulted borrower whose loan is discharged under this closed school provision is eligible for additional federal student aid, provided that he or she meets all other eligibility criteria. (Schools that close must assign all Perkins Loans to FSA Collections. FSA Collections, or the school, if the school still holds the loan, must report to credit bureaus that the loan has been discharged.)

PERKINS ASSIGNMENT

A school may assign nondefaulted Perkins/NDLS loans to FSA Collections. Your school may also assign a *defaulted* Perkins/NDSL loan to FSA Collections if:

- the school has not been able to collect despite having followed due diligence procedures (including at least a first level of collection and litigation, if required by the regulations in effect on the date the loan entered default);
- the total amount of the borrower's account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is $25 or more; and
- the loan has been accelerated.

You may *not* assign a loan to FSA Collections under the voluntary assignment procedures if:

- the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the student loan obligation is nondischargeable and has entered a judgment against the borrower or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;
- your school has sued the borrower (unless the judgment has been entered and assigned to the United States); or
- the loan has been discharged because the borrower has died.

Upon notification by the Department, you may be required to assign a Perkins loan if your school has knowingly failed to maintain an acceptable collection record with regard to the loan or chooses to stop servicing and collecting its Perkins Loans.

See Chapter 1 for assignment of nondefaulted loans (for example if your school is closing or is withdrawing from the Perkins program).

Required documentation

A school *may be required* to submit the following documents to FSA Collections for any loan it proposes to assign:

- one original and one photocopy of the assignment form;
- the original promissory note or a certified copy of the original note;
- a copy of the repayment schedule and a complete statement of the payment history;
- copies of all approved requests for deferment and cancellation;
- a copy of the notice to the borrower of the effective date of acceleration and the total amount due on the loan;
- documentation that the school has withdrawn the loan from any firm that it employed for address search, billing,

Assignment Form and Procedures
34 CFR 674.50
Dear Colleague Letter CB-06-12

Assignment address
A school should mail assignments to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, TX 75403-4136

Reporting "date(s) of first disbursement" on loan manifest
You must report the date each assigned loan was disbursed (attached to the Institutional Certification page of the Perkins Assignment form). The dates listed must match the date of first disbursement initially reported by your school to NSLDS. If multiple loans were combined into one loan, you list the date of first disbursement for the first loan in the combination. If a student received multiple loans reported separately, you list the date of first disbursement for each loan. For more details, see Dear Colleague Letter CB-06-12.

Mandatory assignment NEW
The Department no longer has the authority to require mandatory assignment of Perkins Loans based on an school's Program Participation Agreement.
The Department continues to have the authority to require mandatory assignment if a school has knowingly failed to maintain an acceptable collection record with regard to the loan or chooses to stop servicing and collecting its Perkins Loans. This statutory change nullifies the mandatory assignment regulations in 34 CFR 674.8(d)(3).
HEOA 463
Effective date: August 14, 2008

collection, or litigation services and has notified that firm to cease collection activity on the loans;

- copies of all pleadings filed or received by the school on behalf of a borrower who has filed a petition in bankruptcy and whose loan obligation is determined to be nondischargeable;
- a certified copy of any judgment order entered on the loan; and
- documentation that the school has complied with all of the due diligence requirements if the school has a cohort default rate that is equal to or greater than 20% as of June 30 of the second year preceding the submission period.

If you assign loans made under the Perkins MPN, you must maintain disbursement records that document the principal amount loaned until the loan is paid off or otherwise satisfied. You may include disbursement records with the assignment submission. For more details, see the most recent Dear Colleague Letter on this topic. (At this writing, CB-06-12 is being updated.)

Terms of assignment

If FSA Collections accepts the assignment of a loan, it will give the school written notice to that effect. *By accepting the assignment, the Department acquires all rights, title, and interest in the loan.* You must endorse and forward to the Department any subsequent payment(s) the borrower may make.

If FSA Collections later determines an assigned loan to be unenforceable because of an act or omission on the part of your school or its agent, your school may have to compensate the Perkins Loan Fund in the amount of the unenforceable portion of the outstanding balance. Once the fund is reimbursed, the Department transfers all rights to the loan back to the school.

A borrower whose loan has been assigned to the United States for collection continues to be in default on the loan and is ineligible for FSA funds until the borrower provides confirmation from FSA Collections that he or she has made satisfactory arrangements to repay the loan.

Assignment under e-signed or Perkins MPN

If you assign loans that were made under an electronically signed promissory note, you must cooperate with the Department in all activities necessary to enforce the loan.

You may be asked to provide an affidavit or certification regarding the creation and maintenance of electronic records of the loan. This affidavit or certification must establish that the records are created and maintained in a form appropriate to ensure admissibility of the loan records in a legal proceeding.

The affidavit or certification must:

- describe the steps followed by the borrower to execute the promissory note;
- include copies of screen shots that would have appeared to the borrower when the borrower signed the note electronically;
- describe field edits and other security measures used to ensure data integrity;
- describe how the promissory note has been preserved to ensure it has not been altered;
- include documentation supporting the school's authentication and electronic signature process; and
- provide any other documentary and technical evidence requested by the Department.

The affidavit or certification may be executed in a single record for multiple loans provided that this record is reliably associated with the specific loans to which it pertains.

An authorized official or employee of the school may have to testify to ensure admission of the electronic records of the loan or loans in the litigation or legal proceeding to enforce the loan or loans.

Your school's most recent audit must assess how well your school's e-sign authentication process meets the Department's "Standards for Electronic Signatures in Electronic Student Loan Transactions" (as specified in DCL GEN-01-06)

PERKINS COHORT DEFAULT RATES

Defining and calculating the Perkins cohort default rate

Your school's cohort default rate is calculated for a particular year based on information you report in Part 3, Sections D and E of the FISAP. For detailed information on how your school's cohort default rate is determined, see Part III of the Draft FISAP Instruction Booklet available under "Publications" on the IFAP Web site.

Years counted in Perkins cohort default rate calculation

For any award year in which *30 or more borrowers enter repayment*, the cohort default rate is the percentage of those current and former students who enter repayment *in that award year* on loans received for attendance at that school and *who default before the end of the following award year.*

For any award year in which *fewer than 30 current and former students at the school enter repayment* on a loan received at the school, the cohort default rate is the percentage of those current and former students who entered repayment on loans received for attendance at that school in any of the *three most recent award years* and who defaulted on those loans before the end of the award year immediately following the year in which they entered repayment.

Counting loans & borrowers in default

For purposes of the cohort default rate, a loan enters repayment only once in its life. This repayment begins the day after the end of the initial grace period or the day that the borrower waives his or her initial grace period.

A borrower is included in determining the school's cohort default rate if the borrower's default has persisted for at least 240 consecutive days for a loan repayable monthly or 270 consecutive days for a loan repayable quarterly.

Penalties for high default rates

If the school's cohort default rate is

- 25% or higher, the school's FCC will be reduced to zero.
- 50% or higher for the 3 most recent years, the school is ineligible to participate in the Federal Perkins Loan Program and must liquidate its loan portfolio.

A school may appeal a determination of ineligibility if the appeal is based on an inaccurate calculation of its cohort default rate or a low number of borrowers entering repayment. A school appeals a determination of ineligibility based on an inaccurate calculation by adjusting the cohort default rate data on the FISAP.

Perkins cohort default rate calculation

34 CFR 674.5(b)
Loans included in the cohort default rate
34 CFR 674.5(c)
Loans not included in CDR
34 CFR 674.5(c)(3)

Perkins cohort default rates listing

The *Federal Perkins Loan Program Status of Default*, known as the Orange Book, lists the cohort default rates for each school that participate in the Perkins program.
See the "Publications" area on the IFAP Web site.

Cohort default rate for multiple locations or change of ownership

If a school has a branch or branches or has an additional location or locations, the school's cohort default rate applies to all branches and locations of the school as they exist on the first day of the award year for which the rate is calculated. The cohort default rate applies to all branches/locations of the school from the date the Department notifies the school of the rate until the Department notifies the school that the rate no longer applies.
For more information about the effect of changes of ownership and the treatment of multiple locations in the Perkins rate calculation, see 34 CFR 674.5(d)

Penalty for High CDR

34 CFR 674.5(a)

Adjusting past-due status example

Marty's oldest dollar is 240 days past due. He files a request for a deferment based on the fact that he is attending school and the enrollment period began on the date that the loan became 90 days past due. The past-due status of the loan is reduced to 90 days, and the loan is given a deferment status. This loan is treated as if the 240-day threshold had never been reached. Therefore, it would not be counted in the school's cohort default rate.

Loan not included in Perkins default rate

The following loans are not treated as defaults when reporting borrower status on Part III of the FISAP:

- loans on which borrowers have made 6 consecutive monthly payments;
- loans on which borrowers have "voluntarily" made all payments currently due;
- loans that borrowers have repaid in full;
- loans for which borrowers have received deferments or forbearance based on conditions that began prior to loans becoming 240/270 days past due;
- loans that have been rehabilitated;
- loans repaid in full under a compromise repayment agreement in accordance with 674.33(e);
- loans that have been discharged due to death or permanent disability, bankruptcy, or a school closing; and
- loans that have been assigned to the ED for determination of eligibility for total and permanent disability discharge.

Rules for calculating the number of days in default

For purposes of reporting on Part III of the FISAP, a school should use the following rules to caculate the number of days a loan has been in default:

- The 240/270 consecutive days in default is determined by calculating the "age" of the account (that is, the number of consecutive days the oldest dollar is past due).
- A payment that a borrower makes on a past-due loan is applied to the oldest dollars first, effectively reducing the past-due status.
- A loan on which a borrower is past due and on which the borrower makes an occasional payment but never becomes current could be counted as a defaulted loan for the cohort default rate calculation despite the occasional payments. Because the delinquency is not being cured, the oldest past-due dollar could eventually become 240 days past due, making the loan count in the default rate calculation. However, if the borrower makes enough occasional payments to prevent the oldest past-due dollar from becoming 240 days old, the loan would not be counted as being in default.
- An exception to the 240/270-day threshold will be granted in a case where a borrower (1) would have qualified for a deferment for a period beginning prior to the loan hitting the 240/270-day threshold and (2) failed to file a request for the deferment in a timely manner. For such a borrower, the loan's past-due status would be adjusted to reflect the deferment period beginning date. However, the borrower would need to pay any past-due amounts that were due prior to the beginning of the authorized deferment periods, if the deferment period beginning date does not eliminate the loan's entire delinquency.