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Disbursing Title IV Funds

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OBJECTIVES

By the end of this session, you will be able to:

- ❖ identify internal cash management standards and practices associated with disbursing Title IV funds,
- ❖ define disbursement for all Title IV programs and further define disbursement and delivery of FFEL funds,
- ❖ describe conditions that must be met before funds are disbursed,
- ❖ describe the timing of funds distribution, and
- ❖ identify Title IV program-specific requirements that affect the release of funds to students or parents.

RESOURCES

- ❖ *The Blue Book*, Chapter 1—The Student Financial Aid Programs
- ❖ *The Blue Book*, Chapter 4—Requesting, Managing, and Returning Title IV Funds
- ❖ Federal Regulations 34 CFR Part 668.163 through 165
- ❖ *Student Financial Aid Handbook: Institutional Eligibility and Participation*

A. MAINTAINING FUNDS

- Federal regulations apply to the brief period of time between receiving and disbursing Title IV funds.

1. Bank Accounts

Notes

BANK ACCOUNTS*

- ◆ Federal funds must be kept in an account that is:
 - ◇ federally insured or
 - ◇ secured by sufficient collateral to reasonably cover the amount of Title IV program funds in the account.
- ◆ A school must indicate that the account contains federal funds by:
 - ◇ including in the name of each account the phrase “federal funds” or
 - ◇ notifying the bank that the account contains federal funds and retaining a copy of that notice.
- ◆ If a school notifies the bank that the account contains “federal funds,” but does not include these words in its name, the school must file a UCC-1 statement (disclosing that the account contains federal funds) with an appropriate state or local government agency.
 - ◇ Public institutions (because they generally do not obtain credit in the same manner as non-public institutions) and schools that have “federal funds” in the name(s) of their accounts do not file a UCC-1.
- ◆ A school must keep Federal Perkins Loan Program funds in an interest-bearing account that is:
 - ◇ federally insured,
 - ◇ secured by collateral equal in value to the Title IV program funds in the account, or
 - ◇ an investment account consisting predominantly of low-risk, income-producing securities, such as obligations issued or guaranteed by the U.S. government.
- ◆ A school is not required to maintain other Title IV program funds in an interest-bearing account if:
 - ◇ the school drew down less than \$3 million from Title IV programs in the prior award year and anticipates that it will draw down less than that amount in the current award year, or
 - ◇ the school can demonstrate by its cash management practices that it will not earn more than \$250 in interest income from Title IV program funds during the current award year.

*See 34 CFR 668.163

- Schools do not need a separate account for each Title IV program.



Separate Bank Account for Title IV Funds

ED may require that Title IV funds, as a group, be maintained in a separate account if:

- ♦ Title IV program cash balances are not readily identifiable,
- ♦ interest or investment income earned from Title IV program funds is not identified,

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Separate Bank Account for Title IV Funds (cont'd)

- ♦ financial records are not maintained on a current basis,
- ♦ Title IV program transactions are not accurately reflected and reconciled at least monthly, or
- ♦ the school fails to comply with federal record-keeping and reporting requirements.

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Notes

2. Remitting Interest or Investment Revenue to ED

Notes



Remitting Interest To ED

- ◆ Federal Perkins Loan fund interest and investment income is retained in revolving loan fund.
- ◆ Revenue earned from all other Title IV programs except the FFEL Program in excess of \$250 must be remitted to ED at least annually.

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B. DISBURSING FUNDS

1. Disbursement Defined



Definition of Disbursement

A school disburses Title IV funds when it credits a student's account with the funds or pays a student or parent directly with:

- ◆ Title IV funds received from ED,
- ◆ FFEL funds received from a lender, or
- ◆ institutional funds labeled as Title IV funds in advance of receiving actual Title IV program funds.

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- Three instances when crediting school funds (labeled as Title IV funds) to a student's or parent's account in advance of receiving Title IV funds *will not result immediately in a disbursement*:

- If a school credits a student's account with school funds earlier than ten days before the first day of classes of a payment period, the Title IV disbursement occurs on the tenth day before the first day of classes. A school can credit a student's account with school funds earlier than ten days before the first day of classes of a payment period, but it is not a Title IV disbursement.
- For a student subject to 30-day delayed disbursement, if the school credits the student's account with school funds earlier than 30 days after the first day of the payment period, the Title IV loan disbursement occurs on the 30th day after the beginning of the payment period.
- If a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as a Title IV credit (for example, an "estimated Federal Pell Grant"), the disbursement does not occur until the posting is subsequently converted to an actual credit.

Notes



FFEL Disbursement and Delivery

Disbursement: A lender sends check or electronically transmits funds to school.

- ♦ Disbursement occurs on the date a lender writes/mailed check or deposits funds directly into school's bank account.

Delivery: A school makes FFEL funds available to borrower.

- ♦ A school delivers loan proceeds by paying borrower directly or crediting student's account.

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Notifying Students About Disbursements

- ◆ Before disbursing funds, a school must notify the student about:
 - ▲ amount of Title IV aid,
 - ▲ how Title IV aid will be paid, and
 - ▲ when Title IV aid will be paid.
- ◆ For FFEL funds and Direct Loans:
 - ▲ notice must differentiate between subsidized and unsubsidized loans.

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Notes

Yes-or-No Exercise:

Circle the correct answer.

1. Classes at XYZ University start on September 15. If the school credits a student's account with \$1,500 on September 3 in the general ledger and indicates on the account that the \$1,500 credit is a "Federal Pell Grant award," has the school made a Title IV disbursement?

Yes or No

2. If XYZ University uses school funds to credit the student's account on September 3, has a disbursement occurred?

Yes or No

3. If the student's account was credited with an "Estimated FSEOG," has a disbursement occurred?

Yes or No

2. Academic Year Requirements

- Disbursing Title IV funds depends on the institution's academic year and the Title IV award year.



Academic Year Definition

An academic year must contain at least 30 weeks of instructional time during which a full-time undergraduate is expected to complete:

- ◆ 24 semester or trimester hours,
- ◆ 36 quarter hours, or
- ◆ 900 clock hours.

Waiver from ED available on a case-by-case basis to schools offering 2-year (associate degree) and 4-year (baccalaureate degree) programs.

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Definition of Week

A week of instructional time is defined as:

- ◆ For term-based and clock-hour schools, any seven-day period in which at least one day of regularly scheduled instruction, examinations, or preparation for examinations occurs.
- ◆ For nonterm programs, a week must include at least 12 hours of regularly scheduled instruction, examinations, or preparation for examinations within a consecutive seven-day period.

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Notes

C. IMPACT OF PAYMENT PERIODS ON DISBURSING TITLE IV AID

Notes



Payment Periods

- ◆ All Title IV funds, except for FWS wages, must be disbursed to students on a payment period basis.
- ◆ FFEL and Direct Loan may have other requirements.
- ◆ The payment period is defined by the structure of a school's academic program:
 - ▲ term-based credit-hour programs in one category;
 - ▲ non-term credit-hour programs and all clock-hour programs grouped together in another category.

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1. Term-Based Credit-Hour Programs

a. Standard Terms



Definition of a Payment Period for Standard Terms

- ◆ For a standard term-based school (semesters, trimesters, or quarters), the payment period is the term.
- ◆ The semester, trimester, or quarter must meet certain requirements in terms of weeks.
- ◆ All Title IV aid must be disbursed by the term.

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Direct Loan/FFEL Program Loan Payment Periods

- ◆ Loan period might not be the same as the payment period.
- ◆ Reminder: Loan must be multiply disbursed even if the loan period is only one term.
 - ▲ Exception: schools with a cohort default rate for each of the three most recent fiscal years of less than 10% or loans for students in study-abroad programs if school has cohort default rate of less than 5%.

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b. Nonstandard Terms



Definition of a Payment Period for Nonstandard Terms

- ◆ The payment period is the term for Federal Pell Grants and campus-based aid.
- ◆ For Direct Loan Program and FFEL Program funds, the payment period is the same as for nonterm credit-hour programs.

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2. Nonterm Credit-Hour Programs and All Clock-Hour Programs

Notes



Nonterm Programs and All Clock-Hour Programs

The payment period depends on the length of the program or the length of the remainder of the program.

- ◆ The program (or remaining) length can be:
 - ▲ one academic year or less,
 - ▲ a multiple of a full academic year, or

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Nonterm Programs and All Clock-Hour Programs (Cont'd)

▲ longer than an academic year and the remainder of the program is:

- *shorter than an academic year, but longer than one half of an academic year or*
- *equal to or shorter than one half of an academic year.*

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- The charts on pages 12 and 13 of this Guide define the payment period for nonterm credit-hour programs and all clock-hour programs. They also give an example of the payment periods for each program type. Please read those charts and complete the quiz beginning on page 14 of this Guide.

NONTERM CREDIT-HOUR PROGRAMS AND ALL CLOCK-HOUR PROGRAMS

Programs That Are One Academic Year or Less in Length as Measured in Clock Hours or Credit Hours

- ◆ Program is divided into at least two equal payment periods.
- ◆ **Example**
 - ◇ Program is 600 clock hours.
 - ◇ The first payment period is the period of time needed for the student to complete 300 clock hours.
 - ◇ The second payment period begins at 301 and finishes at 600 clock hours.

Programs That Are Multiples of a Full Academic Year

- ◆ The academic year is divided into at least two equal payment periods as measured in clock hours or credit hours.
- ◆ For each academic year, the first payment period is the time in which the student completes the first half of the academic year and the second payment period is the time in which the student completes the second half of that academic year, as measured in clock hours or credit hours completed.
- ◆ However, for FFEL Program loans and Direct Loans, the second disbursement cannot occur earlier than the calendar midpoint between the first and last scheduled days of classes in the loan period.
- ◆ **Example**
 - ◇ The program is 1,800 clock hours, and the academic year is defined as 900 clock hours and 30 weeks in length.
 1. During the first academic year as measured in clock or credit hours:
 - a. The first payment period is the period of time needed to complete the first half of the academic year, which is 450 clock hours (clock hours 0 to 450).
 - b. The second payment period is the period of time needed to complete the remaining 450 clock hours of the academic year (clock hours 451 to 900).
 2. During the second academic year as measured in clock hours or credit hours:
 - a. The first payment period is the period of time needed to complete 450 clock hours (clock hours 901 to 1,350).
 - b. The second payment period is the period of time needed to complete the final 450 clock hours to finish the student's program (clock hours 1,351 to 1,800).

Other Programs Longer Than an Academic Year

Remaining Program Portion Longer Than One-Half Year

- ◆ These programs may include multiple full academic years as measured in clock hours or credit hours followed by the remaining portion of the program.

NONTERM CREDIT-HOUR PROGRAMS AND ALL CLOCK-HOUR PROGRAMS (CONT'D)

- ◆ Each full academic year is divided into a minimum of two equal payment periods.
- ◆ There are a minimum of two equal payment periods for the remaining portion of the program.
 - ◇ For the school's remaining partial academic year, the first payment period is the period of time needed to complete half of the clock hours or credit hours remaining in the program.
 - ◇ For the school's remaining partial academic year, the second payment period is the time span needed to complete the program.
 - ◇ However, for FFEL Program loans and Direct Loans, the calendar time and academic coursework or clock-hour provisions for loans need to be considered.
- ◆ **Example**
 - ◇ The program consists of a full academic year and a remaining portion longer than one half of an academic year.
 - ◇ The program is 1,700 clock hours, and the academic year is 900 clock hours and 30 weeks in length.
 - ◇ The program consists of a minimum of four payment periods.
 1. During the first academic year, the first two payment periods consist of 450 clock hours each for a total of 900 completed clock hours. The first is from 0 to 450 and the second is from 451 to 900 clock hours.
 2. During the second academic year:
 - a. The remaining 800 program hours are proportionately divided into at least two equal payment periods.
 - b. The first payment period begins after the completion of 900 clock hours from the first academic year and consists of 400 clock hours (clock hours 901 to 1,300).
 - c. The second payment period consists of the final 400 clock hours in the remaining portion of the program (clock hours 1,301 to 1,700). The second payment period begins after the student completes the clock hours from the first payment period.

Remaining Program Portion Equal To or Shorter Than One-Half Year

- ◆ These programs may include multiple full academic years followed by the remaining portion of the program.
- ◆ Each full academic year is divided into a minimum of two equal payment periods.
- ◆ The remaining portion of the program after the last complete full academic year is the last payment period.
- ◆ However, for FFEL Program loans and Direct Loans, a school still has to make two disbursements, even if the remaining 4 credit hours in the following example become a new loan period.
- ◆ **Example**
 - ◇ The program is 28 credit hours, and the academic year is 24 credit hours and 30 weeks in length.
 - ◇ The first two payment periods cover the first academic year and are 12 credit hours each (credit hours 0 to 12 and then 13 to 24).
 - ◇ The third payment period is the remaining portion of the program (4 credit hours) and begins after the student completes 24 credit hours (credit hours 25 to 28).

Test Yourself

Quiz 1

Determining Payment Periods

Determine the length of the payment periods in the following scenarios:

1. Program Length: 1,200 clock hours
Academic Year: 900 clock hours

Year 1:

Payment Period #1: _____ hours to _____ hours
Payment Period #2: _____ hours to _____ hours

Year 2:

Payment Period #3: _____ hours to _____ hours

2. Program Length: 700 clock hours
Academic Year: 900 clock hours

Year 1:

Payment Period #1: _____ hours to _____ hours
Payment Period #2: _____ hours to _____ hours