

The purpose of this publication is to describe how a school becomes eligible to participate in the Student Financial Assistance (SFA) Programs and to explain the administrative and fiscal requirements of SFA Program participation. In addition, this publication discusses other issues relevant to the general administration of the SFA Programs.

This introduction provides a brief overview of each chapter and lists the major changes to the content of each.

New information is indicated with the following symbol:



Major Changes by Chapter:

Chapter 1: Institutional and Program Eligibility

Chapter 1 explains the statutory definitions for eligible institutions and program eligibility requirements.

- The Amendments of 1998 made the following changes that effect this chapter:
 - Δ The eligible institution definitions are consolidated in the law.
 - Δ Schools are required to provide evidence of their authority to operate in a state.
 - Δ Student eligibility is extended to some home-schooled students.
 - Δ Clarification of the definition of a branch campus is provided.
 - Δ The definition of “additional location” is explained.
 - Δ Schools must make a good faith effort to distribute voter registration forms unless the school is located in a state that has in effect the motor vehicle-voter registration provision of the National Voter Registration Act.
 - Δ Schools in Puerto Rico are not required to distribute voter registration forms because Puerto Rico is not a State under the National Voter Registration Act.
 - Δ The percentage of revenue from the SFA Programs that a proprietary school may derive is changed from 85% to 90%.

- Δ A Proprietary institution of higher education must use the cash basis of accounting in determining whether it satisfies the 90/10 rule.
 - Δ Funds received from prepaid State tuition plans, loan proceeds from institutional loans which were disbursed to students, and institutional scholarships cannot be used as “income” in a school’s 90/10 calculation.
 - Δ Funds held as credit balances in institutional accounts cannot be counted in the 90/10 formula.
 - Δ Revenue generated from the sale of non-recourse institutional loans to unrelated parties is counted as revenue in the denominator of the 90/10 calculation to the extent of actual proceeds.
 - Δ The Incarcerated Student Limitation waiver is expanded.
 - Δ An exemption from bankruptcy provision for some schools that provide health care services are added.
 - Δ Requirements for foreign medical schools now apply to foreign veterinary schools.
- The procedures a school should follow to report a change in primary institution-wide accreditation, add an additional accrediting agency or to change their primary accreditor is discussed.
 - Additional 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.
 - The Solomon-Pombo Amendments no longer effect the SFA Programs.

Chapter 2: General Participation Requirements

Chapter 2 is an overview of the general requirements for SFA Program participation.

- The Amendments of 1998 made the following changes that effect this chapter:
 - Δ An exemption is added for some schools from the required submission of a default management plan.
 - Δ The requirement that a school submit information related to athletically related student aid is moved, with some modifications, from the Program Participation Agreement section of the law to the Equity in Athletics section of the law.
 - Δ Schools are required to make a good faith effort to distribute voter registration forms unless the school is in a state that has in effect the motor vehicle registration provision of the National Voter Registration Act.
 - Δ Clarification that a school must provide a copy of its contract with a third-party servicer only upon request is provided.

Chapter 3: Administrative Capability

Chapter 3 discusses the requirements a school must meet to demonstrate that it is administratively capable of participating in the SFA Programs.

- Information is included on Action Letter GEN-97-11, published October 1997, that provides additional guidance on the implementation of the electronic processes requirements.
- The Amendments of 1998 made the following changes that effect this chapter:
 - △ The Department must notify schools, guaranty agencies, lenders, interested software providers and others of software and hardware requirements by December 1 prior to the beginning of the award year.
 - △ An exemption is provided for some schools from required submission of a default management plan.
 - △ A school is ineligible to participate in the Pell Grant Program if it loses eligibility to participate in the FFEL or the Direct Loan programs due to high default rates.
- Information is provided on the Department's "fax broadcast" service.

Chapter 4: Financial Responsibility

Chapter 4 describes the financial responsibility requirements for all schools participating in the SFA Programs.

- The Amendments of 1998 made the following changes that effect this chapter:
 - △ The criteria used to determine the financial responsibility of a school is revised to be based on whether it meets certain ratios that demonstrate financial responsibility. Previous criteria required the Department to consider operating losses, net worth, asset-to-liabilities ratios, or operating fund deficits.
 - △ Public schools are included with for-profit and nonprofit institutions with respect to taking into consideration differences in generally accepted accounting principles.
 - △ The Department is permitted to determine what third-party financial guarantees are acceptable in order for a school to be considered financially responsible even though it failed to meet other mandated measures of financial responsibility.
- This chapter includes a discussion of the November 25, 1997 final regulations that substantially revised the financial responsibility requirements.

Chapter 5: Cash Management

Cash management rules are discussed in Chapter 5.

- The Amendments of 1998 made the following changes that effect this chapter:
 - △ Provided exemptions, under certain circumstances, to schools with low default rates from multiple disbursement requirements and the 30-day delay requirements.
 - △ 1. The terms “post-withdrawal disbursement” and “late disbursements” are clarified.
 - △ 2. Schools may now carry funds forward to subsequent years as well as back in both the Federal SEOG and Federal Work Study. Funds can also be moved in either direction between the two programs.
- Clarification on the definition and handling of SFA credit balances is provided.

Chapter 6: Return of Title IV Funds

Chapter 6 explains how SFA Program funds are handled for students who withdraw from school.

- This chapter has been updated in its entirety to reflect the new regulations.
 - △ The Amendments of 1998 changed substantially the way funds paid toward a student’s education are to be handled when a recipient of SFA Program funds withdraws from school. Schools are not required to implement these new provisions until October 7, 2000. However, a school may choose to implement the new provisions prior to that date.
 - △ Only Title IV funds are used in the calculation. Institutional refund or withdrawal policies and non-title IV funds are not applicable to the formula.
 - △ The amount that a student “earns” is proportionate to the amount of time he or she was enrolled in the school’s payment period or period of enrollment. The remaining amount must be returned to the Title IV programs proportionally from the school and the student.
 - △ “Funds that were disbursed” and “funds that could have been disbursed” are discussed.
 - △ Counting the number of days in the pay period or period of enrollment, leaves of absence and excused absences are discussed.
 - △ Determining the withdrawal date for schools that do and do not take attendance is discussed.
 - △ Both the school and the student must return loan funds before grant funds.
 - △ The Department has implemented new collection options for collection of grant overpayments.
 - △ The Department has created separate worksheets for Credit Hour and Clock Hour Schools.
 - △ Blank worksheets, and case studies with completed worksheets are provided at the end of the chapter.

- △ The Department may now assess a penalty, equivalent to the penalty applicable to nonpayment of taxes, for a willful failure to pay a refund.
- Clarification is provided on the definition of institutional charges. This clarification was published in a Policy Bulletin that was published on the Information for Financial Aid Professionals (IFAP) web site on January 7, 1999.

Chapter 7: Consumer Information

Chapter 7 provides information on the requirements for the consumer information that a school must provide to students, the Department, and others.

- The Amendments of 1998 made the following changes that effect this chapter:

Basic Consumer Information Requirements

- △ A school may use electronic media to provide required consumer information to students.
- △ Each year a school must provide to enrolled students a list of the information it must disseminate under the Higher Education Act of 1965, as amended, and the Family Education Rights and Privacy Act (FERPA) and the procedures for obtaining the information.
- △ Schools must provide information about deferments available to their borrowers who are performing volunteer work.

Campus Security Requirements

- △ Schools must submit their crime statistics annually to the Department. The Department is required to make copies of these statistics available to the public and must submit to Congress a comprehensive report on crime statistics by September 1, 2000.
- △ By October 1 of each year, a school must publish and distribute its annual campus security report to all enrolled students, current employees, prospective students and prospective employees using specific methods.
- △ Changes are made to the definition of a campus.
- △ The list of crimes that a school must include in its annual statistical report and its Annual Security Report have expanded and changed.
- △ The reports required in the school's Annual Security Report have also changed.
- △ Schools must make, keep and maintain daily logs of crimes reported to police or security departments by a school calendar year in which the crime was reported. It may not include the identification of the victim or the person accused of committing the crime.
- △ "Campus Security Authority" and "pastoral or professional counselor" are defined.

- △ A school must provide a geographic breakdown for the required crime statistics.
- △ The previous three calendar years' crime statistics must be disclosed.
- △ A school is not required to report statistics related to crimes that are reported to a pastoral counselor or a professional counselor who is functioning within the scope of his or her license or certification.
- △ In their campus crime statistics, schools should report only those alcohol, drug, and weapons offenses that are violations of the law.

Student Right to Know Requirements

- △ Disclosures must be made by July 1 of each year.
- △ A specific cohort of students must be tracked annually.
- △ Schools may provide supplemental information about students who were excluded from the completion rate calculation or for students transferring into the institution. It may report information showing the rate at which students transfer out of the institution if its mission does *not* include providing substantial preparation for its students to enroll in another eligible school.
- △ A school is required to calculate and disclose its transfer out rates if it determines that its mission includes preparing students to enroll in other institutions (such as a community college).
- △ The NCAA is allowed to distribute graduation rate information to all secondary schools in the U.S. to satisfy the distribution requirements for prospective student athletes' guidance counselors and coaches.

Equity in Athletics Requirements

- △ The requirement that a school submit information related to athletically related student aid is moved from the Program Participation Agreement section of the law to the Equity in Athletics section of the law.
- △ The Department will collect the EADA data through the World Wide Web at: <http://www.ed.gov/offices/OPE/News/>.
- △ The contents of the Equity in Athletics/EADA Report has changed.

Chapter 8: Recordkeeping and Disclosure

Chapter 8 discusses the requirements for maintaining and disclosing records for the SFA Programs.

- No major changes.

Chapter 9: Agreements Between Schools

Chapter 9 discusses the use of agreements between schools to pay a student who is taking courses in an eligible program at more than one school.

- No major changes.

Chapter 10: Applying for and Maintaining Participation in the SFA Programs

Chapter 10 explains how to apply for SFA participation, changes that can affect a school's participation and how to report these changes, the Quality Assurance Program, and the Experimental Sites Initiative.

- The Amendments of 1998 made the following changes that effect this chapter:
 - △ A school is allowed to provide a copy of its contract with a third-party servicer upon request, rather than being required to submit it as part of the certification process.
 - △ The Application must contain information that allows the Department to evaluate a school's financial responsibility and administrative capability.
 - △ The certification period is extended to up to 6 years. In addition, the Department must notify schools six months in advance of the expiration of their certification.
 - △ Site visits as part of the certification and recertification process are now permissive rather than mandatory.
 - △ Schools may submit an application marked "preacquisition review" before a change in ownership takes place.
 - △ The Department may grant provisional certification to a school seeking approval of a change in ownership based on the Department's review of a materially complete application and supporting documents that is received by the Department within 10 business days of the transaction for which approval is sought.
 - △ A school is exempt from submitting a default management plan if (a) neither the subordinate institution nor parent institution has a cohort default rate of more than 10 percent and (b) the new owner does not own, and has not owned, any other school with a cohort default rate in excess of 10 percent.
 - △ The Department must publish special recertification regulations for foreign schools that receive less than \$500,000 in FFEL loan funds.
 - △ The Amendments also made several changes to the Quality Assurance Program and the Experimental Sites Initiative.
- This chapter provides an update on the Single Identifier Initiative.

- The electronic application process is described.
- Changing from a non-main campus to a branch campus is discussed.

Chapter 11: Program Reviews and Audits

Program Integrity issues, such as audits and program reviews, responsibilities that a school must fulfill when leaving the SFA Programs, and sanctions and corrective actions taken by the Department are discussed in Chapter 11.

- The Amendments of 1998 made the following changes that effect this chapter:
 - △ 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 SFA Programs or has substantially violated a provision of the HEA.
 - △ Changes are made to the requirements for accrediting agencies.
 - △ A limited exception to the annual audit requirement was created.
 - △ Site visits as part of the certification and recertification process are now permissive rather than mandatory.
 - △ The Department is required to give priority in program reviews to schools that meet certain criteria. In addition, the Amendments added special administrative rules for program reviews. Civil penalties arising from a program review or audit to be based upon the gravity of the violation are now required.
 - △ The Department is given the authority to issue administrative subpoenas to assist in conducting investigations of possible violations of the provisions of SFA 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 enforcement of a subpoena if necessary.
 - △ A school is now required to agree to submit any dispute involving the final denial, withdrawal or termination of accreditation to “initial” rather than “binding” arbitration.
 - △ A school may request a waiver which allows the school to submit cumulative annual reports every three years under certain conditions.
 - △ Guidance for audits of third-party servicers is found in the January 2000 Department of Education’s Audit Guide, [Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers](#).

- A phone number is provided for small businesses to call to comment on the enforcement actions of the Department of Education, call 1-888-REG-Fair (1-888-734-3247).

Chapter 12: Distance Education

Chapter 12 discusses the applicability of the SFA Program requirements to distance education programs.

- The Amendments of 1998, Public Law 105-244 (the Amendments of 1998) created a Distance Education Demonstration Program.
- This chapter also repeats the guidance on the applicability of current SFA Program requirements provided in Dear Colleague letter GEN-98-10.

We are interested in hearing your comments or suggestions on ways to make the SFA Handbook more useful. Please send your comments to:

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