

General Rules for Disbursing and Returning FSA Funds



NOTIFICATION OF DISBURSEMENT

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 DL 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 it has regarding the amount of FSA program funds a student can expect to receive. Because the actual 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.

A school must also notify the student or parent in writing (“in writing” means on paper or electronically) when Perkins, Stafford, or PLUS loan funds are being credited to a student’s account. This notification must be sent no earlier than 30 days before and no later than 30 days after crediting the student’s account. The notification must include the:

- date and amount of the disbursement;
- student’s (or parent’s) right to cancel all or part of the loan or disbursement; and
- 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.

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. More recently, the Cash Management regulations have used 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.

Required school notifications cite

34 CFR 668.165(a)



Electronic notification cite

34 CFR 668.165(a)(3)(ii)

“In writing” means on paper or electronically.

Required student authorizations cite

34 CFR 668.165(b)



Self-assessment tool for disbursement procedures

You can evaluate your school’s procedures by referring to “Disbursing Aid” in the *Managing Funds* module of FSA Assessments.

<http://ifap.ed.gov/qamodule/DisbursingAid/AssessmentE.html>

Your school is not required to provide notification of cancellation rights if it disburses an FFEL directly to the student or parent by check. This is because a student or parent 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.

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.

If the student or parent borrower wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor a request if it receives the request before the start of the payment period, or if it receives the request within 14 days after it sent the notice to the borrower. 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 of the outcome of the request.*

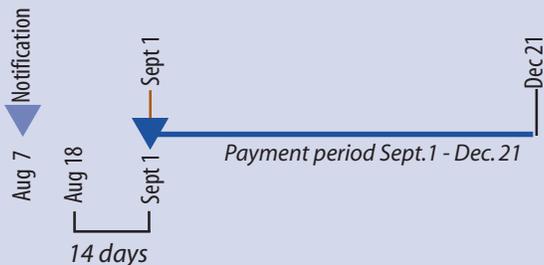
When acting upon a loan cancellation request, your school must return the loan proceeds and/or cancel the loan as appropriate. A school is not responsible for returning any portion of a loan that was disbursed to a student or parent directly before the request for cancellation was received. However,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

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.

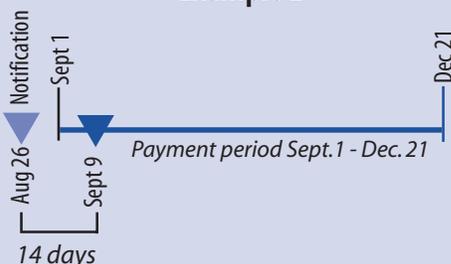
14-day cancellation period examples

Example 1



In the first example, the school notified the student that the loan was being disbursed 3 weeks before the payment period began. Since the notification was sent more than 14 days before the start of the loan period, the school must accept a loan cancellation request that is received before the payment period begins.

Example 2



In the second example, the school did not send the notice until a week before the start of the payment period. Therefore, the school must cancel or reduce the loan if the student makes the request within 14 days (by September 9).

REQUIRED STUDENT/PARENT AUTHORIZATIONS

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

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

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

A cancellation or modification is not retroactive—it takes effect on the date that the school receives it from the student or parent. If a student or parent cancels an authorization to use FSA program funds to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school), or minor prior-year 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.

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 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.

Proration of loan fees for returned FFEL funds

If a school returns an FFEL disbursement or any portion of an FFEL disbursement to a lender to comply with a statutory or regulatory requirement, the origination fee and insurance premium are reduced in proportion to the amount returned. If the student borrower returns an FFEL disbursement or any portion of an FFEL disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned only if the lender receives the returned amount within 120 days after disbursement.

For information on how returning Direct Loans affects loan fees and accrued interest, see DLB-04-07.

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. As mentioned above, a student or parent may cancel or modify an authorization at any time.

Loan Disclosure Statement

The disclosure statement is not the same thing as the notification of a disbursement that your school must send to the student. An FFEL lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. In the Direct Loan Program, a school may elect to provide this disclosure to the student, or, if the school prefers, the statement will be provided to the student by the Direct Loan Service Center. In addition to general information about the student's rights, this disclosure will include some information that is specific to the student's loan, such as –

- the principal amount of the loan and the actual interest rate;
- the amount of any charges, including any origination and insurance fees to be collected by the lender before or at the time of each loan disbursement;
- when repayment is required and when the borrower is required to pay the interest that accrues on the loan;
- the name and address of the lender and the address to which communications and payments should be sent;
- the minimum annual payment required, and minimum and maximum repayment periods; or
- an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for).

The disclosure statement must provide the most up-to-date information concerning the loan and must reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If the student has questions about the statement or wishes to cancel the loan, he or she should contact the lender immediately.

USING ELECTRONIC PROCESSES FOR NOTIFICATIONS AND AUTHORIZATIONS

The Department continues to encourage and support schools' use of electronic recordkeeping and communications. 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.

Of course, 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.

The E-Sign Act

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.

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.

DISBURSING FUNDS

Except for the FWS Program, the disbursement requirements apply to all FSA programs. In paying a student his or her wages under the FWS Program, a school must follow the disbursement procedures in 34 CFR 675.16.

Checking eligibility at the time of disbursement

Before disbursing FSA funds, a school must first determine whether a student may receive them. That is, it must confirm that –

- the intended recipient is an eligible student;
- the student is enrolled for classes for the period;
- for loans, the student is enrolled at least halftime; and
- if the disbursement occurs on or after the first day of classes, that the student has begun attendance.

Before disbursing FSA funds, a school must first make sure that the student is eligible to receive them. Note that a student may have been making satisfactory academic progress when award letters were mailed in the spring term, but may no longer be making progress when he or she comes to the business office to receive the disbursement at the beginning of the fall term. You must make sure the student still meets the eligibility requirements for the FSA funds, and that the appropriate documentation is kept.

In the case of Stafford and PLUS loans, the financial aid office certified the student's eligibility when you sent the loan information to the lender. However, you must also ensure that the student has maintained continuous eligibility before you disburse the loan. 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 enrollment, 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. However, you must make sure that the student continues to qualify for the entire amount of the loan—the change in enrollment may have resulted in a significantly lower cost of attendance. The aid administrator must document this review in the student's file.

Disbursing funds cite

34 CFR 668.164



Interim disbursements 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 Application and Verification Guide," for more details.

Disbursements to students on leave of absence (LOA) prohibited

A student **cannot earn** FSA funds during an LOA. In addition, there are limitations on disbursing earned FSA funds to a student on an approved LOA.

A school may **NOT** make a disbursement of the proceeds of a FFEL or Direct Loan to a student on an LOA.

You may disburse Pell Grant, FSEOG, and Perkins funds to a student on an LOA.

You may also disburse any funds that are part of a Title IV credit balance to a student on an LOA.

Defining the date of disbursement

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must notify a student of a loan disbursement no sooner than 30 days before the date of disbursement and no later than 30 days after the date of disbursement.

The date of disbursement also determines when the student becomes an FSA recipient and has the rights and responsibilities of a 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 with the funds or pays a student or parent directly with:

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

Exceptions

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.

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.

Applying direct loan funds cite

CFR 34 668.164(d)(3)

**Definition of tuition and fee charges**

Tuition and fee charges for the FSA programs are defined in Section 472 of the Higher Education Act.

FSA funds are provided under the assumption that they are used to pay institutional charges ahead of all other funds. While schools may establish their own policies for distributing FSA funds, those policies will not change the presumption that FSA funds are first used to pay institutional charges. However, if a school's policies allow a school to disburse directly to a student FSA funds to which the school is entitled, the school must bear the consequences of those policies in the event the student withdraws.

Consider a case in which, in order to assist a student with living expenses, a school elects to disburse the first Federal Student Aid the school receives for a student to the student. Then, the student withdraws before the school receives anticipated aid from a second FSA program. The Return calculations might indicate the school has to return funds the school had passed through to the student. **The school still must return the funds it is responsible for returning as a result of the Return calculation.**

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.

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 disbursing to the student or parent directly.

Crediting the student's account

Most schools credit the student's account with FSA program funds for allowable charges before making any direct payments to students or their parents.

When a school disburses FSA program funds to a student by crediting a student's account, it may do so only for allowable charges. Funds in excess of the allowable charges must be paid directly to the student, unless otherwise authorized *in writing* by the student. (An exception is discussed under *Prior year charges* later in this chapter.)

Allowable charges include:

- current charges for tuition and fees, and room and board (if the student contracts with the school), and
- other current charges a student incurs for educationally related activities, if the school obtains the student's or parent's *prior written authorization*.

To be included as an *other charge*, the charge generally must fall under Section 472 of the HEA.

Allowable charges always include current charges for tuition and fees and room and board (if the student contracts with the school). You may pay other current charges that a student has incurred for educationally-related activities if you obtain the student's *written authorization* to pay those charges, or the parent's written authorization, in the case of PLUS loan funds. If a charge does not meet the definition of tuition and fees as described in the *Federal Student Aid Handbook, Volume 3, chapter 2* (with the exception of contracted room and board charges), the school must obtain the student's permission (or parent's, if applicable) to credit the student's account with FSA program funds for the charges.

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, you may credit a student's account to pay minor prior-year school charges if you get the student's or parent's written authorization to pay the minor prior-year charges. If the minor prior-year charges are \$100 or more, you must determine that disbursement would not prevent the student from paying for his or her current educational expenses (including both school charges and any other costs of attendance).

Direct disbursement to the student

In addition to crediting a student's account, FSA program funds may be disbursed directly to a student or parent.

A school may disburse funds *directly* by one of four methods:

- releasing a check provided to the school by an FFEL program lender to the student or parent;
- issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent (a check is considered to be issued when 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);
- initiating an electronic funds transfer to a bank account designated by the student or parent; and
- paying the student in cash, provided that the school obtain a signed receipt from the student or parent.

Disbursing PLUS loan credit balances

A parent borrower of PLUS Loan funds may (**in writing**) authorize the school to transfer the proceeds of a PLUS Loan to a bank account in the student's name.

The law requires that if Direct Loans funds are disbursed to a student's account, those funds must be applied to outstanding allowable charges before all others. This does not mean that Direct Loan funds must be credited to a student's account prior to other funds. It means that if there is an outstanding balance for current or authorized charges on the student's account when Direct Loan funds are disbursed, the Direct Loan funds must be applied to those charges before they may be disbursed directly to the borrower.

Direct payments cite

34 CFR 668.164(c)



Method of disbursement cites

Credit to student's account

34 CFR 668.164(d)

Direct disbursements

34 CFR 668.164(c)

Releasing a Pell check

34 CFR 690.78(c)

Direct Loans credited to student charges before other cost

34 CFR 668.164(d)(3)

Prior-year charges

34 CFR 668.164(d)

Delivery of FSA funds must be cost-free

Schools are prohibited from charging students a fee for delivering FSA funds.

Written agreements between institutions, cite

34 CFR 668.5

**Important**

Rules applicable to contracts and consortia

Consortia

Under a consortium agreement, a student can only receive FSA program assistance for courses that are applicable to the student's certificate or degree program at the home school. A school may not use a consortium agreement to enroll students into a program it is not licensed and accredited to offer.

For example, if school A is not accredited to offer a distance education program in medical record keeping, it cannot enter into a consortium agreement with school B through which students at school A earn a degree in medical record keeping.

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 institutions, any of the institutions 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 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 *the Federal Student Aid Handbook, Volume 3 – Calculating Awards and Packaging*.

Contracts

Under a contractual agreement, the home school performs all the aid processing and delivery 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.

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 program funds. For example, FSA program disbursements (except FWS payments) generally must be made on a payment period basis (for more information, see *the Federal Student Aid Handbook Volume 4 – Processing Aid and Managing FSA Funds*). **Note that FFEL and Direct Loan disbursements must still be made in accordance with the specific disbursement rules for those programs.**

Under the payment period definition, there are three sets of requirements: one for term-based credit-hour programs, one for nonterm credit-hour programs, and one for clock-hour programs. There is no separate definition for clock-hour programs that are offered in terms.

Payment period for term-based credit-hour programs

For a program offered in semester, trimester, quarter, or nonstandard academic terms and measured in credit hours, the payment period is the term. For example, if a loan period includes three quarters, the loan must be disbursed in three substantially equal payments.

Programs that are offered in modules are not necessarily counted as programs measured in terms. The phrase *other academic terms* (also known as nonstandard terms) refers to those structured educational intervals at a school that do not fit into a normally defined semester, trimester, or quarter term. For example, other academic terms could mean six four-week terms.

A school also may choose to group modules together and treat the entire period as a standard term. (For example, grouping three five-week modules together to create a 15-week *semester*; or grouping four one-month modules into a 16-week *term* would be acceptable.)

Term-Based Credit-Hour Programs

Program offered in ...

- semester
- trimester
- quarter
- other academic term

Payment Period is ...

- semester
- trimester
- quarter
- other academic term

Payment period cite

34 CFR 668.4

Disburse by period cite

34 CFR 668.164(b)

Loan periods cite

34 CFR 682.604(c)(6), (7) and (8)

34 CFR 674.16(b) and (c)

Excused absences in clock-hour programs

An excused absence (an absence that does not have to be made up) may be counted as a completed clock hour under certain circumstances. For a student enrolled in a program measured in clock hours, the school may include clock hours for which the student has an excused absence in determining whether the student completes the clock hours in the payment period if:

- the school has a written policy that permits excused absences; and
- for FSA purposes, the number of excused absences under the policy does not exceed the lesser of
 1. the policy on excused absences of the school's designated accrediting agency,
 2. the policy on excused absences of any state agency that legally authorizes the school to operate, or
 3. 10% of the clock hours in the payment period.

An excused absence may only be counted if the student is excused from hours that were actually scheduled, were missed, and are not to be made up.

Excused absences may not be counted in the total hours completed in a Return to Title IV funds calculation, unless they are counted as scheduled hours under 34 CFR 668.22(f)(iii)(B)

Excused absence cite
34 CFR 668.164(b)

Payment period for clock-hour programs

Payment periods for programs measured in clock hours vary depending on whether the length of the program is –

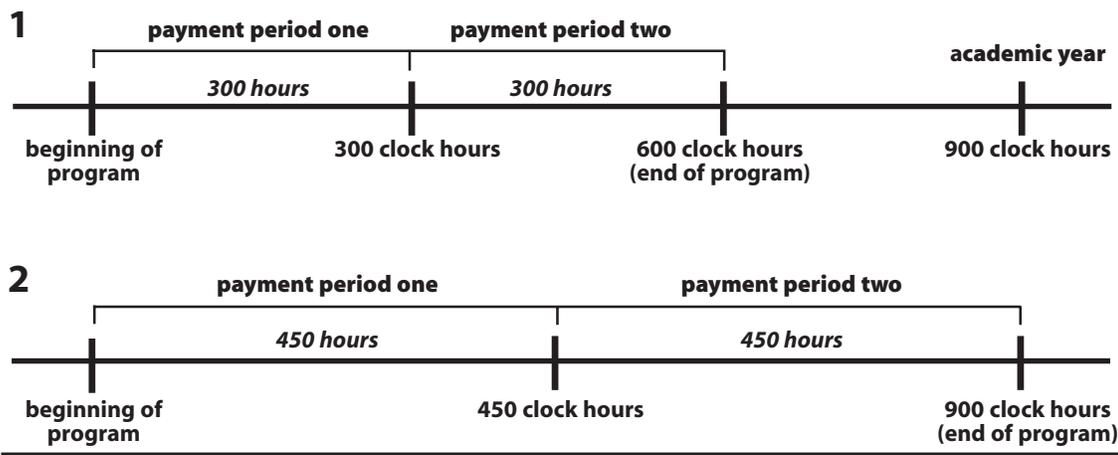
- one academic year or less,
- a multiple of a full academic year,
- longer than an academic year with a remainder shorter than or equal to one half of an academic year, or
- longer than an academic year with a remainder shorter than an academic year, but longer than one half of an academic year.

Payment period for clock-hour programs of an academic year or less

If the program is an academic year or less in length, the first payment period is the period of time in which the student completes the first half of the program. The second payment period is the period of time in which the student completes the second half of the program.

For example, if a program is 600 clock hours and the academic year definition includes 900 clock hours and 30 weeks of instruction, the first payment period is the period of time needed for the student to complete the first 300 clock hours. The second payment period would be the period of time needed for the student to complete the last 300 clock hours (see the example that follows). If the program were equal to the academic year in hours (900 clock hours), the first payment period would be the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the second 450 clock hours (see example 2 below). For FFEL and DL disbursements, the school must follow the program specific rules in 34 CFR 682.604(c)(8) and 34 CFR 685.301(b)(6).

One Academic Year or Less Example

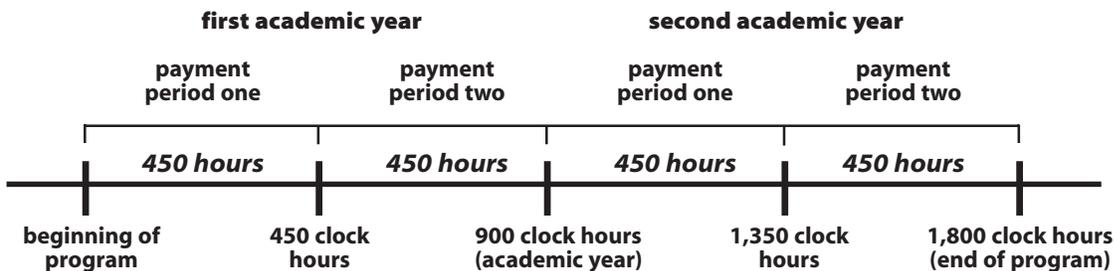


Payment period for clock-hour programs with two or more academic years

If the program is equal to two or more complete academic years (in clock hours), for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student completes the first half of the academic year, as measured in clock hours. The second payment period is the period of time in which the student completes the second half of the academic year as measured in clock hours.

For example, if a program is 1,800 clock hours and the academic year is defined as 900 clock hours and 30 weeks of instruction, the first payment period for both the first and any subsequent academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period for each academic year would be the period of time needed for the student to complete the next 450 clock hours. For FFEL and DL disbursements, the school must follow the program specific rules in 34 CFR 682.604(c)(8) and 34 CFR 685.301(b)(6).

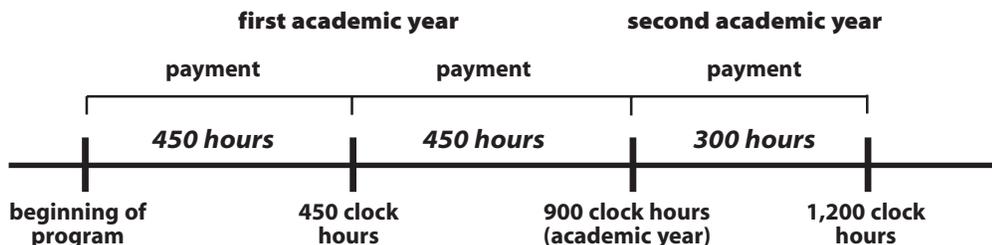
Multiple Academic Years Example



Clock-hour programs longer than an academic year with a remaining portion

If the program is longer than an academic year in clock hours, but has a remaining portion of the program that is not equal to an academic year, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student completes the first half of clock hours in the academic year. The second payment period is the period of time in which the student completes the second half of the clock hours in the academic year. For the remaining portion of the program, if the remainder is equal to or shorter than one half of an academic year in clock hours, the payment period is the remaining portion of the program. For FFEL and DL disbursements, the school must follow the program specific rules in 34 CFR 682.604(c)(8) and 34 CFR 685.301(b)(6).

Remainder Equal To or Shorter Than Half an Academic Year Example

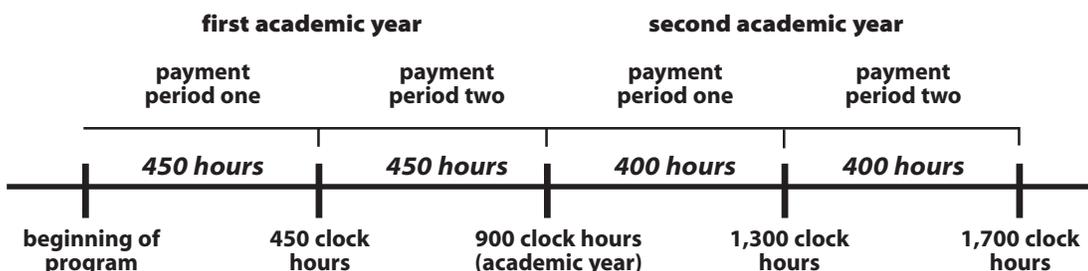


For example, if a program is 1,200 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period is the period of time needed for the student to complete the next 450 clock hours. The first, and only, payment period for the second academic year is equal to the remaining portion of the program.

If the remaining portion of the program is more than one half of an academic year in clock hours, but less than a full academic year, for the remaining portion of the program the first payment period is the period of time in which the student completes the first half of the remaining portion of the program, as measured in clock hours. The second payment period is the period of time in which the student completes the second half of the remaining portion of the program as measured in credit or clock hours.

For example, if a program is 1,700 clock hours and the academic year is defined as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to complete the first 450 clock hours. The second payment period would be the period of time needed for the student to complete the next 450 clock hours. The first payment period for the second academic year would be the period of time needed for the student to complete the next 400 clock hours. The second payment period for the second academic year would be the period of time needed for the student to complete the final 400 clock hours.

Remainder Greater Than Half an Academic Year Example



Payment Period for Clock-Hour Programs Longer Than One Academic Year

<i>Program Length (in clock hours)</i>	<i>First and subsequent full academic years</i>		<i>Remainder of program</i>	
	<i>First payment period</i>	<i>Second payment period</i>	<i>First payment period</i>	<i>Second payment period</i>
<i>multiples of a full academic year</i>	<i>period of time in which student completes first half of academic year</i>	<i>period of time in which student completes second half of academic year</i>	N/A	N/A
<i>longer than 1 academic year, remainder shorter than or equal to one half an academic year</i>	<i>period of time in which student completes first half of academic year</i>	<i>period of time in which student completes second half of academic year</i>	<i>period of time in which student completes remainder of program</i>	N/A
<i>longer than 1 academic year, remainder shorter than academic year, but longer than half an academic year</i>	<i>period of time in which student completes first half of academic year</i>	<i>period of time in which student completes second half of academic year</i>	<i>period of time in which student completes first half of remainder of the program</i>	<i>period of time in which student completes second half of remainder of the program</i>

Payment periods for programs that measure progress in credit hours and do not have academic terms (nonterm credit-hour programs)

Payment periods for programs measured in credit hours without terms vary depending on whether the length of the program in credit hours and weeks of instructional time is –

- one academic year or less,
- a multiple of a full academic year,
- longer than an academic year with a remainder shorter than or equal to one half of an academic year, or
- longer than an academic year with a remainder shorter than an academic year, but longer than one half of an academic year.

If you are determining the payment periods for a program for which one of the measures (either credit hours or length of instructional time) is less than an academic year and the other measure is not less than (or equal to) an academic year, you follow the payment period rules for a program that is less than an academic year.

For all credit-hour nonterm programs, a student must successfully complete both the weeks of instructional time and the credits in a payment period in order to progress to the next period (and be eligible for additional FSA funds).

Clarification

When students don't earn credits in increments

If a school is unable to determine when a student has completed half of the credit hours in a program, in an academic year, or in the 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 –

- For a program offered in credit hours and increments – the date the school identifies as the point when the student has successfully completed half of the academic coursework in the program, academic year, or the remainder of the program; or
- For a program offered in credit hours but not increments – the calendar midpoint between the first and last scheduled days of class of the program, academic year, or the remainder of the program.

Payment period for programs measured in credit hours without academic terms where the program is one academic year or less

For a program to be considered an academic year, both the credit hours and weeks of instructional time must meet the definition of an academic year.

For a student enrolled in an eligible program that is one academic year or less in length, the first payment period is the period of time in which the student successfully completes half the number of credit hours in the program and half the number of weeks of instructional time in the program. The second payment period is the period of time in which the student successfully completes the remainder of the program.

Payment periods for credit-hour programs without academic terms that are two or more academic years

If the program is equal to two or more complete academic years, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student completes half the number of credit hours in the academic year and half the number of weeks of instructional time in the academic year. The second payment period is the period of time in which the student successfully completes the academic year.

Payment periods for credit-hour programs without academic terms that are longer than an academic year with a remaining portion

If the program is longer than an academic year, but has a remaining portion that is not equal to an academic year, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student completes half the number of credit hours in the academic year and half the number of weeks of instructional time in the academic year. The second payment period is the period of time in which the student successfully completes the remainder of the academic year.

For any remaining portion of an eligible program that is more than one-half an academic year in both weeks of instruction and credit hours but less than a full academic year in length, the first payment period is the period of time in which the student completes half the number of credit hours in the remaining portion of the program and half the number of weeks of instructional time remaining in the program. The second payment period is the period of time in which the student completes the remainder of the program.

For any remaining portion of an eligible program that is not more than half an academic year in both weeks of instruction and credit hours, the payment period is the remainder of the program. That is, if both are not greater than half an academic year, there is only one payment period in the remaining portion.

When a school chooses to have more than two payment periods per academic year

For a program measured in credit hours without terms and for clock-hour programs, a school may choose to have more than two payment periods in the program or academic year, as applicable. If a school so chooses, the requirements for completing a payment period are modified to reflect the increased number of periods. For example, if a school chooses to have three payment periods in an academic year in a program that measures progress in credit hours but does not have academic terms, each payment period must correspond to one-third of the academic year measured in both credit hours and weeks of instruction. Each subsequent payment period cannot begin until the student completes the credit hours and weeks of instruction in the previous payment period. If a school chooses to have more than two payment periods per academic year, the school must have that policy in writing and must apply the policy to all students enrolled in the programs affected.

Payment periods and the return of FSA funds

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. A student's FSA education loan appropriately might be included as "Aid that Could Have Been Disbursed" even though under the late disbursement rules, the loan funds could not actually be disbursed. Please see DCL-GEN-00-24, December 2000, DCL-GEN-03-04, February 2004, and *Appendix G, chapter 2* to see how multiple disbursements within a period affect the return of funds calculation.

Note: While the program regulations permit schools flexibility in making disbursements, schools should recognize the added complexity that making Pell disbursements over different periods than loan disbursements might cause if a student withdraws. To avoid overly complicating their Return of Title IV funds calculations, we recommend that, whenever possible, schools disburse all Title IV funds in the same payment periods.

Academic coursework and loan periods

The term academic coursework does not necessarily refer to credits. 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, and the student doesn't earn credit until he or she has completed the entire course or program the student reaches the halfway point as follows:

- If the student 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 completing the first 20 lessons, the second payment period does not begin until the student completes the first 20 lessons.

Payment periods and eligibility for FFEL or Direct loans

For certain academic programs, FFEL and Direct Loans are disbursed differently than other FSA funds.

For programs offered in standard terms, or nonstandard terms of substantially equal length, the payment period for FFEL and Direct Loans is the term. A student in this type of program does not have to successfully complete the coursework to move to the next payment period. (If a single term is the loan period, a student may not receive a second disbursement until the calendar midpoint of the term (loan period) is reached.

However, if the program is a clock-hour, nonterm credit-hour, or nonstandard term credit-hour program with terms that are not substantially equal in length, loan proceeds for FFEL and DL are not disbursed by payment period. Instead, the loan program rules for scheduling disbursements apply. For a student to be eligible for the second half of his or her loan proceeds, the student must reach **BOTH** the calendar midpoint of the loan period **AND** successfully complete half the coursework of the loan period.

Consider a program with no terms that is 24 credit hours long and offered in successive 4-hour modules with two 12-hour payment periods. The student can not receive the second half of the loan proceeds until the student successfully completes 12 hours and reaches the calendar midpoint. If the student fails the first module, he or she cannot progress to the next payment period until he or she has completed successfully three additional modules (a total of 12 hours) **and** reached the calendar midpoint of the loan period.

Disbursement by Payment Period

Schools must disburse all FSA program funds (except FWS and FFEL/DL when the educational program is clock-hour, nonterm credit hour, or nonstandard terms not substantially equal in length) on a payment period basis. However, disbursement requirements vary by program. For information on the specific effects of the payment period disbursement requirement on disbursement of funds under a particular FSA program, please see the applicable volume in *the Federal Student Aid Handbook*. Under certain circumstances schools are exempted from the multiple disbursement and 30-day delay requirements Section 428G(e) of the HEA.

Unless a student is eligible to receive a late disbursement of FSA program funds, a school may disburse them to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

Disbursement by payment period cite

34 CFR 668.164(b)
Sec. 428G(a) of the HEA



Loans made to students for attendance at an eligible school outside of the U.S. and loans made to students for attendance in a program of study abroad approved by a home eligible school and loans if the home school has a cohort default rate of less than 5% are exempt from the multiple disbursement requirement (Sec. 428G(e) of the HEA.)

TIMING OF DISBURSEMENTS

Schools disburse FSA program funds by payment period or at the beginning and calendar midpoint of the loan period. Typically, the amounts that you award to a student for an academic year are divided into lesser amounts among the payment periods or other subdivisions.

The timing of disbursements is especially important for Pell Grant and Stafford/PLUS loan funds, because you must schedule disbursement dates with the Department and/or private lenders.

EARLY DISBURSEMENTS

The earliest a school may disburse FSA funds is –

- for a student enrolled in a credit-hour program offered in semester, trimester, or quarter academic terms, 10 days before the first day of classes for a payment period;
- for a student enrolled in a clock-hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, the later of 10 days before the first day of classes for the payment period, or the date the student completed the previous payment period for which he or she received FSA program funds (see the example below).

If a student is in the first year of an undergraduate program and is a first-time borrower under the FFEL or Direct Loan program, a school may not disburse the first installment of his or her loan until 30 days after the student’s first day of classes.

Disbursement timing citations

Disbursement by payment period:
34 CFR 668.164(b)
Section 428G(a) of the HEA

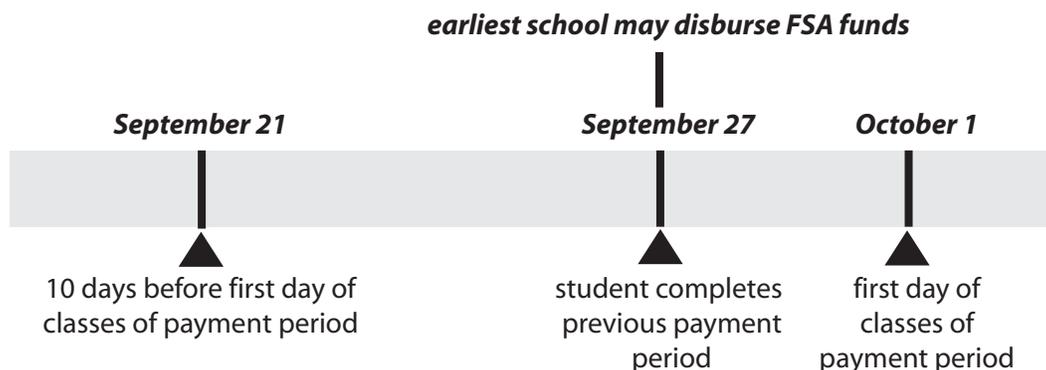
Disbursement by calendar midpoint:
34 CFR 682.604(c)
Early disbursements
34 CFR 668.164(f)
Returning Pell, Perkins, or FSEOG for a student who doesn’t begin attending classes
34 CFR 668.21
Returning Stafford & PLUS for a student who doesn’t register:
FFEL 34 CFR 682.604(d)(3) and (4)
DL 34 CFR 685.303(b)(3)
30-day delay for 1st-time Stafford borrowers
FFEL 34 CFR 682.604(c)(5)
DL 34 CFR 685.303(b)(4)

Early disbursements cite

34 CFR 668.164(f)



Early Disbursement Example



Exceptions to the 30-day delay, cite

Section 428G(e) of the HEA

Note: Eligible institutions outside of the U.S., and eligible home institutions with cohort default rates of less than 5% for the single most recent fiscal year for which data are available that are certifying loans to cover a students' cost of attendance in a study abroad program, are exempt from the 30-day delay requirements for first-year, first-time borrowers. These institutions are also exempt from the requirement to make multiple disbursements of FSA loans.

Early disbursement to a student enrolled in modules

If a student is enrolled in a series of modules within a term, a school may not make an early disbursement until 10 days before the student is scheduled to begin the first module in the term for which the student is registered. For example, if a term begins on September 1, but the first module in which the student is enrolled doesn't begin until September 25, the school may not disburse funds to the student before September 15.

When a school makes an early disbursement to a student who fails to begin attendance

A student who withdraws before beginning attendance is not entitled to any FSA program funds. Though our regulations allow a school to credit a student's accounts before the first day of classes, schools have a fiduciary responsibility to safeguard federal funds. Therefore, if a school disburses FSA funds to a student before the start of classes, and the student fails to begin attendance, the school will have to return 100% the disbursed FSA funds.

If your school disburses Pell, Perkins, or FSEOG funds, but the student never actually begins attending any classes, you must return the disbursed amounts to the respective programs. 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.

If your school disburses Stafford or PLUS funds but the student does not register for the period of enrollment for which the loan was made, or a registered student withdraws or is expelled prior to the first day of classes of the period of enrollment for which the loan is made, you must return the loan funds to the lender.

If your school disburses Stafford or PLUS funds but the student doesn't begin attendance or you cannot document that the student ever began attendance, you must return any loan funds that were credited to the student's account, as well as the amount of any payments that the student made to your school. (The total amount to be returned is limited to the original amount of the Stafford and PLUS disbursements.)

Number of Stafford/PLUS disbursements: standard terms and substantially equal nonstandard terms

If the program uses *standard academic terms* (semester, trimester, or quarter) or it has *nonstandard terms of substantially equal length*, at least one disbursement is made for each term in the loan period. A program is considered to have substantially equal terms if no term in the loan period is more than two calendar weeks longer than any other term in the loan period.

- *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 includes all three quarters of an academic year, the loan must be disbursed in three substantially equal disbursements.
- *If there is only one term in the loan period*, the loan must be disbursed in equal amounts at the beginning of the term and at the term’s calendar midpoint.

Number of Stafford/PLUS disbursements: 1) credit-hour programs without terms, 2) credit-hour programs with non-standard terms that are not substantially equal in length, and 3) clock-hour programs

If the program is one academic year or shorter, the loan period is usually the length of the program. 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. 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 later of:
 - a. the calendar midpoint between the first and last scheduled days of class of the loan period, or
 - b. the date the student successfully completes half the clock hours in the loan period or, for credit hours, completes half the credit hours. In programs where the student cannot earn the credit hours until the end of the loan period, the school must determine when the student has completed half the coursework for the loan period.

Stafford/PLUS multiple disbursements requirement & exceptions

See 34 CFR 682.207(c-e) and 34 CFR 685.301(b)

There are two significant exceptions to this multiple disbursement requirement:

- If any payment period has elapsed before a lender makes a disbursement, a single disbursement may be made for all completed payment periods.
- 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.

For more information, please refer to the “Cohort Default Rate Guide” on the IFAP Web site.

<http://ifap.ed.gov/drmaterials/finalcdrg.html>

The statutory provision that allowed schools with default rates <10% to make single disbursements for a term or 4-month period expired on September 30, 2002. (DCL GEN 02-06)

Multiple disbursements within a payment period

When scheduling loan payments, you can request multiple disbursements of a loan within a payment period or loan period, as long as the disbursements are substantially equal installments. (See Section 428G(c) of the HEA.)

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.

Timing of Pell disbursements cite

34 CFR 690.76

Perkins and 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)

Uneven costs example

Dan is enrolling in a one-year program at Ingram Technical College and must spend \$300 for books and supplies at the beginning of the program. ITC has awarded Dan a \$1,000 Perkins Loan. Rather than simply dividing the award in half, ITC may pay Dan a larger amount in the first payment period to meet the one-time cost for books and supplies.

To determine the first payment, the aid administrator at ITC 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). The aid administrator then adds the regular amount for one payment period (\$350) to determine the initial payment (\$650=\$300+\$350). The remaining amount (\$350) is then disbursed during the second payment period for a total loan of \$1,000.

Credit bureau reporting

Schools must report the date and amount of each disbursement of a Federal Perkins Loan to at least one national credit agency.

Timing of Pell Grant disbursement within a payment period

You must time the disbursement of Pell 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 written authorization.)

Disbursing FSEOG and Perkins

A school that is awarding an FSEOG or a Perkins Loan for a full academic year must advance 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.

A school may advance funds within a payment period in whatever installments it determines will best meet the student's needs. However, if the total FSEOG or Perkins award is less than \$501 for an academic year, only one disbursement is necessary.

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 advance the additional FSEOG or Perkins amounts to the student in whatever manner best meets the student's needs.

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.

A Pell Grant disbursement for any completed term is 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. (This Pell 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 six 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 payment.

COMPLETION OF COURSEWORK REQUIREMENTS

Pell Grants

For a student enrolled in a credit-hour program without terms or a clock-hour program, a school may disburse a Federal Pell Grant to an eligible student only after it determines that the student has successfully completed the payment period for which he or she has been paid a Federal Pell Grant.

Stafford and PLUS loans in clock-hour programs

If an educational program measures academic progress in clock hours, the school may not disburse the second half of the loan proceeds until the later of the calendar midpoint between the first and last scheduled days of class of the loan period; or the date, as determined by the school, that the student has successfully completed half of the clock hours in the loan period. The school must disburse loan proceeds in substantially equal installments, and no installment may exceed one-half of the loan.

Completion of coursework cites

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)(5) and (b)(6)

Excused absences: 34 CFR 668.164(b)(3)

Terms with clock hours

The payment periods for clock-hour term programs are determined in the same way as for nonterm clock-hour programs. The student must complete all the clock hours in the payment period before receiving any more Pell 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.

Disbursing FSA funds to students in programs where credits aren't awarded as courses are completed or until the end of the program.

In some programs, credits aren't awarded until the end of the program. In others, it may not be possible to determine when the credit hours are earned, and thus it may be difficult to tell when a student is eligible to receive the next disbursement. In such cases, the student is eligible to receive their next loan disbursement on the later of —

- the date your school identifies as the point when the student has successfully completed half of the academic coursework in the program, academic year, or the remainder of the program, or loan period, or
- the calendar midpoint between the first and last scheduled days of class of the program, academic year, or the remainder of the program, or loan period.

Important

For programs of **less than one year in length** in which students do not receive grades or credits until the end of the program, your school must —

1. have an SAP standard as described in Volumes 1 and 2 of the "FSA Handbook;"
2. measure a student's standing vis-a-vis SAP by the time the student has completed one-half of the program; and
3. **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 —

1. have an SAP standard as described in Volumes 1 and 2 of the "FSA Handbook;"
2. measure a student's standing vis-a-vis SAP at least once a year; and
3. **not** award FSA funds for any additional period to a student to a student who is not making satisfactory academic progress.

FFEL 34 CFR 682.604(c)(7)

DL 34 CFR 685.301(b)(5)

Example of completion requirement in a modular program

A one-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 can not 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.

Stafford and PLUS loans in credit-hour programs without terms, credit-hour programs with nonstandard terms that are not substantially equal in length and clock-hour programs

For credit-hour term-based programs there is no requirement that a student successfully complete all of the coursework to receive payment in the next term except when nonstandard terms are not substantially equal in length.

However, for Stafford and PLUS loans to students enrolled in credit-hour programs without terms, credit-hour programs with nonstandard terms that are not substantially equal in length and clock-hour programs, there is a completion requirement. For each loan period in these programs, the second half of the loan proceeds may not be disbursed until the later of: the calendar midpoint between the first and last scheduled days of class of the loan period, or the date the student successfully completes half the credit hours or clock hours in the period. In programs where the student cannot earn the credit hours until the end of the loan period, the school must determine when the student has completed half the coursework for the loan period.

Excused absences

In a clock-hour program, you're 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.

RETAKEING COURSEWORK

Term-based credit-hour programs

In general, students at term-based credit-hour schools may 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 he or she is considered to be making satisfactory academic progress and as long as the school is allowing the student to receive credit for the repeated course. Generally, schools do 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 retaking the coursework in the subsequent term only 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 course from the beginning 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.

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.

Clock-hour and nonterm credit-hour programs

Withdrawal and reentry within 180 days

When a student withdraws from a clock-hour program or nonterm credit-hour program during a payment period or period of enrollment and then reenters the same program *within* 180 days, the student is put back into the same payment period, and any FSA funds that the school or student returned to FSA are repaid to the student. The student may not be paid additional FSA funds for repeating coursework. Correspondingly, a student who ceases attendance between payment periods or periods of enrollment but returns within 180 days may not be paid for repeating coursework.

Withdrawal and reentry after 180 days

A student who withdraws from a clock-hour program or nonterm credit-hour program and then reenters the same program *after* 180 days is treated in the same manner as a student who transfers into the program from another school i.e., the student immediately begins a new payment period or period of enrollment. In this circumstance, the student may be paid for repeating coursework as the student is receiving credit for the repeated course. A student who ceases attendance *between* payment periods or periods of enrollment but returns to the same program after 180 days may also be paid for repeating coursework.

Take, for example, a student who 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 re-enrolls 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 first payment periods would not be limited to 148 hours.) 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.

For more information on the treatment of FSA funds when a student reenters a program, including the effect on awarding FSA funds. (See *Appendix G, chapter 2.*)

Repeating after program completion

Any student who completes an entire nonterm credit-hour or clock-hour program, and later re-enrolls 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.

LATE DISBURSEMENTS

Generally, a student becomes ineligible to receive FSA funds on the date that:

- for purposes of the Direct Loan and FFEL programs, the student is no longer enrolled at the school as at least a half-time student for the loan period; or
- for purposes of the Pell Grant, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the award year.

However, if certain conditions are met, students may qualify for disbursements 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 as long as the Department has 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. Generally, this condition is easy for a school to document, since each ISIR record includes the date the Department processed the application and created the SAR/ISIR. 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. Similarly, 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.

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 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 to pay for educational costs incurred while the student was eligible.

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.).

SAR documenting eligibility for late disbursement

In some cases the student may have a SAR/ISIR with an official EFC processed while the student is enrolled, but the school is not listed. When the school receives an ISIR listing the school after the student ceases to be enrolled, it will have a processing date subsequent to the date the student ceases to be enrolled. In this circumstance the student’s eligibility is documented by obtaining a copy of the SAR processed while the student was enrolled and eligible.

Processed date

The applicable dates on an ISIR or SAR that are the processing dates for purposes of determining eligibility for a late disbursement are: for an ISIR, the field labeled “Processed Date;” for a SAR, the date above the EFC on the first page; and for a SAR Acknowledgment, the date labeled “transaction process date” in the School Use box

Pell Grant disbursements

If the school receives a valid SAR or valid ISIR within the applicable deadlines, it must disburse the student’s Pell Grant.
34 CFR 690.61(a)

Post-withdrawal disbursements

A post-withdrawal disbursement, a type of late disbursement, is Title IV aid that was 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, the requirements for paying a post-withdrawal disbursement are made in accordance with 668.22(a)(4).

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 (34 CFR 668.164(g)4(ii));
- 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 (34 CFR 668.164(g)(4)(iii)); and
- a late disbursement of Federal Pell Grant funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by ED.

Generally, a school may not make a late disbursement later than 120 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 disburse the funds to the student within 120 days of the date the student became ineligible.) However, on an exception basis, the Department may approve a school's request to make a late disbursement after 120 days if the reason the disbursement was not made during the 120-day period was not the fault of the student or parent.

Requirements and Procedures for Requesting Approval to Make a Late Disbursement Beyond 120 Days

1. Requests for approval to make a late disbursement after the 120 day late disbursement period must be made directly by a school or its third party servicer. A lender, guaranty agency, or other entity may not submit a request on behalf of a school, regardless of the reason the funds were not disbursed.
2. The school must fax its request on school (or school servicer) letterhead to the Department's Common Origination and Disbursement (COD) School Relations Center at (877) 623-5082. The fax cover sheet should be addressed to:

ATTN: FSA Support Team, "Late" Late Disbursement Approval Requests
3. A separate request must be submitted for each student or parent.
4. A separate request must be submitted for each FSA program, except that a single request may be submitted for approval to make a late disbursement of both a subsidized and unsubsidized FFEL or Direct Loan program loan for the same student and same loan period.
5. Each faxed request must include the information listed below. Failure to provide all of the required information will delay consideration of the request. It is particularly important to explain why the disbursement could not be made before the end of the 120 day late disbursement period allowed by the regulations. Although no specific format for the request is required, we have included a sample request format as an attachment to this letter.

All requests must include:

- Date of request
- School's name
- School's OPE ID
- Contact person's name, title, phone number, fax number, and email address
- Student's (and parent's, for PLUS loans) name and social security number
- Type of aid (Pell Grant, FFEL, Direct Loan, FSEOG, Perkins Loan)
- Amount to be disbursed (gross amount for FFEL and Direct Loan requests)
- A clear and concise explanation as to why the disbursement was not made while the student was still enrolled for the payment period or loan period or during the 120 day late disbursement period allowed by the regulations.

Pell Grant, FSEOG, and Perkins Loan requests must include:

- Award year
- Payment period beginning and ending dates
- Answers to the following questions:
 - Did the student complete the payment period?
 - If the student did not complete the payment period, on what date did the student cease to be enrolled?
 - Date the award was made to the student (FSEOG and Perkins Loan requests only)

FFEL and Direct Loan requests must include:

- Loan type (subsidized, unsubsidized, PLUS)
- Loan certification date (FFEL) or origination date (Direct Loan)
- Loan period beginning and ending dates
- Lender's name (FFEL requests only)
- Award ID (Direct Loan requests only)
- Answers to the following questions:
 - Did the student complete the loan period?
 - If the student did not complete the loan period, when did the student cease to be enrolled at least half time?
 - Does the request involve a late first disbursement of the loan or a late second or subsequent disbursement of the loan?

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	For all Programs, the Department processed a SAR/ISIR with an Official EFC.	
FSEOG		Student is awarded a grant.
FFEL		A loan application is certified.
Direct Loans		An origination record is created.
Perkins Loans		Student is awarded the loan.
THESE ADDITIONAL LIMITATIONS MUST BE SATISFIED BEFORE A SCHOOL MAY MAKE A LATE DISBURSEMENT (34 CFR 668.164 (g)(4))*		
PROGRAM		
Pell Grant	School received a valid SAR/ISIR by the date established by ED.	
FSEOG		
FFEL	1 For a first-time, first-year borrower, student completed 30 days of the program. 2 For a second disbursement, student graduated or completed the period for which the loan was intended.	
Direct Loans		
Perkins Loans		

* For all programs, unless approved by ED, the late disbursement is made no later than 120 days after the date of the institution's determination that the student withdrew. Or, for a student who did not withdraw, 120 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 by determining the educational costs the student incurred for the period of instruction during which the student was enrolled at least half time.

For a student who has completed the payment period or period of enrollment, the school is permitted to credit the student's account to pay for current and allowable charges in accordance with the current cash management regulations. The school must pay or offer any remaining amount to the student or parent.

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 the regulations governing the Return of Title IV Funds. (See *Appendix G, chapter 2.*)

A school would have to provide notice to a student, or parent in the case of a PLUS loan, when the school credits the student's account with Direct Loan, FFEL, or Federal Perkins Loan Program funds in order to give the student or parent an opportunity to cancel all or a portion of the loan disbursement.

PROMPT DISBURSEMENT RULES

In general, a school that uses the *advance payment* method must make disbursements as soon as administratively feasible but no later than three business days after receiving funds from the Department or an FFEL lender. The disbursements may be credited to the student's account or made directly to the student or parent, as discussed earlier.

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. 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.

Paying or offering amounts not credited to a student's account

A student or parent is never required to accept a late disbursement payment. For example, a student may decline a late disbursement of a loan to avoid taking on debt. In cases where a late disbursement is declined, a school has met the late disbursement requirements by offering the late disbursement funds.

Post-Withdrawal Disbursement

34 CFR 668.22(a)(4)

Excess cash rules

- In general, excess cash is any FSA funds other than Perkins that are not disbursed by the end of the third business day after funds are received from the Department. [34 CFR 668.166]
- The regulations specifically exempt schools using the "just-in-time payment method" from this requirement.
- 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.
- [34 CFR 668.167(b) and (c)]
- The verification regulations provide a 45-day exception for holding FFEL loan funds [34 CFR 668.58(c)]

Cash management in FFEL

The Cash Management regulations (34 CFR 668.167) establish specific time frames for schools to disburse FFEL Program funds or return the funds to the lender.

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. 34 CFR 668.167

Holding FFEL funds if student is temporarily ineligible

When a school receives FFEL Program funds from the lender by *EFT or master check*, it usually must disburse the funds within three 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 previous payment period (for an academic program without terms). If you expect such a student to become eligible for disbursement in the immediate future, your school has an additional 10 business days to disburse the funds. In effect, this means that your school can wait 13 days after receipt of the EFT or master check (40 days for a check requiring endorsement) to make a disbursement to a student who is expected to regain eligibility during this 10-day window.

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

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

Holding Stafford loan funds for verification

If you have certified or originated 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.

EXCESS CASH

As mentioned in the discussion of the advanced payment method, a school must disburse funds no later than three business days following the date the school receives them. *Excess cash* is any amount of program funds, other than Perkins funds and funds received under the just-in-time payment method (see the discussion in chapter 13), that a school does not disburse to students by the end of the third business day. Excess cash must be returned to the Department immediately.

Sometimes a school cannot disburse funds in the required three 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 an excess cash balance for up to seven additional days if the conditions of 34 CFR 668.166(b)(1)(i) are met.

Allowable excess cash tolerances

During a period of *peak enrollment*, a school can maintain an excess cash balance that is less than 3% of the school's total prior-year drawdowns. A period of peak enrollment occurs when at least 25% of the school's students start classes during a given 30-day period. The school is required to eliminate the excess cash balance within the next seven days by disbursing program funds to students for at least the amount of that excess cash balance. Any amount over 3% must be returned immediately.

For any award year, a school calculates the percentage of students who started classes during any 30-day period by:

1. determining the number of students who started classes during that period for the prior award year in which the 30-day period began;
2. determining the total number of students who started classes during the entire prior award year in which the 30-day period began;
3. dividing the number of students in step 1 by the number of students in step 2; and
4. multiplying the result obtained in step 3 by 100.

Excess cash cite

34 CFR 668.166



Allowable excess tolerances cite

34 CFR 668.166(b)

$$\frac{\text{Number of students who started classes in the comparable 30-day period in the prior award year}}{\text{Total number of students who started classes during the entire prior award year}} \times 100 = \text{Percentage of students who started classes during the 30-day period}$$

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than 1% of the school’s prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing program funds to students for at least the amount of that balance. Any amount over 1% must be returned immediately.

Consider a school that did not participate in the Direct Loan Program during the prior year. Such a school does not have prior-year drawdown data. To arrive at an amount to use for prior-year drawdowns, the school should use the total amount of loans guaranteed under the FFEL Program for students attending the school during the prior year.

TITLE IV CREDIT BALANCES

A Title IV credit balance occurs whenever a school credits Title IV program funds to a student's account and those funds exceed the student's allowable charges. A school must pay the excess Title IV program funds (the credit balance) directly to the student 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 (see *Example 1* on the next page); 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 (see *Example 2* on the next page).

A Title IV credit balance occurs only if the total amount of Title IV funds exceeds allowable charges. For example, if a student's total allowable charges are \$1,500, and credits to the student's account comprise \$1,000 in FSEOG, \$500 in state aid funds, and \$500 in Pell Grant funds, although there is an excess of \$500 on the account, a Title IV credit balance would not exist. This is because the total amount of Title IV funds (\$1,500) does not by itself exceed the amount of allowable charges (\$1,500). If, in this example, the amount of Pell Grant funds credited to the student's account was \$600 rather than \$500, a Title IV credit balance of \$100 would exist: \$100 is the amount by which the total Title IV funds credited to the account (\$1,600) would exceed the allowable charges (\$1,500). The order in which these funds were credited does not matter.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, unless the parent has otherwise authorized, if a school determines that PLUS Loan funds created a credit balance, the credit balance would have to be given to the parent. However, if the parent has provided the school with **written authorization** to disburse any excess PLUS funds to the student, the school may follow that authorization.

You have the latitude to determine which FSA program funds create an FSA credit balance. At this time, the Department does not specify how a school must determine which FSA program funds create an FSA credit balance, except to say that Direct Loan funds must be applied to unpaid institutional charges before they can be applied to other charges or disbursed to the student.

Please see *Appendix G, chapter 2* for a discussion of the treatment of credit balances when a student withdraws.

Credit balances cite

34 CFR 668.164(e)



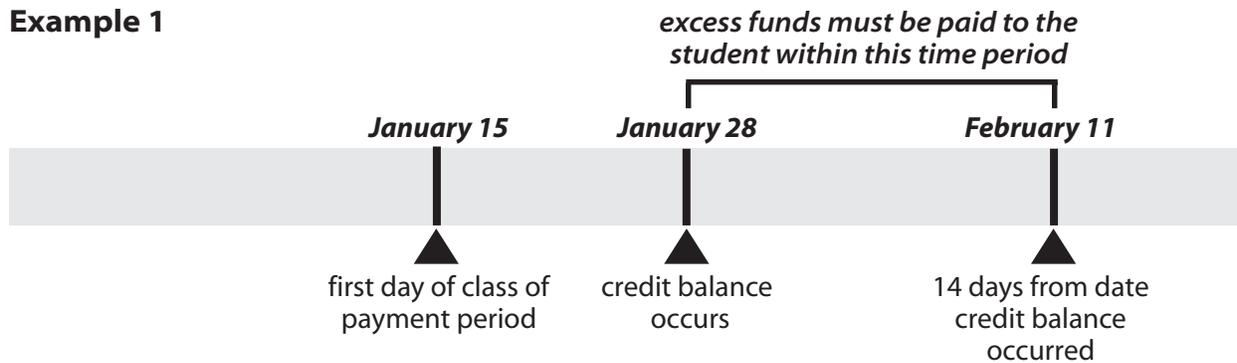
De minimus credit balances

Schools are required to disburse credit balances to students as soon as possible. However, schools do not have to disburse FSA credit balances of less than \$1.00.

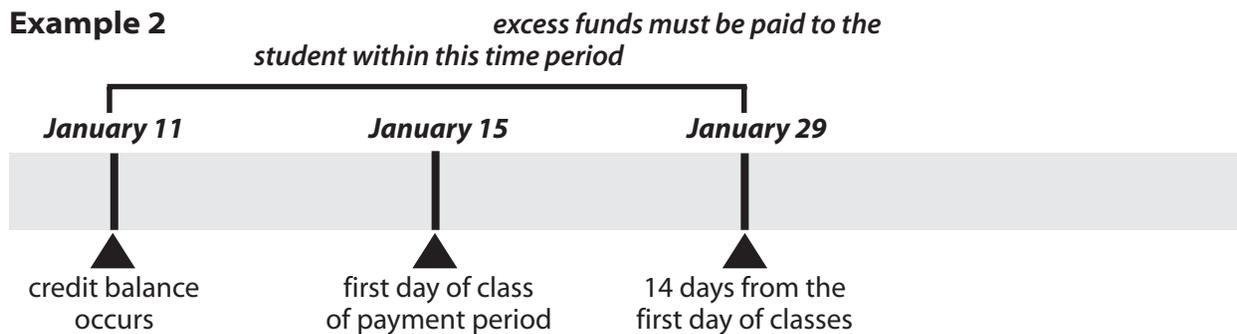


Payment of a Credit Balance Examples

Example 1



Example 2



Holding credit balances

A school is permitted to hold excess funds (credit balances) if it obtains a voluntary authorization from the student or parent. If a school receives authorization to hold excess funds, the school must identify the amount of funds the school holds for the student or parent in a subsidiary ledger account designated for that purpose. The school also must maintain, at all times, cash in its bank account at least equal to the amount the school holds for students. Because FSA program funds are awarded to students to pay current year charges, notwithstanding any authorization obtained by a school from a student or parent, the school must pay –

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

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still can't 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.

The school is permitted to retain any interest earned on the student's credit balance funds. However, the Department may prohibit a school that has been placed on reimbursement from holding excess funds. In addition, if the Department determines that the school has failed to meet the financial standards (see the *Federal Student Aid Handbook, Volume 2 – School Eligibility and Operations, chapter 11*), a limitation may be placed on the school preventing it from holding excess funds for any student.

Prior-year charges

In general, FSA funds may be used only to pay for educational expenses a student incurs in the period for which those funds are provided. However, a school is permitted to use a student's program funds to pay minor prior-year institutional charges if the school obtains the student's or parent's authorization to pay the prior-year charges.

A school may obtain authorization from a student in advance to use FSA program funds to cover prior-year charges that are less than \$100. Before paying prior-year charges for amounts equal to or greater than \$100, in addition to obtaining an authorization, a school must determine that payment would not prevent the student from paying for his or her current educational expenses (including both institutional charges and noninstitutional costs of attendance).

Schools are prohibited from allowing FSA credit balances to escheat

Because program 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 program funds by the end of the last payment period in the award year for which they were awarded.

If a school cannot locate a student to whom an FSA credit balance must be paid (i.e., the school has made a reasonable effort and failed to find the student), the school must return the credit balance to the Department. If a school pays credit balances by check, the school must exercise its fiduciary responsibility to the student and the Title IV programs, and return the credit balance to the programs.

Prior-year charges cite

34 CFR 668.164(d)



A school must determine whether any portion of the credit balance that cannot be delivered is composed of Perkins funds. If Perkins funds are the source of any portion of the credit balance, at the end of the loan period, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income on line 24, Part III, Section A of the FISAP.

Example of a policy to prevent escheating

Typically, each state establishes the useful life of a check or bank draft used to disburse Title IV program funds. After this established date, the check cannot be negotiated and the proceeds of a check that has not been cashed normally escheat to an unintended third-party (the state or the school).

In state A, a bank check has a useful life of 180 days. In order to prevent Title IV 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 Title IV funds. Prior to the 180th day, the Business Office voids the uncashed checks and restores the funds back to the applicable Title IV program.

Important

A school has a fiduciary responsibility to –

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

A school must have in place a procedure to insure that funds do not go to an unintended third-party. Moreover, a school must have a process through which it identifies a credit balance that remains on a student's account or undelivered to the student (or parent, if applicable) and returns those funds to the Title IV programs on behalf of the student. The search for the student should end and the credit balance should be returned to the Department prior to the date the funds would otherwise escheat, but **no later than a few days before a check to the student would cease to be negotiable under state law** (usually 180 days).

Under this process, **Title IV funds would never escheat to a state, the school, or a 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 Department's regulations.

The Department does not specify how a school must determine which Title IV funds create a credit balance. However, when possible, the Department encourages schools to return Title IV funds to loan programs first to reduce the likelihood of default.

School-issued smart cards

When a school pays a Title IV credit balance to a student by making those funds available through a **school-issued** smart card **over which the school exercises control**, the school is, in effect, holding a student's Title IV credit balance.

A school must obtain a student's permission to hold a student's Title IV credit balance.

Moreover, since a school may not charge a student a fee for accessing his or her credit balance, a school may not charge a fee for withdrawing or spending all or part of that credit balance by using a school-issued smart card. Note that a school may not pay a student's FWS earnings by crediting those earnings to a school-issued smart or debit card without first obtaining additional specific written permission from the student.

Bank-issued stored-value cards

A stored-value card is a prepaid debit card that can be used to withdraw cash from an 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 institution'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, providing a stored-value card to a student will be considered equivalent to paying FSA funds directly to a student:

1. The school must obtain the student's authorization to use a stored-value card for paying credit balances or FWS wages, just like the authorization the school must obtain before it makes an electronic funds transfer to a student's checking account.
2. The value of the card must be convertible to cash (e.g., the student must be able to use it at an ATM or branch bank 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. However, we would not expect the school to limit the use of the card to specific vendors.
3. The student should not incur any fees for using the card to withdraw the disbursement from the school over a reasonable period of time.

It appears to be common for ATM withdrawals from the issuing bank to be free, or to provide several free withdrawals per month. So long as ATMs from the issuing bank are conveniently located for the student, it also appears 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. Since the stored-value card would be an alternative means for the school to make the disbursement to the student, the student should not be charged by either the school or the affiliated bank for issuing a stored-value card, but it would be reasonable if the student is 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 should be FDIC insured. This means that there has to be an individual account for each student that is FDIC insured.
6. In order for the disbursements to the stored-value card to be treated as payments made to the student, the 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 the student, this 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.

The bank may wish to use its relationship with the 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. The school must inform the student of any terms and conditions associated with accepting and using the stored-value card.
9. The school must ensure that its stored-value card process meets all regulatory timeframes. (For example, the student must have access via the card to any credit balance within the 14-day timeframes in 34 CFR 668.164, or to any FWS wages at least once per month.)
10. The 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 school.

Important

If the procedures of the school issuing the smart card require a student to take some positive action in order to receive a stored-value card and a student fails to take that action, the school must have an alternative means of ensuring the student has access to his or her Title IV credit balance within the time allowed by regulations, and at no cost to the student.

When a school enters into a contract with a third-party to issue debit, demand, or smart cards

Institutions are increasingly changing the way they disburse funds to students by moving away from issuing checks to transferring funds electronically. In response to this trend, several companies are 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 institutions to provide these types of services in some instances become third-party servicers.

The regulations in 34 CFR 668.2 define a third-party servicer as an entity that contracts with a school to administer any aspect of its Title IV programs. Thus, if a school contracts with a company to perform activities that are the institution’s responsibilities under the Title IV programs, 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 Title IV programs, and agree to be jointly and severally liable for any violation by the servicer of these provisions. Other items that the school and servicer must agree to are described in 34 CFR 668.25 (c). 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, as specified in 34 CFR 668.23(c).

The general guidance previously set out in the discussion under *Bank-issued stored-value cards* applies to debit cards issued by a servicer through a participating bank.

Schools are ultimately responsible

Schools are responsible for ensuring compliance with the regulations applicable to Title IV credit balances. Those regulations include the requirement to disburse Title IV credit balances to students within 14 days.

A school that enters into a contract with a third-party servicer to provide debit, demand, or smart cards, through which Title IV credit balances are paid to students must have a system to ensure compliance with all regulatory timeframes.

Reminder

Included in the administration of the institution’s participation are all functions required by any statutory provisions of or applicable to Title IV of the HEA, any regulatory provisions prescribed under that statutory authority, and any applicable special arrangements, agreements, or limitations entered into under the authority of statutes applicable to Title IV of the HEA.

Paying room charges to a third-party (pass-through)

With respect to housing costs, the law allows a school to credit a student's account with FSA funds only to pay for *institutionally provided* housing. Moreover, under 34 CFR 668.164 (d)(1), a school may credit a student's account at the school with FSA, program funds to satisfy current charges for room, if the student contracts with the school.

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.

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

FSA statutory and regulatory provisions apply to both the funds used for the housing payment and to the physical location of the housing. Among those provisions are –

Withdrawals and the Return of Title IV Funds – A school would have to include the cost of housing as an institutional charge in any Return calculation required under the provisions of 34 CFR 668.22 for the treatment of Title IV funds when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment.

Campus Security and Crime Statistics – Under Section 485(f) of the Higher Education Act (HEA) an eligible school is required to report statistics concerning the occurrence of crimes on campus and in or on noncampus buildings or property that it owns, leases, or controls. A school is considered to have control where it enters into a written agreement with a third party for student housing.

Civil Rights and FERPA – The Program Participation Agreement requires a participating institution to comply with the civil rights and privacy requirements contained in the Code of Federal Regulations and the Family Educational Rights and Privacy Act of 1974. The third party must also comply with those requirements.

POWER-OF-ATTORNEY

Power-of-attorney in disbursing FWS and Perkins

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

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

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

Power-of-attorney for foreign study (Stafford/PLUS)

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

Power-of-attorney

Perkins 34 CFR 674.16 (h)

FWS 34 CFR 675.16(d)

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

RETURNING FUNDS

*This discussion does **not** include the return of FSA funds required when a school must correct an overaward or an overpayment, or the Return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment. To serve as “Appendix G” in this publication, we are including a copy of the “Federal Student Aid Handbook, Volume 5 – Overawards, Overpayments and Returns.” That volume includes a complete discussion of the requirement to return funds in the aforementioned situations.*

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

- 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 your federal funds (other than in your Perkins account) in excess of \$250.00; and
- holding large Federal Perkins Loan cash balances on hand ((COH) balances on the FISAP).

As mentioned in chapter 12 under the heading *Reconciling federal funds*, you are required to reconcile your federal funds monthly. If your reconciliation reveals that you have FSA funds that must be returned, you can do that – electronically or by check.



In order to have a return applied to the available balance of an award, you must specify “Open Awards.”

This applies to prior-year awards as well. Even though the performance period may have ended, the award is still considered “open” for refunds.

GAPS allows Payees to return money to the Department (including excess interest) using the Electronic Refund Functionality in GAPS for up to 10 years following the end of the award year. From the GAPS main page, you’ll select **Refunds** (to open or closed awards) and click **Initiate Refunds**. You’ll then click continue and, depending on your previous selection, be taken to either **Refunds to Open Awards**, or **Refunds to Closed Awards**. For each award, you’ll see the net amount you’ve drawn down, and the bank account you’ve indicated into which you want ED to make deposits and from which you want ED to withdraw draw refunds and returns. You’ll enter the amount to be refunded/returned and click **continue**.

For complete instructions on returning funds through GAPS, see the GAPS refund manual.

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



If you are returning Pell or Campus-Based funds by check you must –

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

The GAPS lockbox address for Pell and Campus-Based funds is

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

If you are returning 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. include a completed *Direct Loans Return of Cash* form with each check (see DLB 04-06).

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**

A return of Pell or Direct Loan funds, whether made through GAPS or by check, must be offset by a corresponding reduction in COD.

1. All returns of Direct Loan funds must be offset by downward reductions in a borrower's loan in COD.
2. All returns of Pell funds made by a school receiving funds under the Pushed Cash method must be offset by reductions in the student's Pell in COD.
3. All returns of Pell funds previously disbursed (unclaimed credit balances) must be offset by reductions in COD.

Any return of Direct Loan cash of \$100,000 or more must be made electronically. See the discussion under "Returning Funds" (later in this chapter) for more information.

Returning Funds from an Audit or Program Review

If, as a result of a program review or audit, a school is required to repay Title IV 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 GAPS Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any Title IV funds returned for this purpose will not be credited to a school's GAPS 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 repayments directly to any FFEL Program lender, or to the Direct Loan Servicing Center.