
The Business Office and the Campus- Based Programs



This chapter addresses fiscal procedures and recordkeeping requirements that are specific to the Campus-Based programs – the Federal Perkins Loan Program, the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, and the Federal Work-Study (FWS) Program. For information on general fiscal procedures and records requirements for all Federal Student Aid (FSA) programs, refer to chapters 7, 13, and 14.

CAMPUS-BASED PROGRAMS OVERVIEW

Federal Perkins Loan Program

The Federal Perkins Loan Program includes Federal Perkins Loans known previously as National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). No new Defense Loans were made after July 1, 1972, but a few are still in repayment. Federal Perkins Loans and NDSLs are low interest (currently 5%), long-term loans made by school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education.

Federal Supplemental Educational Opportunity Grant Program (FSEOG)

The Federal Supplemental Educational Opportunity Grant Program (FSEOG) provides assistance to exceptionally needy undergraduate students. Students are exceptionally needy if they have the lowest EFCs. A priority must be given to Pell Grant recipients. Schools selecting FSEOG recipients must use the selection criteria discussed in the *Federal Student Aid Handbook, Volume 3 – Calculating Awards and Packaging*.

Federal Work-Study Program (FWS)

The Federal Work-Study Program (FWS) provides part-time employment to undergraduate and graduate students who need the earnings to help meet their costs of postsecondary education. The FWS Program encourages students receiving FWS assistance to participate in community service activities.

FISAP, PIN, and TG # Web sites

The Department of Education's FISAP on the Web at

www.cbfishap.ed.gov



enables schools to transmit, receive, and report FISAP data. In order to submit your FISAP on the Web, you must have a PIN. The PIN serves as your identifier to let you access information in various Department systems. If you do not have a PIN, go to

www.pin.ed.gov



to apply. You must also have a TG number. The TG number is used to identify your school and your access rights to the eCampus-Based system. If you do not have a TG number, go to

www.fsaweberroll.ed.gov



Before you can enter data on the FISAP, your school's Destination Point Administrator must designate your access rights.

FISAP Documents

The FISAP Desk Reference is available at

<http://cbfishap.ed.gov/deskref/2004deskreference.pdf>



Instructions for the FISAP are available at

<http://cbfishap.ed.gov/fisapinstructions/2004fisapinstructions.pdf>



THE FUNDING PROCESS

Applying for funds

The Application to Participate

The Fiscal Operations Report and Application to Participate (FISAP) is divided into three main parts:

1. Identifying Information, Certifications and Warnings,
2. The Application to Participate in the three Campus-Based programs in the upcoming award year, and
3. The Fiscal Operations Report in which schools provide information on any Campus-Based expenditures made during the award year just completed.

Any school that wants to obtain Campus-Based program funds for an upcoming year, and all schools that have received Campus-Based program funds for the reporting year must complete an electronic FISAP. All schools that complete a FISAP must provide the information requested in the *Identifying Information, Certifications and Warning* section. A school that wishes to apply for Campus-Based program funds must complete *The Application to Participate*. A school that received Campus-Based program funds for the award year that just ended must complete *The Fiscal Operations Report* portion of the FISAP.

The Department uses the information your school provides in the Application to Participate and Fiscal Operations Report to determine the amount of funds your school will receive for each program. The Department uses your Fiscal Operations Report data to manage the Federal Perkins Loan portfolio and monitor expenditures in the Campus-Based programs.

For program review and audit purposes, you must retain accurate and verifiable records for three years following the end of the award year in which the FISAP is submitted. For example, the **award year in which you will submit** the FISAP due on September 30, 2005 ends on June 30, 2006 (Award year = July 1, 2005 – June 30, 2006). You must retain all records used in the creation of the FISAP due on September 30, 2005 until June 30, 2009 (three years from June 30, 2006 – the end of the award year in which the FISAP is submitted).

The important dates in the FISAP award process are:

- *August 1* – ED must make the FISAP software available to all participating schools;
- *October 1st* – the final deadline for submitting the FISAP to the Department; unless it falls on a weekend, in which case the deadline is the previous business day;

- *December 15* – all corrections to FISAP data and resolution of edits must be submitted to the Department, and you must update your Federal Perkins cash-on-hand;
- *February 1* – ED must send tentative award notifications to all schools; and
- *April 1* – ED must send final award notifications to all eligible schools.

You will find additional information on the Fiscal Operations Report later in this chapter.

Allocation of funds

The Department allocates funds for the Campus-Based programs directly to schools each award year, indicating for each program the amount of funding the school is authorized to receive from the Department for the award year. Using the information on the FISAP, the Department calculates the allocation amount using statutory formulas and the amount of funds appropriated by Congress for the program(s). *A school will not receive an allocation that is in excess of its request.* Your school's initial Perkins allocation (Federal Capital Contribution (FCC)) is based on the amount allocated for the base award year, 1999-2000 (however, see sidebar for 2005-2006).

A school can receive two types of Campus-Based fund allocations – initial and supplemental.

- *Initial Allocation* – the amount that the Department first allocates to each participating school for an award year from new funds appropriated by Congress, according to statutory allocation formulas. An eligible school receives an initial allocation for each Campus-Based program in which the school participates. ED bases your school's initial allocation on the amount allocated to it for the 1999-2000 award year.
- *Supplemental Allocation* – an additional amount of Campus-Based funds from the Department that is reallocated from the amount of unused Campus-Based funds returned from the previous award year by participating schools. Criteria for distributing these funds for each program are established in accordance with the statute and regulation.

Allocation schedule

If your school submits the FISAP by the deadline (normally October 1), the Department will provide your school with tentative allocation information and your worksheet in January of the following year, and with final allocation information and worksheets by April 1 for the upcoming award year. In a Dear Colleague Letter, the Department notifies participating schools that they can view the methodology used for final award figures. The methodology can be examined at [<http://www.ifap.ed.gov>].

Federal share limitations, cite

34 CFR 675.26



Private for-profit organizations, cite

34 CFR 675.26(a)(3)

Reading tutor and family literacy projects, cite

34 CFR 675.26(d)

Strengthening institutions, cite

34 CFR 675.26(d)

90% federal share, cite

34 CFR 675.26(a)(2)

Restrictions, cite

34 CFR 675.26(b)

JLD, cite

34 CFR 675.33(b)

2005-2006 Perkins FCC

There will be no new FCC for 2005-2006, but there may be allocations from unused funds from the 2004-2005 award year.

It is important for schools to review their tentative allocations and the supporting worksheets so that they can address any concerns before the allocation becomes final.

You can find the final funding worksheets for your school, your Electronic Statement of Account (ESOA), and your final award at

<http://cbfisap.ed.gov>

To access your school's final funding level worksheets and individual school awards, log in to the eCB Web site, select *the Self-Service* link from the top navigation bar, and scroll to the *Campus-Based Notification Section*. Then, select *Final Awards* and *Statement of Account*.

The *Final Funding Worksheet* shows the data that was used to determine a school's allocation for each campus-based program in which it participates and how each final allocation was determined.

If your school doesn't receive its final allocation by April 1, it may mean that –

- your school lost its eligibility to participate in FSA programs;
- your school is a new applicant for the FSA programs and/or for the Campus-Based programs and its participation hasn't been approved yet; or
- the Department has not received the FISAP signature/certification form with the required original signature of the school's CEO.

If the reason(s) for holding the school's final allocation is/are resolved, the Department will release the school's final allocation.

The worksheet shows the actual numbers that were used to determine a school's allocation for each campus-based program in which it participates and how each final allocation was determined.

If your school is awarded a Supplemental Allocation, the Department will inform you before the end of September of the award year.

RELEASING UNEXPENDED FUNDS

If a school does not use its total allocation during an award year, it should return unexpended allocations of federal funds to the Department so that the money can be reallocated to schools that need additional funds (supplemental allocations). This return of unexpended funds is called *releasing Campus-Based funds*.

Releasing unexpended funds, cite

34 CFR 673.4(d)(3)



Reallocation

If you return unexpended Perkins funds, the Department reallocates 80% in accordance with 462(i) of the HEA and 20% in a manner that best carries out the purposes of the Federal Perkins Loan Program.

Unexpended FSEOG funds returned to the Department are reallocated to an eligible school in a manner that best carries out the purposes of the FSEOG Program.

Unexpended FWS funds returned to the Department are reallocated to an eligible school that used at least 5% of its total FWS allocation to pay students employed as reading tutors of children or performing family literacy activities in family literacy projects in the preceding award year. A school must request the reallocated FWS funds, and **the school must have a fair-share shortfall** (found in the final allocation worksheets) **to receive these funds**. A school must use the reallocated funds only to pay students employed in community service jobs.

Each year in July the Department posts a Dear Partner Letter at [<http://www.ifap.ed.gov>] that asks schools to release any previous award year funds that they have not expended and offers schools the opportunity to request supplemental FWS funds for community service. The Reallocation Form for schools wishing to return funds or request supplemental FWS funds can be found in the Setup Section of the *e-Campus-Based* website (<http://www.cbfisap.gov>).

If a school returns more than 10% of its allocated funds for a given award year in any one of the Campus-Based programs, the Department may reduce the school's allocation for the second succeeding award year by the dollar amount returned unless the Department waives this provision. For example, if the school returns more than 10% of its 2004-2005 allocation, its 2006-2007 allocation may be reduced by the dollar amount returned for 2004-2005. If the school can show just cause, the Department can waive this provision. The waiver must be requested in writing.

The Department may waive this penalty provision for a school if it finds that enforcement would be contrary to the interests of the program. To request a waiver, a school must submit an explanation with its FISAP by the deadline that shows that the school returned more than 10% of its allocation due to circumstances beyond its control and that are not expected to recur.

After schools release their unexpended allocations, the Department reallocates the funds to schools that have met the criteria for receiving a supplemental allocation. Criteria for distributing these funds for each program are established in accordance with the HEA and the Campus-Based program regulations.

PAYMENT METHODS AND CONDITIONS

Before requesting and disbursing FSA program funds, schools must meet certain conditions. These conditions vary depending on the way ED provides funds to schools. For more detail about the methods and conditions through which ED provides funds, see chapters 13 and 14 of this publication.

In all cases, a school may not request funds in excess of the actual disbursements it has made or will make to students (plus any Administrative Cost Allowance (ACA), if applicable).

Applying for Title III Designation

Institutions must apply annually for a Title III designation. If a school is unsure of its Title III eligibility for an award year, or if it needs to apply for Title III eligibility, the school should contact:

U.S. Department of Education
Institutional Development
Undergraduate Education Service
Title III Eligibility Designation
1990 K Street, NW, 6th Floor
Washington, DC 20006-8512

Telephone: **202-502-7777**

OVERVIEW OF FEDERAL AND NONFEDERAL SHARES (MATCHING)

The amount that a school may spend in a Campus-Based program is composed of both federal and nonfederal funds. With the exception of certain schools (see below), schools that participate in the Campus-Based programs must provide nonfederal funds as a *match* for the federal funds they receive. The specific matching requirements for each Campus-Based program are different. For more detail on the requirements of federal and nonfederal shares for each program, see the program-specific sections later in this chapter.

Matching at Excepted Institutions

If you receive designation as one of the following types of schools, you are exempt from the matching requirement for students receiving FWS and FSEOG at your school. **You must reapply annually for this designation.** If you do not apply and receive certification that you have been designated as one of these types of institutions, your school is not excepted from the matching requirement. For more on applying for this designation, see the FISAP instructions at

<http://www.cbfisap.ed.gov>.

Excepted Institutions

Part 606 of 34 CFR:

Developing Hispanic-Serving Institutions Program

Part 607 of 34 CFR:

Strengthening Institutions Program,
American Indian Tribally-Controlled Colleges and
Universities Program,
Alaska Native and Native Hawaiian-Serving Institutions
Program

Part 608 of 34 CFR:

Strengthening Historically Black Colleges and Universities

Part 609 of 34 CFR:

Strengthening Historically Black Graduate Institutions
Programs

ADMINISTRATIVE COST ALLOWANCE (ACA)

A school participating in the Campus-Based programs is entitled to an ACA for an award year if it advances funds under the Perkins Loan Program, provides employment under the FWS Program, or awards grants under the FSEOG Program to students in an award year. The ACA may be used to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The ACA can also be used for service fees that banks charge for maintaining accounts. Computer costs associated with Perkins Loan billing may also be paid from this allowance. Schools may use the allowance to help pay the costs of administering not only the Campus-Based programs but the Federal Pell Grant Program as well. Administrative costs also include expenses for carrying out the student consumer information services requirements.

The amount of the ACA is calculated as a percentage of the school's Campus-Based expenditures for students in a given award year (see table below).

Administrative Cost Allowance Calculation, cite

34 CFR 673.7(c)



Administrative Cost Allowance (ACA) Calculation

5% of the first \$2,750,000 of a school's expenditures to students under the Campus-Based programs	+	
4% of expenditures to students greater than \$2,750,000 but less than \$5,500,000 under the Campus-Based programs	+	
3% of expenditures to students greater than \$5,500,000 under the Campus-Based programs		

When a school calculates its ACA for the 2005-2006 award year, the school must include the full amount of a school's FSEOG awards – both the 75% federal share and the required 25% nonfederal share. However, a school that chooses to provide more than a 25% institutional share to FSEOG recipients may not include an FSEOG institutional share in excess of 25% in its FISAP or in the calculation of its ACA.

If the Department has granted a school a waiver of its required institutional share for the FSEOG Program or the FWS Program, that school's ACA may be calculated only on the full federal portion of its awards for those programs.

The school takes the ACA out of the annual authorizations the school receives for the FSEOG and FWS programs and from the available cash on hand in its Perkins Loan fund. It is not a separate allowance sent to the school. A school may draw its allowance from any combination of Campus-Based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program. However, a school may not draw any part of its

allowance from a Campus-Based program unless the school has disbursed funds to students from that program during the award year. If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

Your school may use up to 10% of the ACA, as calculated above, as attributable to its expenditures under the FWS Program to pay the administrative costs of conducting its program of community service. These costs may include:

- developing mechanisms to assure the academic quality of a student’s experience;
- assuring student access to educational resources, expertise, and supervision necessary to achieve community service objectives; and
- collaborating with public and private nonprofit agencies and programs assisted under the National and Community Service Act of 1990 in the planning, development, and administration of these programs

Some schools do not claim an ACA so that all the funds can be used for student awards. This option is the school’s decision.

FUNDS AVAILABLE FOR AWARDS

The general principle for all Campus-Based programs is that the amount of funds available for awards is the federal share, plus the institutional match, minus the ACA.

TRANSFERRING FUNDS BETWEEN CAMPUS-BASED PROGRAMS

To help meet their students’ need, schools may transfer funds from certain Campus-Based programs into certain other Campus-Based programs. The Department’s permission is not required. Schools may also carry FWS or FSEOG funds back to the previous award year or forward to the next year.

Descriptions of individual program fund transfers follow. Note that in all cases, funds transferred that are unexpended at the end of the award year must be transferred back to the original program, and **all transfers must be reported on the FISAP.**

Transfer, cites

- 34 CFR 676.18(b)
- 34 CFR 675.18(b)(c)
- 34 CFR 674.18(b)
- 34 CFR 675.18(e)



A school's future allocations for all Campus-Based programs are not affected by past transferring of funds between programs.

FSEOG

A school may **not** transfer funds *from* its FSEOG funds to another Campus-Based program, but may transfer up to 25% of its total FWS and Federal Perkins federal allocations *to* the FSEOG Program. This 25% maximum is based on a school's current award year allocation and includes both initial and supplemental FWS allocations.

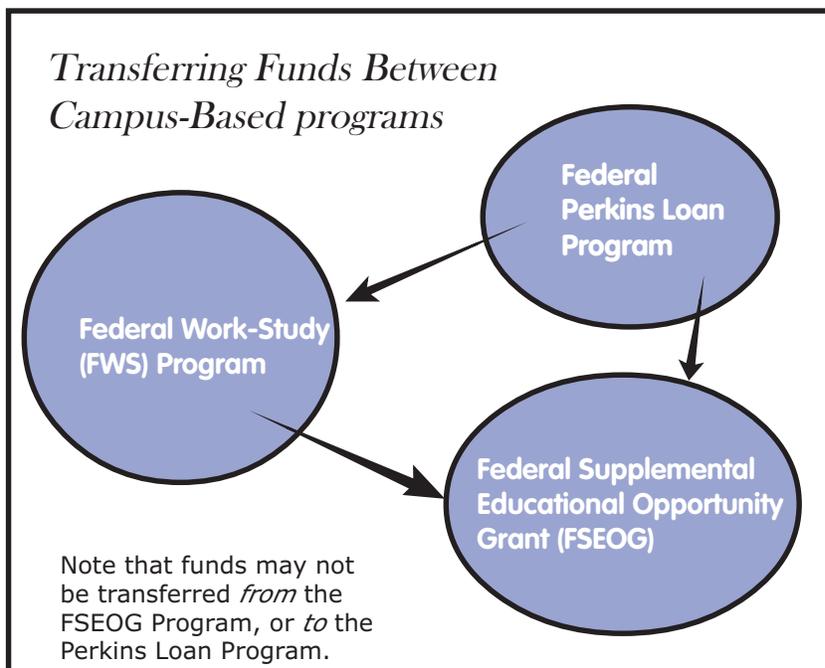
A school may not transfer funds carried forward or back from other award years.

The school must match any FWS funds transferred to FSEOG at the matching rate of that FSEOG program, but the match doesn't have to be made until the transfer has occurred.

FWS

Schools may transfer up to 25% of their total Federal Work-Study allocation (initial plus supplemental) for an award year to the FSEOG Program. No transfer may be made from FWS to Federal Perkins. Funds carried forward to the next year or carried back to the previous year do not change the basis for the 25% maximum transfer. You must match any FWS funds transferred to FSEOG at the matching rate of the FSEOG Program, but the match doesn't have to occur until after the transfer has occurred.

The following chart illustrates how funds may be transferred:



Perkins Transfer, cite

34 CFR 674.18(b)



If a school transfers Federal Perkins loan funds to either FSEOG or FWS before depositing those funds in the school's Federal Perkins Loan fund, the school does not have to provide the ICC match for the transferred funds, only the match required by the FWS or FSEOG programs.

Carry forward/carry back, cites

34 CFR 676.18(c)(d)

34 CFR 675.18(b)(c)(d)(f)



Carry Forward and Back Authority

The official allocation letter for a specific award period is the school's authority to exercise these options. A school may not carry forward or back FWS funds to any award year in which there is no specific FWS allocation and the same requirement holds for FSEOG funds.

Federal Perkins

A school may transfer up to 25% of its annual Federal Perkins Loan allocation to FSEOG or FWS. If your school is a work-college, you may transfer up to 100% of your total Federal Perkins Loan allocation (initial plus supplemental) to the Work-Colleges Program. (See page 29.) You must match any Federal Perkins funds transferred to FSEOG or FWS at the matching rate of that program. You must adjust the match as soon as you make the transfer.

Except for work-colleges, the total transfer cannot exceed 25% of the Federal Perkins Loan allocation, whether the transfer is made only to one program or divided between FSEOG and FWS.

FWS AND FSEOG CARRY FORWARD AND CARRY BACK

Your school may spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) in the **following** award year (carry forward). Before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year. Your school is also permitted to spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) for expenses incurred in the **previous** award year (carry back).

Your school must match FWS or FSEOG funds carried forward or carried back in the award year that they are spent. A school's future FWS or FSEOG program allocation is not affected by carrying forward or carrying back funds between award years.

Carry Back Funds for Summer FWS Employment and FSEOG Awards

In addition to the 10% carry-back authority discussed previously, schools may also carry back and expend in the previous award year a portion of their FWS allocations for the current award year to pay student wages earned from May 1 through June 30 of the previous award year (that is, for summer employment). Similarly, schools may carry back any portion of their FSEOG allocation for the current award year to make FSEOG awards for payment periods that begin on or after May 1 of the previous award year but end before the beginning of the current award year (July 1). This carry back authority is **in addition to** the authority to carry back 10% of the current year's FSEOG allocation.

10 % Carry Back/Carry Forward for FWS and FSEOG



Reporting Funds Carried Forward and Back

On the FISAP, you must report FWS or FSEOG funds that your school carries back and carries forward. For example, if a school carried forward 10% of its FWS 2004-2005 allocation to be spent in 2005-2006, the school must report this amount on the FISAP that is due no later than September 30th, 2005, in Part V of the Fiscal Operations Report for 2004-2005.

FWS Limitations on Use of Funds Carried Forward or Back

Schools are not permitted to add funds that are carried forward or back to the total FWS allocation for an award year when determining the maximum percentage of available funds that may be used in that award year for any of the following purposes –

- the transferring of FWS funds to FSEOG;
- providing the federal share of wages in private for-profit sector jobs; or
- the Job Location and Development (JLD) Program.

For example, for the 2005-2006 award year, a school may **not** include as part of its FWS allocation, FWS funds carried forward from 2004-2005 or carried back from 2006-2007 and then include those funds when calculating the maximum percentage of available funds that may be used in 2005-2006 for the purposes listed above. The maximum amount usable for each of the three purposes listed in the previous paragraph is the appropriate percentage of a school's total 2005-2006 **original** FWS allocation plus any supplemental 2005-2006 FWS allocation.

Recording Funds Carried Forward or Back in GAPS

Any FWS funds carried forward or carried back between award years must be entered in GAPS as an expenditure against the FWS authorization for the award year from which the funds were taken, not the authorization for the award year in which the funds were used.

Also, do not confuse carry forward/back with the transfer of funds between programs. Funds may only be carried forward and back between award years in the same program.

PROJECTING NEED

The maximum amount of federal funds a school may draw down from each Campus-Based program is based on the school's initial allocation and supplemental allocation for that program, as reported to the school in its Final Funding Authorization from ED.

Except at those schools qualifying for the waivers discussed previously, each Campus-Based program requires that awards made to students be a combination of both federal and nonfederal funds. To accurately determine immediate cash need for Campus-Based programs, you must calculate the portion of disbursements from each program that may be made up of federal funds, including funds carried forward. *The amount of funds drawn down represents the federal share only.* You must deposit institutional matching funds **at the time the federal funds are deposited** into the account from which Campus-Based awards will be made.

A school on the **advance payment method** must determine the amount of funds it needs before it transmits a request through the **Grant Administration and Payment System (GAPS)**. The amount requested must be limited to the minimum amount needed to make disbursements, so excess funds do not exist after disbursements are made. For the Campus-Based programs, the amount must be enough to meet the federal share of Campus-Based disbursements and the ACA when applicable.

The following equation may be used to calculate projected immediate needs:

$$\begin{array}{r}
 \text{Anticipated Disbursements} \\
 \textit{minus} \text{ Balance of Cash on Hand} \\
 \textit{minus} \text{ Anticipated Recoveries} \\
 \textit{minus} \text{ ACH/EFT Cash in Transit} \\
 \hline
 \textit{equals} \text{ Projected, Immediate Need}
 \end{array}$$

In general, a school's request for funds should not exceed its **immediate need**.

Program-Specific Considerations

Federal Perkins Loan Program

A school must determine whether the cash available in its Federal Perkins Loan fund is sufficient to make loan advances to students. A school may draw down only that portion of the FCC it needs to cover disbursements for the next three business days.

FSEOG

In the FSEOG Program, a school must time its drawdowns to coincide with the date it expects to disburse FSEOG funds to students. A school may draw down only the federal share of the FSEOG awards it will disburse to students within three business days of receiving the funds.

FWS

A school must time its FWS drawdowns to coincide with its payroll dates. A school must calculate the amount of federal funds needed to meet payroll for a given pay period and draw down only the appropriate federal share of wages to be paid. Student wages must be paid within three business days of the date federal funds are received.

Timing Issues

When a school initiates a drawdown from GAPS, a school should consider that processing requests within GAPS typically takes one to three business days and whether the school is using ACH/EFT or FEDWIRE. Schools should also be aware of system downtime, federal holidays, and other delays in processing cash requests when determining immediate need.

DRAWING DOWN FUNDS

Schools use the GAPS system to draw down Campus-Based funds. To begin drawing down funds, log into the GAPS Web site using your user ID and password.

Then select *payment requests* from the main menu. The payment requests screen allows you to create, modify, and view payment requests, adjust, drawdown amounts, and view grant award authorization histories.

Once you have clicked on the payment requests button, click *create payment requests*. Using this function, you can request funds.

The *create payment requests screen* will show a list of awards associated with the payee, with corresponding authorized and available balances from which drawdowns can be initiated. A school may use the *recipient reference field* to identify the award type (i.e., FWS, FSEOG, etc.).

An important step in creating payment requests is setting the *Deposit Date*. The default deposit date displayed is based on the method the school has selected for receiving funds (ED's transmission method). The default date assumes that you are going to disburse the funds within three business days of the deposit date. However, you may set a Deposit Date that is up to 30 days after the current date.

Disbursing timeframe

Your school must disburse as soon as possible but no later than three business days following the day your school receives those funds.

GAPS Web site, User ID and Password

www.gapsweb.ed.gov

The GAPS user ID is a unique eight-character string that the Department issues to authorized users of the GAPS system. The password is another unique six to eight character string that may consist of both letters and numbers.

For ACH payments, the default deposit date is the next business day if received prior to 3:00 p.m. Eastern time. If the request is made after 3:00 p.m. EST, the Deposit Date is the current date plus two days.

For payments by FEDWIRE, the default Deposit Date is the current date if the request is submitted before 2 p.m. EST, or the next day if submitted after 2 p.m..

At the bottom of the payment request screen is an **OK** button. Click that button after you've entered the dollar amounts you want to request.

After you have created payment requests, GAPS performs edits and validations. GAPS will display an error message when it encounters a problem. If there's a problem with your request, an error message like one of the ones below will appear in red at the top of the *Create Payment Requests* screen.

Potential errors include a –

- deposit date that is not in the required format (MM/DD/YY);
- deposit date that is more than 30 days from the current date;
- deposit date that is earlier than the default date for the method of transmission selected in *Pay By* field;
- deposit date that is earlier than the award start date, or later than the last date to draw funds;
- request that is non-numeric or negative;
- request in which all fields are zero; and
- request that exceeds the available balance displayed in the available balance field.

If no errors are encountered, GAPS displays a confirmation window, to ensure that the user intends to submit the information. You must click **Yes** to certify that ***the funds will be expended within three business days for the purpose and condition of the grant.***

GAPS will then process the payment request and display a message confirming that the payment request has been accepted.

THE FISCAL OPERATIONS REPORT

The Fiscal Operations Report is parts III, IV, V, and VI of the FISAP. You may sometimes hear these parts being referred to as the FISOP. If you participated in any Campus-Based programs in an award year, by the following October you must report on your activities for those programs by completing the appropriate portions of the FISAP.

You must complete –

- ◆ Part III, if your school is a continuing participant in the Federal Perkins Loan Program;

If your school made Federal Perkins Loans to students during the recent award year, you must fill in Part III of the FISAP, even if you did not receive an FCC.

You must also complete Part III if your school is liquidating its Federal Perkins Loan portfolio. (You must do so every year until your final report shows that all outstanding loans have been assigned, fully retired, or purchased and that the federal share of cash on hand has been returned to ED.)

- ◆ Part IV, if your school received FSEOG funds during the recent award year;
- ◆ Part V, if your school received FWS funds during the recent award year; and
- ◆ Part VI, if you participated in any of the three Campus-Based programs during the recent award year.

Important: In each program section you will report how much of your school's total federal allocation was used and how much remained unexpended at the end of the award year. (Your school's unexpended authorization is equal to its final adjusted authorization amount minus its total expended authorization.) If this amount is a positive dollar figure, the amount of unexpended funds will be deducted from your school's GAPS grantee account. **Any calculation that results in a negative figure will not be accepted for transmission.**

FISAP, cites

Campus-Based programs 34 CFR 673.3
 Federal Perkins Loan Program 34 CFR 674.19
 FWS 34 CFR 675.19
 FSEOG 34 CFR 676.19



Signature Requirement

The FISAP must be signed by the CEO, president, or someone with the equivalent level of authority. With their signature, they are certifying –

- the information submitted on the FISAP is true and accurate;
- no one managing the programs has been debarred or suspended;
- the school is a drug-free work place; and
- no federal funds are spent on any lobbying activities.

FISAP Documents

The FISAP school link is at
www.cbfishap.ed.gov



You can access all FISAP references from there.

FISAP - Part III, the Federal Perkins Loan section

The Federal Perkins Loan section of the FISAP consists of the following sections:

- ◆ *Section A* – is a historical/cumulative report of your school's Federal Perkins Loan fund activity from the inception of the program through the end of the award year. **It is the balance sheet for your Federal Perkins Loan fund, and it must balance.**
- ◆ *Section B* – is where you report Federal Perkins Loan activity that took place during the **recently completed award year**.

Note: Line 3 in Section B asks you to report the unexpended amount of final adjusted FCC for award year not drawn down from GAPS.

If the amount in this field is more than 10% of your allocation, your total award for next year will be reduced by the same amount. Many schools misread this field and report their authorization here. If you make this mistake, your award will be reduced to zero!



In field T6, your school reports the expended FSEOG authorization. This amount must agree with the final FSEOG expenditures reported in GAPS.

- ◆ *Section C* – is where you report **cumulative repayment information** as of the end of the reporting year. This summary includes all data from your school's initial participation in the program through the recently completed award year.
- ◆ *Sections D and E* are used to calculate your school's **cohort default rate**. Use Section D if your school had 30 or more borrowers who entered repayment during the award year. Otherwise, use Section E.

Here, a cohort refers to a group of borrowers that went into repayment during a particular year. The cohort moves up one year with each FISAP. Of the borrowers that went into repayment during the relevant year, the school reports how many were in default at the end of the following year. Schools that had fewer than 30 borrowers going into repayment use a three-year cohort.

FISAP - Part IV, the FSEOG section

Your school must complete Part IV if it received FSEOG Program funds for the award year. The five sections in this part of the FISAP summarize your school's use of FSEOG funds during the previous year. The data you report in this section is used to –

- determine underuse penalties in FSEOG;
- account for and close out funds awarded and transferred in FSEOG for the Fiscal Operations Report year; and
- monitor the program.

Matching Requirements - Remember, unless your school has a matching waiver, it is required to contribute an additional amount equal to 25% of the awards to students from its own resources. So, unless you have a waiver, when reporting the total amount of FSEOG funds paid to recipients the amount must consist **exactly** of the required 75% federal and 25% nonfederal shares. (See DCL-CB-05-03, and the discussion earlier in this chapter under FSEOG nonfederal share.)

Note: Any funds recovered on prior-year awards should be returned to ED using existing GAPS refund procedures. Refunds should be applied to the award corresponding to the funding year the recovered funds were awarded.

FISAP - Part V, The FWS section

Your school must complete Part V if it received FWS Program funds for the award year. The nine sections in this part of the FISAP summarize your school's use of FWS funds during the previous year. The data you report in this section is used to –

- provide data for underuse penalties;
- account for and close out funds awarded in FWS for the Fiscal Operations Report year;
- monitor the program;
- report program transfers made during the year; and
- provide data for community service requirements.

When completing this section it's important to remember that –

- The institutional share includes amounts contributed by off-campus employers in addition to amounts contributed by the school itself.

Reminder

If the nonfederal share of student compensation was paid in kind (for example, as a tuition waiver or room and board), the in-kind compensation value must be converted to a cash amount and reported in this section of the FISAP as part of your matching funds.

- If your school has a Title III/V waiver you will report this share as zero.
- Any amount that your school spends for reading tutors of children/family literacy programs does not have to be matched.

Note: In section E of this part you will report how much of your school's total federal FWS allocation was used and how much remained unexpended at the end of the award year. (Your school's unexpended FWS authorization is equal to its final adjusted FWS authorization amount minus its total expended FWS authorization.)

If this amount is a positive dollar figure, the amount of unexpended FWS funds will be deducted from your school's GAPS grantee account. Any calculation that results in a negative figure will not be accepted for transmission.

FISAP -Part VI, The Program Summary

Your school must complete Section A of the Part VI, if it made any awards to students from any Federal Campus-Based program. This data is used to provide statistical data for analysis. In Section A, you will report these expenditures by income category and type of student. In Section B, an amount is calculated for the ACA your school can claim on the basis of its total Campus-Based program expenditures, as reported in Parts III, IV, and V of the FISAP.

FSEOG PROGRAM SPECIFIC RULES

FSEOG Federal Share

In general, the federal share of **Federal Supplemental Educational Opportunity Grant (FSEOG)** awards made to students may not exceed 75% of the total FSEOG awards made by the school.

The federal share can be 100% for an school designated as eligible under Title III or Title V of the HEA. (See chart under Overview of Federal and Nonfederal Shares (Matching) earlier in this chapter.) Schools wanting a waiver of the institutional-share requirement under the FSEOG Program are no longer required to check a field on the FISAP to request this waiver. Your school will be considered to have applied for this waiver if you:

- submit a completed FISAP by October 1 of the previous year, and
- are designated as Title III eligible.

These schools will receive a letter from ED, addressed to the financial aid administrator, indicating that they have been granted a Title III waiver of the institutional-share requirement for the FSEOG program for the upcoming award year. A school that receives this waiver has the option to continue providing an institutional share and determining the amount of that share.

FSEOG Non-Federal Share

The school must ensure there is a nonfederal match of 25% of the total FSEOG awards. The nonfederal share of FSEOGs must be made from the school's own resources. These resources may include:

- institutional scholarships and grants;
- waivers of tuition or fees;
- the nonfederal portion of state scholarships and grants; and
- funds from foundations or other charitable organizations.

The nonfederal share requirement is 25% of awards to students (unless the school qualifies for a waiver as discussed under *Overview of federal and nonfederal shares* earlier in this chapter). In the following discussion of these methods, you should note that **for a student to meet the definition of an FSEOG recipient, some portion of the grant awarded the student must have come from the FSEOG federal dollars.**

Federal share, cite

34 CFR 676.21(a)



Nonfederal share, cite

34 CFR 676.21(c)



A school must deposit into its federal funds account that portion of its institutional match it is making from school funds when the corresponding federal funds are received. However, it is important to note that outside resources can be used to match FSEOGs even if the funds are received at a later date, provided that the school has written information about funds that the noninstitutional agency or organization is awarding to the student involved. The written information must be kept on file at the school through the date the school is required to retain the FISAP data on which the match is reported. (See the discussion under *The Application to Participate* earlier in this chapter.)

Use of LEAP/SLEAP in matching

Please note that the portion of a state scholarship or grant that comes from the Leveraging Educational Assistance Partnership (LEAP) Program or the Special Leveraging Educational Assistance Partnership (SLEAP) Program cannot be used for the nonfederal share.

The Department has determined that all state scholarships and grants, except for the Leveraging Educational Assistance Partnership (LEAP) (formerly the State Student Incentive Grant [SSIG] Program) and the Special Leveraging Educational Assistance Partnership (SLEAP) programs are eligible funds that may be used to meet the nonfederal share requirement of FSEOGs. LEAP and SLEAP grants, for this purpose, are defined as the federal LEAP and SLEAP allocation plus the minimum required state matching amount. The remaining state grants are not considered LEAP or SLEAP grants.

Dear Partner Letter CB-05-03, issued February 2005, provided a chart showing what percentage of each state's scholarships could be used to provide the nonfederal share of FSEOGs for the 2004-2005 award year. The Department computed the percentages in the chart on the basis of information furnished by the respective states regarding expected expenditures for state scholarships and grants for the 2004-2005 award year, and by using the 2004-2005 LEAP and SLEAP allocation data and required matching information. Each school can apply the appropriate state percentage to the state scholarships and grants its students receive to determine the total amount of state scholarships and grants that may be used to meet the FSEOG nonfederal share requirement.

As a variance from use of the percentages indicated in the chart, if a school has specific knowledge that a state scholarship or grant—irrespective of its name—is considered to be the required state matching portion of a LEAP or SLEAP grant, that scholarship or

State Scholarship as Nonfederal Share Component Example

Dominic receives a grant of \$675 from a state with a percentage of 96.26. Jacob Broadcasting School multiplies 96.26% by \$675, resulting in \$650, which is the portion of the grant that may be used to meet the nonfederal share requirement for a \$2,600 FSEOG award (\$1,950 is the federal share of the FSEOG award).

grant may not be used to meet the FSEOG nonfederal share. Also, if a school has documented knowledge that a state scholarship or grant is not comprised of LEAP or SLEAP monies (federal or state), 100% of the scholarship or grant may be used as the FSEOG nonfederal share.

The nonfederal share requirement of 25% (unless the school qualifies for a waiver) may be met by one of three methods. In the following discussion of these methods, you should note that for a student to meet the definition of an FSEOG recipient, some portion of the grant awarded the student must have come from the FSEOG federal dollars.

Matching the FSEOG federal share

Individual recipient basis

The school ensures that the nonfederal match is made to each individual FSEOG recipient together with the federal share in such a way that **every student's FSEOG award consists of 75% federal funds and 25% qualified nonfederal funds**. A school using this method calculates and documents on a student-by-student basis what portion of the student's FSEOG award comes from federal funds and what portion comes from nonfederal funds.

Aggregate basis

The school ensures that the sum of all funds awarded to all FSEOG recipients in a given award year consists of 75% federal dollars and 25% qualified nonfederal funds. A school using this method calculates and documents on an aggregate basis what portion of total federal *and* qualified nonfederal funds awarded to all FSEOG recipients comes from federal funds and what portion comes from nonfederal funds.

For example, if a school awards a total of \$60,000 to all FSEOG recipients in an award year, it must ensure that \$45,000 comes from federally allocated funds and \$15,000 comes from nonfederal funds. The school may meet this requirement by awarding qualified nonfederal funds to FSEOG recipients on a student-specific basis. For example, if the school makes a total of \$60,000 in FSEOG awards to a total of 100 students, the entire nonfederal share may be met by awarding a total of \$15,000 in nonfederal resources to only five FSEOG recipients. **However, each of the 100 FSEOG recipients must receive some FSEOG federal funds.**

Fund-specific basis

The school establishes an FSEOG account for federal program funds and deposits the required 25% qualified nonfederal matching share into the fund. The matching funds must be deposited at the same time the federal funds are deposited. Awards to FSEOG recipients are then made from this *mixed* fund. Schools using the fund-specific method must deposit their institutional match at the time they receive the federal share funds. **For the purpose of a Return of Title IV funds calculation, 100% of the funds are considered federal funds when a school uses this method of matching.**

Frequency and Amount of FSEOG Disbursements

If the student’s FSEOG award is less than \$501 for the academic year, the student may be paid a lump sum of the entire amount of the FSEOG.

If a student is awarded an FSEOG of more than \$501, you must pay the student a portion of this award in each payment period, even if you do not use standard academic terms. Within a payment period, a school may advance funds in whatever installments it determines will best meet the student’s need. To determine the amount of each payment period’s FSEOG disbursement, you divide the total FSEOG award amount by the number of payment periods you expect the student to be enrolled:

$$\frac{\text{FSEOG Total Award}}{\text{Number of Payment Periods}}$$

For a school that measures progress in credit hours and academic terms, a payment period is defined as a term (semester, trimester, quarter). The definition of a payment period for a school that does not have academic terms or a school that measures progress in clock hours is discussed in more detail in chapter 13, and in 34 CFR 668.4.

Uneven costs/unequal disbursements

If the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, you may make unequal FSEOG disbursements.

Payment of FSEOG, cite

34 CFR 676.16



FSEOG Withdrawal and Return of Title IV Funds

If a student ceases attendance after receiving a lump sum FSEOG payment (of less than \$501) only that portion of the FSEOG intended for the payment period in which the student was attending class should be included in the Return calculation.

Internal controls in the FSEOG Program – reconciliation, fiscal and program records

As described in chapter 12, your school must reconcile, at least monthly, your FSEOG draws recorded in GAPS to the funds received in the bank account your school has designated to receive electronic transfers. You must also reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to ED, and explain all discrepancies.

In addition, you should examine your FSEOG program and fiscal records monthly. Did the fiscal records on which you based your anticipated need for FSEOG funds accurately predict your disbursements, or are you returning unused funds? Were your matching funds deposited at the same time you received your federal share?

Federal share limitation, cite

34 CFR 675.26(a)

**Community service vs. reading tutors**

These are not necessarily the same thing. In order to be considered community service, the job has to be in an area that is open, accessible, and used by the community at large. Community service includes a whole host of jobs and is not limited to reading tutors. On the other hand, reading tutors may provide tutoring to some group that would not be considered part of the community. For example, a school population is not considered "open, accessible, and used by the community at large," and therefore, in this context, is not considered a community.

FEDERAL WORK-STUDY SPECIFIC RULES**Federal and Non-Federal Share**

In general, the federal share of **Federal Work-Study (FWS)** wages paid to a student may not exceed 75%. The 75% applies to expenditures for FWS wages and does not include any administrative cost allowance. Schools must provide at least 25% of a student's total FWS wages from nonfederal sources. For example, if a school wanted to spend \$45,000 of its FWS federal funds for student wages, it would be required to provide at least \$15,000 in nonfederal funds. A total of \$60,000 would then be available to pay student wages under the school's FWS Program.

There are situations when the ratio of federal share to nonfederal share of 75% to 25% does not apply:

- Any school may provide more than the required minimum 25% nonfederal share. For example, if a school received \$60,000 in federal funds and wished to spend a total of \$100,000 for student FWS wages, it could spend \$40,000 of nonfederal funds to do so. In this example, the federal share of students' total earned compensation under the FWS program expenditures would be 60%, while the nonfederal share would be 40%. (On the FISAP, however, you never report more than the required match.)
- For off-campus FWS jobs with private, for-profit organizations, the federal share of wages paid to students is limited to 50%. The for-profit organization must provide a nonfederal share of at least 50%. The employer may contribute a nonfederal share that exceeds the required 50%. However, **a school may use no more than 25% of its total current year initial and supplemental allocations to pay wages to students employed with private, for-profit organizations.**
- The federal share of compensation paid to students employed as reading tutors for children, mathematics tutors for children, or in a family literacy project performing family literacy activities may exceed 75% and may be as high as 100%, as documented in the school's accounting records.
- The federal share can be as much as 90% (and the nonfederal share can be as little as 10%) for students employed at a private, nonprofit organization or at a federal, state, or local public organization or agency under specific circumstances. Only organizations that are unable to afford the cost of this employment are eligible to pay a reduced nonfederal share. In addition, the school may not own, operate, or control the organization, and the school must select the organization or agency on a case-by-case basis. No more than 10% of a school's FWS students may benefit from this provision.

- The federal share of FWS wages paid to a student may be lower than 75% if the employer chooses to contribute more than the minimum required nonfederal share. For example, if a school has a large demand for FWS jobs from its various departments, it may contribute more than the usual 25% to allow for additional employment.
- The federal share can be 100% for a school designated as described under *Matching at Excepted Institutions* earlier in this chapter.

The federal share may **not** be used to provide fringe benefits such as sick leave, vacation pay, or holiday pay, or employer's contributions to Social Security, workers' compensation, retirement, or any other welfare or insurance program. These restrictions on the federal share apply even when the Department authorizes a federal share of 100% of FWS wages.

Note: The federal share of allowable costs in carrying out the JLD Program described later in this chapter may not exceed 80% of such costs.

FWS Nonfederal Share Sources

A school can pay the nonfederal share from its own funds or other nonfederal sources such as outside funds from an off-campus employer. The school can also pay the nonfederal share in the form of documented noncash contributions of services and equipment such as tuition and fees, room and board, books, and supplies, documented by accounting entries. **When matching with cash, the school must deposit its share at the same time it receives the federal share.**

Do not confuse making the match with services and/or equipment for which a school **doesn't** need permission with the situation where the school is paying in cash and crediting the student's account with a portion of the student's pay to cover institutional charges. **In the latter case, a school may not credit the student's account with FWS earnings without the student's permission.**

If a school receives more money under an employment agreement with an off-campus agency than the sum of (1) required employer costs, (2) the school's nonfederal share, and (3) any share of administrative costs the employer agreed to pay, the school must handle the excess in one of three ways:

1. use it to reduce the federal share on a dollar-for-dollar basis;
2. hold it in trust for off-campus employment during the next award year; or
3. refund it to the off-campus employer.

Nature and source of Institutional share

34 CFR 675.27



Paying nonfederal share

34 CFR 675.16(B)(2) & (3)

Employment conditions and limitations, cite

34 CFR 675.20(c)



FWS minimum wage, cite

Dear Colleague Letter CB-96-23



Fees or commissions prohibited, cite

34 CFR 675.27(b)



No payments at less than minimum wage

The Small Business Job Protection Act of 1996 established a sub-minimum or training wage that is lower than the minimum wage. However, **it is not permissible to pay the sub-minimum wage rate to students working FWS jobs.**

Funds from programs sponsored by federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the nonfederal share, as long as the programs have the authority to pay student wages. A school should contact the appropriate federal agency to see if the program in question does have this authority.

FWS Conditions of Employment and Limitations

All FWS work, whether on campus or off-campus, has certain conditions and limitations. FWS employment must be governed by those employment conditions, including the rate of pay, that are appropriate and reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable federal, state, or local law.

FWS employers must pay students at least the federal minimum wage in effect at the time of employment. A school may not count fringe benefits as part of the rate of pay, and may not pay a student commissions or fees.

FWS employment must not displace employees (including those on strike), or impair existing service contracts. Also, if the school has an employment agreement with an organization in the private sector, the organization's employees must not be replaced with FWS students. Replacement is interpreted as displacement.

FWS positions must not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction. In determining whether any FWS employment might violate this restriction, a school should consider the purpose of the part of the facility in which the work will take place and the nature of the work to be performed.

Neither a school nor an outside employer that has an agreement with the school to hire FWS students may solicit, accept, or permit soliciting any fee, commission, contribution, or gift as a condition for a student's FWS employment. However, a student may pay union dues to an employer if the payment of such dues is a condition of employment, and if the employer's non-FWS employees must also pay those dues.

The Fair Labor Standards Act of 1938, as amended, prohibits employers (including schools) from accepting voluntary services from any paid employee. Students employed under FWS must be paid for all hours worked.

A student may earn academic credit as well as compensation for FWS jobs. Such jobs include but are not limited to internships, practica, or assistantships (e.g., research or teaching assistantships). However, a student employed in an FWS job and receiving academic credit for that job may not be –

- paid less than he or she would be if no academic credit were given;
- paid for receiving instruction in a classroom, laboratory, or other academic setting; and
- paid unless the employer would normally pay the person for the same job.

Community Service Jobs

The HEA requires schools to spend a portion of their FWS total allocations (initial and supplemental) to compensate students working in community service jobs. A community service job is defined as an activity that improves the quality of life, or solves a problem for a community's residents – especially its low-income residents. Examples of community services include healthcare, child care, public safety, crime prevention and control, rural development, and community improvement. These services must be open to the entire community.

A school must use at least 7% of its annual FWS total allocations (initial and supplemental) to pay the federal share of wages to students working in community service jobs. In meeting the 7% community service expenditure requirement, one or more FWS students **must** be employed in at least one reading-tutoring project as a reading tutor for children who are preschool age or are in elementary school, or in a family literacy project performing family literacy activities.

Math and reading tutors

In an effort to increase the reading and math proficiency of our nation's children, tutoring in these areas has become a federal priority. The FWS regulations authorize a 100% federal share of FWS wages earned by a student who is employed–

- as a reading tutor for preschool-age through elementary-school-age children;
- as a mathematics tutor for children in elementary school through ninth grade; *or*
- performing family literacy activities in a family literacy project that provides services to families with preschool-age children or children who are in elementary school.

Internships, Practica, and Assistantships, cite

34 CFR 675.20(d)



Community Service cite

DCL CB-97-12, July 1, 1997



For additional information on community service work-study, please see the "Federal Student Aid Handbook, Volume 6 – Campus-Based Programs."

7% Citation

34 CFR 675.18(g)



Reading and math tutors

DCL CB-97-12, July 1999

DCL CB-99-12, July 1997

FSA Handbook, Volume 6



Wages from Federal Agency

The portion of the FWS wages contributed as the institutional share by a federal off-campus agency are not considered part of the "federal share." Thus, a federal agency may provide the required share of student compensation normally paid by off-campus agencies plus any other employer costs that they agree to pay.

The work performed by the student must be for the school itself; for a federal, state or local public agency; or for a private, nonprofit organization. A school is not required to make a request to ED to be able to pay these FWS students' wages with a 100% federal share from FWS funds. Instead, the school should use 100% federal dollars to pay these students and **document this on both its FISAP and its internal accounting records.**

Waivers of the Community Service and/or Math and Reading Tutor requirements

A school may request a waiver of these requirements; the request must be in writing. The fact that it may be difficult for the school to comply with these requirements is not, in and of itself, a basis for granting a waiver.

To request a waiver for an award year, a school must send a waiver request and any supporting information or documentation to ED by the established deadline date of that award year. If a school has any questions about the community service expenditure requirements or waiver procedures, the school can contact ED's Campus-Based Call Center at

877-801-7168

Payment for FWS Training and/or Travel

A student may be paid for training for any FWS employment or for a reasonable amount of time for travel that is directly related to a community service job.

Because every job requires some type of training, whether formal or informal, ED allows FWS students to be paid wages during a training period that is conducted for a *reasonable* length of time. This applies regardless of the type of FWS job the student has. A reasonable training period is one that occurs immediately before the student begins the regular duties of the FWS employment and does not exceed approximately 20 hours. Students also may be compensated for a reasonable amount of time to perform ongoing activities (for example, preparation and evaluation time) needed to accomplish their FWS jobs.

Schools may pay students for a reasonable amount of time spent for travel that is directly related to employment in community service activities. Time spent for travel should be reported on the student's FWS time record in the same way hours actually worked are currently reported. **Schools should provide their students with a form on which students can record travel time separately from time spent working.**

Waiver request statement

Dear Partner Letter CB-05-05, dated
April 2005



Training and Travel, cite

34 CFR 675.18(h)



Reallocated FWS Funds

Unexpended FWS funds are returned to ED by August of each year and reallocated to eligible schools that used at least 5% of their total FWS allocations to pay students employed as reading tutors or in family literacy activities in the preceding award year.

When a school receives reallocated FWS funds, the minimum amount of FWS federal funds the school must expend on community service jobs is the greater of the following two amounts:

1. 7% of the total (initial and supplemental) FWS allocation, *or*
2. 100% of the amount of the reallocated FWS funds.

Job Location and Development Program

The **Job Location and Development (JLD) Program** enables schools to expand off-campus job opportunities for currently enrolled students who want jobs regardless of their financial need. The JLD Program also may be used to locate off-campus jobs for FWS students. JLD funds are to be used to pay students whose jobs were located and developed through the JLD Program.

A school may use up to 10% or \$50,000 (whichever is less) of its FWS allocation to establish or expand a program to locate and develop off-campus jobs, including community service jobs. Jobs located or developed under the program may be for either profit or nonprofit employers.

The federal funds that a school sets aside from its FWS allocation for JLD Program expenses may be used to pay up to 80% of allowable costs. The school must provide the remaining 20% of allowable costs either in cash or in services, as documented in accounting records.

Work-Colleges Program

A *work college* is defined as an eligible public or private, nonprofit school with a commitment to community service that –

- has operated a comprehensive work-learning program for at least two years;
- requires all students who reside on campus to participate in a comprehensive work-learning program;
- has a program that requires providing service as an integral part of the school's educational program, and as part of the school's educational philosophy; and
- provides students in the comprehensive work-learning program with an opportunity to enhance their education by contributing to the welfare of the community.

Reallocation and use of excess allocations, cite

42 U.S.C. Sec. 442(d)(1)



Questions about the Work-Colleges Program should be directed to the Campus-Based Call Center at

877-801-7168

Schools that satisfy the HEA definition of *work college* may apply to ED to participate in the program. In addition to federal appropriations, schools can transfer FWS and/or new FCC funds for Federal Perkins Loans to the Work-Colleges Program.

Work colleges may use available program funds to coordinate and carry out any of the following activities:

1. support the educational costs of qualified students through self-help payments or credits provided under the work-learning program (within the limits of Part F of Title IV of the HEA);
2. promote the work-learning service experience as a tool of postsecondary education, financial self-help, and community service-learning opportunities;
3. carry out activities in Sections 443 or 446 of the HEA (grants to FWS programs);
4. administer, develop, and assess comprehensive work-learning programs, including community-based, work-learning alternatives that expand opportunities for –
 - community service and career-related work and alternatives that develop sound citizenship;
 - encourage student persistence; and
 - make optimum use of assistance under the Work-Colleges Program in education and student development;
5. coordinate and carry out joint projects and activities to promote work- service learning; and
6. carry out a comprehensive, longitudinal study of student academic progress and academic and career outcomes, relative to student –
 - self-sufficiency in financing their higher education;
 - repaying student loans;
 - continued community service and the kind and quality of service performed; and
 - career choice and community service selected after graduation.

Job Descriptions

Job descriptions for all FWS positions should be a part of the control procedures included in your school's policies and procedures manual. A written job description will help you ensure that the position is one that qualifies under the FWS program regulations (34 CFR 675.20, 675.21, 675.22, and 675.33). In addition, a written job description provides students with the information they need to determine whether they qualify for the job, whether the job is related to their educational or career objectives, and whether the job is of interest to them. Moreover, by considering the rates of pay applicable to the position, the qualifications for each pay level, and the qualifications of a student applicant, a financial aid administrator can determine the hours a student will need to work in order to earn the funds specified in the student's FWS award. Finally, a written job description establishes a written record to which all parties can refer. It can help avoid disagreements and adjudication and provide a reference in such cases.

Each FWS position should have a job description that includes the:

- name of the position;
- classification of the position (e.g., reading tutor 1, reading tutor 2, laboratory assistant, library technician 1 or 2, etc.);
- name and address of the student's employer (the school, public agency, nonprofit organization, etc.);
- department or office in which the student will be employed;
- location where the student will perform his/her duties;
- name of the student's supervisor;
- purpose/role of the position within the organization;
- duties and responsibilities associated with the position, and how they relate to the purpose/role;
- rates of pay for the position (cross-referenced to the wage rates appearing in the school's policies and procedures manual);
- general qualifications for the position, and the specific qualifications for the various levels/rates of pay associated with the position;
- procedures for determining a student's rate of pay when a position has multiple rates; and
- evaluation procedures and schedules.

Wage rates, cite

34 CFR 675.24



Establishing wage rates

Undergraduate students are paid Federal Work-Study (FWS) wages on an **hourly basis only**. Graduate students may be paid by the hour or may be paid a salary. Regardless of who employs the student, the **school** is responsible for making sure the student is paid for work performed.

A school should determine the number of hours a student is allowed to work based on the student's financial need and on how the combination of work and study hours will affect the student's health and academic progress. There are no statutory or regulatory limits on the number of hours per week or per payment period a student may work, provided no overaward occurs. (See the *Federal Student Aid Handbook*, Volume 6 – *Campus-Based programs*.)

A student must be paid at least the federal minimum wage in effect at the time of employment. In addition, a school may not count fringe benefits as part of the wage rate and may not pay a student commissions or fees. In determining an appropriate rate, the school must consider the following –

- the skills needed to perform the job;
- how much persons with those skills are paid in the local area for doing the same type of job;
- rates the school would normally pay similar non-FWS employees; and
- any applicable federal, state, or local laws that require a specific wage rate.

A student's need places a limit on the total FWS earnings permissible but has no bearing on his or her wage rate. It is not acceptable to base the wage rate on need or on any other factor not related to the student's skills or job description. **If a student's skill level depends on his or her academic advancement, the school may pay a student on that basis.** For example, a junior or third-year lab student may be paid a higher rate than a sophomore or second-year lab student. However, in most cases, students performing jobs comparable to those of other employees should be paid comparable wages, whether the other employees are students at different class levels or are regular employees.

Records and reporting in the FWS program

For reporting and accounting purposes, FWS expenditures must be distinguishable from other institutional expenditures. FWS compensation should either be entered in a separate sub-ledger, or, if listed on the general payroll ledger, should be grouped separately from other expenditures. If payroll records are maintained electronically, a special *cost center*, *object class*, or *program identifier* must be used for FWS payments to students.

Timesheets

You must maintain adequate timesheets or records of hours worked for FWS students. These timesheets must show, separately for each day worked, the hours a student worked, and the total hours worked during the job's payment cycle (i.e., twice a month, every week, every two weeks, etc.). These amounts and hours recorded must match the hours for which the student is paid.

FWS timesheets must be certified by the student's supervisor.

Students working for your school must have their timesheet certified by either their supervisor or an official at the school. Students working in off-campus jobs must have their timesheets certified by an official at the off-campus site.

Off-campus employers may fax in timesheets to the school, but they must also provide original copies. Original copies should be mailed or hand delivered to the school at the first opportunity. **The original copies of off-campus timesheets must be maintained by the school.**

Original records must be maintained since data from those records is submitted as part of the Fiscal Operations Report section of the FISAP.

Payroll Vouchers

Your school must provide payroll vouchers that contain sufficient information to support all payroll disbursements. At a minimum, a school's payroll vouchers should –

- include the school's name and address;
- identify the starting and ending dates of the payroll period;
- include the student's name;
- identify the student's work-study position;
- include the number of hours the student worked during the pay period;

FWS Timesheets and Payroll Vouchers, cite

34 CFR 675.19 (b)



- for undergraduate students, specify the student's hourly rate of pay;
- for a graduate student, identify the student's hourly rate of pay or the student's salary;
- include the student's gross earnings;
- itemize any compensation withheld for federal, state, county, or city taxes, and other deductions;
- include identification of any noncash payments made to the student for work during the period, and point to an auditable record of that contribution;
- include the student's net earnings;
- include a check number, duplicate receipt, or other auditable payment identification; and
- identify and itemize any overtime earnings (a student may be paid overtime with FWS funds).

Records of noncash contributions

There are two cases under which students may not receive the net FWS earnings identified on their payroll voucher. In the first, a student who has FWS earnings at a school that provides its FWS institutional match with cash, has provided written permission for the school to credit part of the student's earnings to the student's account. A school must obtain a separate written authorization from a student before any part of the student's FWS cash earnings may be credited to the student's account. The school must maintain that authorization in the student's file. In addition the school must provide a clear audit trail showing that the student received credit on the student's account for any earnings not paid directly to the student.

The second case involves schools that provide part (or all) of their FWS institutional match with credit for tuition, fees, services, or equipment. A school that provides its institutional match with tuition, fees, services, or equipment does **not** need to obtain a student's permission. However, **before employing a student** this type of school must provide the student with a written explanation of this procedure including the specific percentage of the student's earnings that the student will receive in credit for tuition, fees, services, or equipment. Moreover, **before the close of the student's final scheduled payroll period**, the school must give the student a statement that itemizes the total amount of tuition, fees, services, or equipment credited to the student's account from the student's FWS earnings. In addition **the school's records must provide a clear audit trail showing that the student received credit on the student's account for any earnings not paid directly to the student.**

Paying students

A student's FWS compensation is earned when the student performs the work, and the school must pay the student that FWS compensation at least once a month. Regardless of who employs the student, the school is responsible for ensuring that the student is paid for work performed.

Before a school may make an initial disbursement of FWS compensation to a student for an award period, the school must notify the student of the total amount of FWS funds the student is authorized to earn, and how and when the FWS compensation will be paid.

Except when a school's institutional share is paid from noncash sources (tuition, services and equipment, room and board, and books), the school must pay the student its share of his or her FWS compensation at the same time it pays the federal share. If the school pays a student its FWS share for an award period in the form of these noncash sources, it must pay that share before the student's final payroll period.

If a school pays its FWS share in the form of *prepaid* tuition, fees, services, or equipment for a *forthcoming academic period*, it must give the student a statement before the close of his or her final payroll period listing the amount of tuition, fees, services, or equipment earned.

A school may pay a student after the student's last day of attendance for FWS compensation earned while he or she was in attendance at the school.

A school must pay FWS compensation to a student by –

1. issuing a check or similar instrument that the student can cash on his or her own endorsement; or
2. initiating an electronic funds transfer (EFT) to a bank account designated by the student **after obtaining authorization**; or
3. crediting the student's account at the school (after **obtaining written authorization**).

Payments to students, cite

34 CFR 675.16



Written authorization, cite

34 CFR 675.16(a)(4), (5), & (6)



Authorizations

Except when a school's institutional share is paid with noncash sources (tuition, services and equipment, room and board, and books), a school must obtain a separate written authorization from the student if the student is paid FWS compensation by –

- crediting the student's account at the school; or
- initiating an EFT to a bank account designated by the student (**including accounts that are the basis for bank-issued debit cards**).

If a school obtains a written authorization from the student, the school may hold excess FWS funds on the student's account.

In obtaining the student's written authorization, a school –

- may not require or coerce the student to provide that authorization;
- must allow the student to cancel or modify that authorization at any time; and
- must clearly explain to the student how it will carry out the activity authorized.

If a student modifies the written authorization, the modification takes effect on the date the school receives the modification notice. If a student cancels a written authorization, the school may use the FWS compensation to pay only those authorized charges incurred by the student before the school received the cancellation notice.

Holding FWS funds

A school receiving funds under the reimbursement payment method (see chapter 13) may not hold FWS funds for students. Other schools may if authorized by the student, hold FWS funds that would otherwise be paid directly to the student.

If a school holds excess FWS funds, the school must –

1. identify the amount of FWS funds the school holds for each student in a subsidiary ledger account designated for that purpose;
2. maintain, at all times, cash in its bank account in an amount at least equal to the amount of FWS funds the school holds for the student; and
3. pay any remaining balance to the student by the end of the institution's final FWS payroll period for an award period.

If a student cancels the authorization to hold FWS funds, the school must pay those funds directly to the student as soon as possible but no later than 14 days after the school receives the cancellation.

Holding FWS funds, cite

34 CFR 675.16(a)(8)



Crediting student accounts

With a student's permission, a school may credit the student's account at the school to satisfy current award year charges for –

- tuition and fees;
- board, if the student contracts with the school for board;
- room, if the student contracts with the school for room;
- other institutionally provided educationally related goods and services.

In addition, a school may credit a student's account to pay **minor prior award year charges** if these charges are less than \$100, or if the payment of these charges won't prevent the student from paying his or her current educational costs.

If a school pays a student FWS compensation by crediting the student's account, and the result is a credit balance, the school must pay the credit balance directly to the student as soon as possible but no later than 14 days after the balance occurred on the account.

Garnishment of wages

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt; paying FWS funds in such cases would not be in compliance with the Federal Student Aid programs requirement that funds be used solely for educational purposes. As schools may not necessarily be the employers in an off-campus employment arrangement, they must adopt effective procedures to notify off-campus employers that garnishment of FWS wages is not permissible.

Earnings for the next period of enrollment

Many FWS students must pay the bulk of their education costs before they have had a chance to earn FWS wages. To provide students with the opportunity to earn wages in time to pay more of their education costs, the Department allows students to earn FWS wages to cover expenses associated with the next period of enrollment offered by the school.

The student must be planning to enroll (or to reenroll), and must demonstrate financial need for that next period of enrollment. (The next period of enrollment is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year.) A student may earn FWS funds for the next period of enrollment during any period of enrollment, including a period of enrollment that is comprised, in whole or in part, of mini-sessions. A student may also earn FWS wages towards the next period of enrollment during a period of nonattendance, (See discussion under *Earnings for periods of nonattendance* that follows.)

Earnings applied to cost-of-attendance, cite

34 CFR 676.25



Payments to student's account, cite

34 CFR 676.16(a)(3)(iii) & (iv)



Earnings for periods of nonattendance

A student may be employed through the FWS programs during a period of nonattendance, such as a summer term, an equivalent vacation period, the full-time work period of a cooperative education program, or an unattended fall or spring semester. A student must be planning to enroll (or to reenroll), and must have demonstrated financial need for the next period of enrollment. The student's FWS (net earnings minus taxes and job-related costs) during this period of nonattendance must be used to cover expenses associated with his or her financial need for the next period of enrollment.

A student whose eligibility for summer FWS employment during a period of nonattendance is based on his or her anticipated enrollment in the next period of enrollment may fail to attend the school. When a student fails to attend for the next period of enrollment, the school that employed the student must be able to demonstrate that the student was eligible for employment, and that the school had reason to believe the student intended to study at that school in the next period of enrollment. At a minimum, the school that employed the student must keep a written record in its files showing that the student had either registered for classes, or accepted the school's offer of admittance for the next period of enrollment.

A student in an eligible program of study abroad may be employed during a period of nonattendance preceding the study abroad if he or she will be continuously enrolled in his or her domestic school while abroad, and if the student's courses abroad are part of the domestic school's program. In such a case, a student may be employed in a qualified position in the United States, at the home school's branch campus in a foreign country, at a U.S. government facility abroad, or in a U.S. company abroad.

Mini-session example

Bowen University has a summer term made up of three mini-sessions. Ted enrolls in classes for the June and August mini-sessions, but does not enroll in any classes for the July mini-session. Ted has a financial need of \$500 for his attendance in two of the summer mini-sessions. Ted also plans to enroll in the following fall semester and has a remaining need of \$250 for that semester. Ted is given a \$750 FWS award in the summer (\$500 for the two summer mini-sessions and \$250 for the fall semester). Ted knows his June mini-session courses will be very demanding and he will not have time to work. So, Ted earns \$500 during the July mini-session when he has no classes. Ted has classes again in August, but his academic workload is lighter. In August, Ted earns \$250 towards his education costs in the upcoming fall semester.

Earnings during mini-sessions

If a school combines a series of mini-sessions or modules into one term (e.g., three summer mini-sessions into one summer semester), an FWS student attending any of the mini-sessions may earn FWS wages at any time throughout that term. The school may apply those earnings towards the student's financial need for the mini-session(s) attended and/or the next period of enrollment. The school must base the student's financial need for attending the summer term on the period of time for which the student is actually enrolled in the mini-sessions.

The amount of FWS wages a student may earn at any given point in time in the term does not depend on whether or not the student is enrolled in a mini-session at that point in time. The school or student may choose how to distribute the hours worked throughout the summer term.

Off-Campus Agreements

If some of your school's FWS recipients work for an off-campus organization, your school must enter into a written agreement – a contract – with the off-campus organization. The school must ensure the off-campus organization is a reliable agency with professional direction and staff, and that the work to be performed is consistent with the purpose of the FWS Program.

The agreement should specify what share of student compensation and other costs will be paid by the off-campus organization. For-profit organizations **must** pay the nonfederal share of student earnings.

The agreement also sets forth the FWS work conditions and establishes whether the school or the off-campus organization will be the employer for such purposes as hiring, firing, and paying the student. The employer is generally considered to be the entity that will control and direct the work of the FWS students—supervising them at the work site, regulating their hours of work, and generally ensuring that they perform their duties properly. However, **the school is ultimately responsible for making sure that payment for work performed is properly documented and that each student's work is properly supervised.**

The agreement should define whether the off-campus organization will assume payroll responsibility and bill the school for the federal share of the students' wages, or whether the school will pay the students and bill the off-campus organization for its contribution. The school must make up any payments the off-campus organization does not make.

It is the school's responsibility to ensure that FWS payments are properly documented, even if the off-campus organization does the payroll. To fulfill that responsibility, the school must keep copies of timesheets and payroll vouchers and keep evidence that the students were actually paid (usually copies of the canceled checks or receipts signed by the students).

Off-Campus Agreements, cite

34 CFR 675.20(b)



Providing the federal share or billing for the employer's share

If an off-campus agreement specifies that the off-campus organization will assume payroll responsibility and bill the school for the federal share of the students' wages, the school will be sending federal funds to the off-campus organization. The agreement with the school should include the procedures the off-campus organization must follow and the documents it must provide in order to be reimbursed for the federal portion of a student's salary.

Your school should have written policies that describe the aforementioned procedures, the documentation the off-campus organization must provide, and how the reimbursement process will be handled. Your accounting entries must completely track the payment of the federal share to the off-campus organization, and must be backed by the original documents specified in your policies. Your school is liable for federal funds expended for which it does not have proper records or documentation.

If your agreement with the off-campus organization specifies that the school will pay the students and bill the off-campus organization for its share, the agreement should include the steps the school will take, the documentation the school will provide, and the time frame within which the off-campus employer will pay the school its share of the FWS compensation.

Your school should have a system for ensuring that off-campus employers are billed for their share of FWS wages in a timely manner. In addition, you should have a system for following up if bills remain unpaid after a reasonable period of time. Your accounting entries must completely track the billing and receipt of the employer's share, and must be backed by any original documents required (e.g., detail of the wages paid to students and calculation of the employer's share).

Internal controls in the FWS Program – reconciliation, fiscal, and program records

As described in chapter 12, your school must reconcile, at least monthly, your FWS draws recorded in GAPS to the funds received in the bank account your school has designated to receive electronic transfers. You must also reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to ED, and explain all discrepancies.

In addition, you should examine your FWS program and fiscal records at the start of the year and monthly:

- Do you have a method for verifying that a student's rate of pay recorded in your payroll system matches that on which the award was calculated, and the rate assigned to the position and experience level in the school's policies and procedures?
- Do you have a system that records the maximum a student may earn in FWS wages and alerts you if a student approaches that amount?
- Do you periodically evaluate your rate of expenditures to determine if that rate continues whether you will expend less, exactly, or more than the amount you have budgeted for FWS expenditures?
- Are your matching funds consistently deposited at the same time you received your federal share?
- In the FWS program, your requests for funds should always be for a payroll for which data has been entered. The only time your need for funds should be greater or less than your draw is when anticipated payments from an off-campus employer are early or late. Excepting those occasions, do you often find yourself requesting additional funds or returning unused funds?
- Do you have a process in place to ensure that students are actually working the hours reported – that timesheets are accurate?
- Do you frequently audit payrolls to test whether hours recorded in the payroll system match the hours reported on student timesheets?

THE FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan (Perkins) Program includes Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). No new Defense Loans were made after July 1, 1972, but a few are still in repayment. Federal Perkins Loans and NDSLs are low-interest, long-term loans made through school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education.

Before a student may be given a Federal Perkins Loan, your school's business/bursar's office must coordinate with the Financial Aid Office at your school to ensure that the student in question is eligible by both the general student eligibility and Federal Perkins eligibility regulations, has financial need, and that the student has attended entrance counseling and has signed a Perkins Master Promissory Note (MPN).

Perkins Federal share

The amount of new Federal Perkins Loan Program funds provided to a school for an award year by the federal government is called the *Federal Capital Contribution (FCC)*. The FCC funds to be used for the Federal Perkins Loan Program must be deposited into the school's Perkins revolving fund. The FCC deposited into the school's Perkins revolving fund must not exceed 75% of the combined FCC and required non-federal share.

Unlike the FWS and FSEOG programs, the Department is not able to authorize a federal share of 100% for the FCC deposited into the school's Perkins revolving fund. It should also be noted that when a school transfers new FCC to either the FWS or FSEOG programs, the FCC is not deposited into its Perkins revolving fund.

Perkins Non-federal share

In the Federal Perkins Loan Program, every student's loan will be comprised of federal dollars and institutional funds (the *Institutional Capital Contribution (ICC)*).

A school must provide a share of each student's Federal Perkins loan from the school's funds (the ICC). The ICC must equal or exceed:

- one-third (33 1/3%) of the FCC, *or*
- one-quarter (25%) of the combined FCC and ICC.

For example, if a school received an FCC of \$30,000, it would be required to provide an ICC of at least \$10,000, for a combined amount of \$40,000. The FCC (\$30,000) *divided by .3333 equals \$40,000 minus \$30,000 equals \$10,000*. The Department is not able to grant a waiver of the ICC.

The ICC must be comprised exclusively of institutional funds, and you must deposit the ICC prior to or at the same time as you deposit the FCC. The ICC must be deposited every year regardless of any overmatch a school may have made during the previous award year.

When you transfer new FCC to either the FWS or FSEOG programs, the FCC is not deposited into your Perkins revolving fund, and you do not have to provide an ICC share. Instead, you must provide a non-federal share for those FCC funds at the level required by the program to which it was transferred and spent in by your school.

Level of expenditure (LOE)

The *level of expenditure (LOE)* is the maximum dollar amount that ED allows a school to expend from the school's Federal Perkins loan fund in a given award year. The LOE includes **all authorized expenditures** for the program, such as all loans to students, administrative cost allowance, and collection costs. The LOE equals the total of FCC, ICC, funds available from the school's projected collection of Federal Perkins Loans in repayment, estimated Federal Perkins Loan cancellation reimbursements, and anticipated cash on hand (FCC + ICC + collections + cancellation reimbursements + cash on hand = LOE).

To request an increase in their LOE, schools make the request through the School Participation Team (SPT) serving their state. Schools should request FCC only when its cash on hand has been depleted. The telephone numbers for the school participation teams and divisions are found at the end of chapter 8.

Excess cash

The legislative requirement included in Section 466 of the Higher Education Act of 1965, as amended (HEA) requires the return of excess Federal Perkins Loan funds when available resources exceed a school's needs in the foreseeable future. A school has excess liquid capital in its Federal Perkins Loan fund if the funds available (cash on hand, plus projected collections, plus Federal Capital Contribution [FCC] and Institutional Capital Contribution [ICC], and cancellation repayments) for the current award year significantly exceed the award year's total expenditures from the fund. Schools should disburse any excess cash during the award year or return the excess Federal Perkins Loan funds to the Department.

Federal Perkins cash on hand recorded on the school's general ledger annually as of June 30 and October 31 must be reported on the Fiscal Operations Report.

Improper Disbursements

Your school is liable for any incorrect payments made to students due to school error.

Disbursing Federal Perkins funds

Pre-disbursement activities

There are several tasks you must complete prior to disbursing Federal Perkins Loans.

You must have a process for confirming that the student understands the terms of the loan and accepts the loan by signing the MPN. For more on active and passive confirmation, see chapters 17 and 19.

You must confirm the student's enrollment status, because a student who is enrolled less than half time is not eligible for an in-school deferment. Also you should have a system that checks students' enrollment status periodically throughout an award year, as their status may change due to withdrawal from classes, expulsion, or other unforeseen circumstance. (See *Loans to borrowers enrolled less than halftime* later in this chapter.)

For a comparison and summary of the requirements of entrance and exit counseling, see the chart at the end of the section on exit counseling. The arrows indicate those elements that must be covered in both entrance and exit counseling.

Ensuring you have a valid promissory note

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to a school. For loans using the closed-end or open-end promissory notes, the borrower was required to sign the note prior to the first disbursement of each Perkins Loan the borrower received. For loans made using the Perkins Master Promissory Note (MPN) the borrower is only required to sign the MPN once, prior to the first disbursement of the borrower's first Perkins Loan. The student must receive a copy of the note at (or before) the entrance interview. The note includes information about the loan's interest rate, repayment terms, and minimum rates of repayment; deferment, forbearance, and cancellation provisions; credit-bureau reporting; late charges, attorney fees, collections costs, and consequences of default.

If the school does not have a valid note or other written evidence that would be upheld in a court of law, the school has no recourse against a borrower who defaults. Two examples of invalid notes are notes that have been changed after they were signed and notes without proper signatures or dates for loan advances. In such cases, the school would have to repay to its Federal Perkins Loan Fund any amounts loaned, whether recovered from the borrower or not, as well as any Administrative Cost Allowance (ACA) claimed on those amounts.

Promissory note cite

34 CFR 674.31

FSA Handbook, Volume 6, Chapter 3.



Retention of records cite

34 CFR 674.19(e)(4)(iii)



If an error is discovered in a promissory note, the school should obtain legal advice about what action it should take. The appropriate school official and the student should sign by or initial all approved changes in the note.

When a borrower has fully repaid a Federal Perkins Loan, you may notify the borrower in writing that he or she has fulfilled his or her repayment obligation. (You are no longer required to mark the original note *Paid in Full*, have it certified by an official of the school, and give it to the borrower.) The school must keep a copy of the note for at least three years after the date the loan was paid in full.

Master promissory note

A Master Promissory Note is a promissory note under which the borrower may receive loans for a single award year or multiple award years. Because the MPN can be used to award Federal Perkins Loans on a multi-year basis, there is no box for loan amount or loan period on the note. If you choose to use the MPN as a single award-year promissory note, the borrower must sign an MPN for each award year. The borrower must sign a new Federal Perkins MPN for each subsequent award year. When used as a multi-year note, the borrower signs the MPN only once, before the first disbursement of the borrower's first Federal Perkins Loan.

The signed MPN covers all loans that the school makes to the borrower until the MPN expires. You may make Federal Perkins Loans under an MPN for up to 10 years from the date the borrower signed the MPN. However, the first disbursement must be made within 12 months of the date the borrower signed the MPN. If no disbursements are made within that 12-month period, the borrower must sign another MPN before receiving a Federal Perkins Loan. In addition, no further loans may be made under an MPN after the school receives written notice from the borrower requesting that the MPN no longer be used as the basis for additional loans.

Your school must provide the disclosure information described earlier before the first disbursement of each Federal Perkins Loan made under the MPN. In addition, you must notify the borrower of each disbursement of a Federal Perkins Loan made under Federal Perkins MPN. This notification should inform the borrower of the amount disbursed, and provide the borrower with an opportunity to cancel the disbursement, or cancel the Federal Perkins Loan. You will need to retain subsidiary records of disbursements and adjustments (if any) to satisfy the requirement that each Federal Perkins Loan is supported by a legally enforceable promissory note. Actual disbursement records or student account records would serve this purpose.

Making changes to the MPN

You may not make changes to, deletions from, or additions to the prescribed language on the MPN. However, you may delete bracketed text. Of course, you may print information (name, address, and telephone number) identifying your school in Section B, Item 6. You may also use appropriate coding (for example, bar coding to reflect the source, type, or other identification system for filing or processing) in this area.

You may print bar coding or coding identifiers, such as student ID number or loan number, in the side or bottom margins to meet the requirements of your school's processing systems. You may not print these coding identifiers on the promissory note in a way that would alter the general layout of the note. You may also print in the lower margin of the note a reference to the type, for example: original, student copy, file copy.

You may adjust the height of the boxes in Sections A and B to meet the requirements of individual processing systems, as long as the change doesn't alter the general format of the form, result in reduced point size, move text from one page to another, or otherwise change the general presentation of the form.

You must print the original and borrower copies of the promissory notes with black ink on white paper. You may not change the typeface, point size, and general presentation of the form from the documents approved by the Department. However, you may print your school's identifying information located in Section B, Item 6 in another color to make your school's name and address more pronounced. It is preferable to print the MPN on two sheets of paper, front and back. However, you may print the MPN on four single-sided pages.

Entrance Counseling Overview

Before a borrower takes out a loan, you must conduct a thorough entrance interview with the student. Entrance interviews may be conducted individually or in a group with other borrowers. Entrance interviews are important because new students often have little or no experience with loan repayment or managing debt.

Your school must ensure that the student receives comprehensive entrance information, even though the session may be given by a consultant, or servicer, or online. If the information/materials are provided electronically, you'll need to make sure that the student receives written materials for any required information that is not provided in the electronic presentation. Your school is also responsible for ensuring that someone with expertise in the FSA programs is available shortly after the counseling to answer borrowers' questions about those programs.

You have an opportunity at the time of each disbursement to remind students about the importance of satisfactory academic progress (see the *Federal Student Aid Handbook, Volume 1 – Student Eligibility*), planning for future employment, and staying in touch with the office responsible for managing your Federal Perkins portfolio.

If your staff are conducting in-person counseling session, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic manner. We also recommend the use of written tests. Regardless of the counseling methods your school uses, you must be sure to document that the student participated in and completed entrance counseling.

You can usually also get confirmation that the student has completed online counseling session through a printout, electronic message, or other means.

Disclosure and entrance counseling

Each award year, before making the first Federal Perkins Loan disbursement for that award year your school must inform the student of his or her rights and responsibilities under the Federal Perkins Loan Program. The school must also remind the student that the loan may be used only for educational expenses and that the loan must be repaid. The school should also inform the student that the **school** holds the MPN.

The school must disclose all information to the student **in writing**—as part of the application material, as part of the promissory note, or on a separate form. Although the information can be mailed to a student, it is preferable for the aid administrator to meet with the student to answer any questions and to emphasize his or her responsibility to repay the loan.

The school must review all of the repayment terms in the promissory note. In addition, the school must give the following information to the student:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the maximum annual and aggregate amounts the student may borrow;
- the effect that accepting the loan will have on the borrower's eligibility for other types of student aid;
- a statement of the total cumulative balance owed by the student to that school and an estimate of the monthly payment amount needed to repay that balance;
- options the borrower may have to consolidate or refinance;
- a brief notice about the Department of Defense program for repaying loans based on certain military service;
- provisions for loan cancellation;
- a complete list of charges connected with making the loan, including whether those charges are deducted from the loan or whether the student must pay them separately; and
- a notice that the school will report the outstanding balance of the loan to a national credit bureau **at least annually**.

The school should also update the identification and contact information in the promissory note and collect the following additional contact information:

- the name, address, and telephone numbers of the borrower's parents and spouse;
- the spouse's employer; and
- the names and addresses of two or three of the student's personal acquaintances.

A school may not require a borrower to provide this additional contact information as a condition for receiving a subsequent Perkins Loan. However, the additional contact information gained during loan counseling could be valuable later for use in collection procedures, and it will help the school locate a student who leaves school without notice or who does not attend the exit interview. This counseling may not be used to satisfy the requirement for an exit interview.

Your school must ensure that entrance counseling is conducted with each borrower. Required and suggested topics to include in entrance counseling include:

- **Emphasize to the borrower the seriousness and importance of the repayment obligation** the borrower is assuming by signing the MPN and accepting a Federal Perkins Loan.
- **Review the terms and conditions of the loan**, including the current interest rate, the applicable grace period, and the approximate date the first installment payment will be due. Often a student loan is the borrower's first experience in obtaining a loan of any kind, so it helps to clearly explain basic loan terminology to ensure the borrower understands the process and knows who holds his or her loan. For example, you should define such terms as loan servicer (a corporation that administers and collects loan payments for the loan holder), and the use of contractors that may service the loan.
- **Stress that repayment is required**, regardless of educational outcome or subsequent employment or lack thereof. You must explain that the student borrower is obligated to repay the full loan even if he/she doesn't finish the program, can't get a job after graduating, or is dissatisfied with the school's educational program or other services.
- **Describe the consequences of default**, including adverse credit reports, federal offset program, and litigation. We also recommend that you tell the borrower of the charges that might be imposed for delinquency or default, such as the school's collection expenses, late charges, and attorney's fees. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.

- **Explain the effect of accepting the loan** on the eligibility of the borrower for other forms of student assistance. There are program-specific rules for this and you may wish to coordinate with your school's financial aid office.
- **Explain the use of the Master Promissory Note**, the use of the multi-year feature of the MPN, and the borrower confirmation process (including the possibility of passive confirmation in subsequent award years, if applicable). You should advise students to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN. In addition, you should inform borrowers of their right to sign a new promissory note for each loan and opt out of the multi-year feature of the MPN.
- **Inform the borrower of the availability of FSA loan information** in the National Student Loan Data System (NSLDS).
- **Discuss how to manage expenses (budgeting)**. Include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student's earning potential in his or her chosen career, and with required information about anticipated monthly payments and overall indebtedness.
- **Reinforce the importance of communicating all changes of status, etc. to the school**. Counseling should stress the student's obligation to keep the Financial Aid and Business offices informed about address changes, or changes in enrollment. (Failure to tell borrowers about their responsibility to keep the school informed is one of the most common reasons why a loan goes into default.) The student should also be reminded of the importance of notifying the school in the event of a name change (including the change of a last name through marriage) or a change in Social Security Number.
- **Review Borrower's Rights and Responsibilities**. The student must receive a statement of your school's Borrower's Rights and Responsibilities. (See the sample BRR following *Exit Counseling* later in this chapter.)
- **Describe the school's refund and other policies affecting withdrawals**. The borrower should be made aware of the school's satisfactory academic progress policy and refund policy, and how the Return of FSA funds will affect loan repayment.

- **Emphasize the importance of keeping loan records.** This would be a good time, if your school has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note and notices showing when the student received loan payments or his or her account was credited. The student should keep any loan repayment schedules provided by the school as well as records of loan payments – including canceled checks and money order receipts. The student should keep copies of any requests for deferment or forbearance, or any other correspondence with the school.
- **Inform the student of the exit counseling requirement.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled at least half time.

Disbursing Federal Perkins loans

During each payment period, you will disburse a portion of the student's total Federal Perkins loan awarded for the academic year. In most cases, the payment for each payment period will be the following:

Loan amount

Number of payment periods you expect the student will attend

In certain cases, the above calculation does not apply. If a student incurs an uneven level of expenses or resources and needs more funds in a certain payment period, you may advance the student a larger portion of their total Federal Perkins loan to pay for those uneven costs or lack of resources. You must document the reason for the unequal disbursement and maintain that documentation in the student's file.

Only one disbursement is necessary if the total loan for the academic year is \$500 or less.

Disbursing Federal Perkins Loans

34 CFR 674.16(b)(c)(g)



Disbursements to borrowers enrolled less than halftime, cite

34 CFR 674.32



Disbursements to some less than half-time students prohibited

CFR 668.32(a)(1)(iii)

A student pursuing a professional credential or certification required by a state for employment as a K–12 teacher may not receive a Federal Perkins loan if enrolled less than halftime.

Credit bureau reporting, cite

34 CFR 674.16(i)



National credit bureaus

TransUnion Corporation (1-800-888-4213)

Experian (1-888-397-3742)

Equifax (1-888-202-4025)

Loans to borrowers enrolled less than halftime

You can disburse a Federal Perkins loan to a student enrolled less than halftime (as long as the student is not enrolled in a program leading to a professional credential as a teacher), but the student receiving the loan must sign a special promissory note. A student who is less than halftime when he or she receives the proceeds of his or her Federal Perkins loan is not eligible for an in-school deferment. Therefore the promissory note for loans to borrowers enrolled on a less than half-time basis must state that the borrower's repayment period begins at a time that is different than that for students who are enrolled at least half time.

Specifically, the promissory note for borrowers enrolled on a less than half-time basis must state that the borrower's repayment period begins:

1. if the borrower has a Federal Perkins loan in repayment, on the date of the next scheduled installment payment of that loan; or
2. if the borrower has no outstanding loan, at the earlier of –
 - a. nine months from the date the loan was made; or
 - b. the end of a nine-month period that began on the date the borrower ceased to be enrolled as at least a half-time regular student and includes the date the loan was made.

Post-disbursement

After a Federal Perkins Loan disbursement has been made, you must report the disbursement to a credit bureau and to the *National Student Loan Data System (NSLDS)*.

Credit bureau reporting

You must report each Federal Perkins loan to at least one of the three national credit bureaus (see sidebar) with which the Department has an agreement, or to a local credit bureau that is affiliated with one of those three credit bureaus. The following information must be reported:

- the amount and date of each disbursement;
- information concerning repayment and collection of the loan until the loan is paid in full; and
- the date the loan was repaid, canceled, or discharged for any reason.

Any changes to information previously reported on a loan must be reported to the same credit bureau(s) to which the information was originally reported.

NSLDS Reporting

Schools with active Federal Perkins Loans (including National Direct Student Loans, National Defense Student Loans, and Income Contingent Loans) are required to report new loans or updated data on existing loans to NSLDS once a month on a schedule established by ED.

Data providers must meet all NSLDS reporting requirements as detailed in the operating manual *National Student Loan Data System* at

<http://ifap.ed.gov/nsldsmaterials/attachments/2000PerkinsDPIVer2.pdf>

Return of funds

There are circumstances under which you must return funds to the Department’s Federal Perkins Loan Fund:

A student who withdraws before beginning attendance is not entitled to any FSA program funds. Though ED’s 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 your school disburses Federal Perkins funds to a student before the start of classes, and the student fails to begin attendance, the school will have to return the funds.

If a student who begins classes officially or unofficially withdraws, or is administratively withdrawn by the school before completing the period for which the student received Federal Perkins funds, you will have to perform a Return calculation as described in *Appendix G, chapter 2*, in order to determine whether or not you must put money back in your Federal Perkins fund.

When a student ceases to be enrolled at least half time

Required coordination process – When a student ceases to be enrolled at least half time, he or she immediately enters grace or repayment as described previously under *Loans to borrowers enrolled less than halftime*. Your school must have a process for coordinating between the office that tracks enrollment status, the financial aid office, and the office that manages or coordinates the servicing of your Federal Perkins Loan portfolio.

You must have a *coordinating official* who is responsible for ensuring that such information is shared among the offices that need it. For example, the office that tracks enrollment status must alert the coordinating official when a student’s enrollment status drops below half time. The coordinating official then notifies the financial aid and business office. For a more detailed discussion of the *coordinating official*, see chapter 10.

Return of funds

34 CFR 674.16(f)(1)&(2)
34 CFR 668.22



Coordinating official

34 CFR 668.16(b)(1)



Exit Counseling

Your school must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. Federal Perkins borrowers must complete online exit counseling or sign up for a counseling session (if offered at your school) shortly before graduating, or anytime their enrollment status drops to less than half time. As with entrance counseling, your school is responsible for ensuring that someone with expertise in the FSA programs is available shortly after the counseling to answer borrowers' questions about those programs.

If a borrower withdraws from the school without the institution's prior knowledge or fails to complete an exit counseling session as required, the school must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the school or failed to complete exit counseling as required.

If exit counseling is conducted through interactive electronic means, the school must take reasonable steps to ensure that each student borrower receives the counseling materials, and participates in and completes the exit counseling. Some of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies.

Required elements of exit counseling

- **Review terms and conditions of the loan** including the current interest rate, the applicable grace period, and the approximate date the first installment payment will be due.
- **Inform the student as to the average anticipated monthly repayment amount** based on the student's indebtedness or on the average indebtedness of students who have obtained Federal Perkins loans for attendance at the school or in the borrower's program of study. We recommend giving the borrower a sample loan repayment schedule based on his or her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment—for instance, it would show the varying monthly amounts expected in a graduated repayment plan.
- **Suggest to the borrower debt-management strategies that would facilitate repayment.** Stress the importance of developing a realistic budget based on the student's minimum salary requirements. It's helpful to have the student compare these costs with the estimated monthly loan payments, and to emphasize that the loan payment is a fixed cost, like rent or utilities.

- **Emphasize to the borrower the seriousness and importance of the repayment obligation** the borrower is assuming.
- **Describe the consequences of default** including adverse credit reports, federal offset, and litigation. We also recommend that you tell the borrower of the charges that might be imposed for delinquency or default such as the school's collection expenses, late charges, and attorney's fees). Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.
- **Emphasize that the borrower is obligated to repay the full amount of the loan** even if the borrower has not completed the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the borrower purchased from the school.
- **Require the borrower to provide current information** concerning name, address, social security number, references, and driver's license number, the borrower's expected permanent address, the address of the borrower's next of kin, as well as the name and address of the borrower's expected employer.
- **Remind the borrower that, in a timely manner, he or she must inform the school of any changes to the aforementioned information.**
- **Remind the borrower of the existence and purpose of the Student Loan Ombudsman's office.** The Ombudsman's office is a resource for borrowers when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman. And
- **Inform the borrower of the availability of FSA loan information in the National Student Loan Data System (NSLDS).**

Providing repayment information

Your school must disclose the following information in a written statement provided to the borrower either shortly before the borrower ceases at least half-time study at your school or during exit counseling. If the borrower enters the repayment period without the institution's knowledge, your school must provide the required disclosures to the borrower in writing immediately upon discovering that the borrower has entered the repayment period. The repayment information must include:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the name and address of the party to which payments should be sent;
- the current balance owed by the borrower;
- the stated interest rate on the loan;
- the total interest charges the borrower will pay on the loan pursuant to the projected repayment schedule;
- the total amount the borrower will repay if the borrower follows the repayment schedule provided;
- the date on which the repayment period is scheduled to begin;
- a repayment schedule for all loans covered by the disclosure including the date the first installment payment is due, and the number, amount, and frequency of required payments;
- remind them (as explained in exit counseling) of the available repayment options (including special options for forbearance, deferment, consolidation, and refinancing);
- remind them of the consequences of consolidating a Federal Perkins Loan;
- a statement that the borrower has the right to prepay all or part of the loan at any time without penalty;
- a description of the charges imposed for failure of the borrower to pay all or part of an installment when due; and
- a description of any charges that may be imposed as a consequence of default, such as liability for expenses reasonably incurred in attempts by the Department or the school to collect on the loan.

Contacts with borrower during Perkins grace period

If the borrower's Perkins loans have a six-month grace period, you must contact that borrower at the 90-day and 150-day points in the grace period. If the borrower's Perkins loans have a nine-month grace period, you must also contact the borrower at the 240-day point.

First contact: 90 days after the grace period begins

The school or servicer must —

- remind the borrower of the responsibility to comply with the terms of the loan,
- inform the borrower of the total outstanding amount on the loan account, including the principal and interest accruing over the remaining life of the loan, and
- notify the borrower of the date and amount of the first requested payment.

Second contact: 150 days after the grace period begins

The school or servicer must —

- remind the borrower of the date and amount of the first requested payment.

Third contact (nine-month grace periods only): 240 days after the grace period begins

The school or servicer must —

- remind the borrower of the date and amount of the first requested payment.

Sample Summary of the Rights and Responsibilities as a Federal Perkins Loan Borrower

This is only a summary of your rights and responsibilities. For more detailed information, consult your Federal Perkins Loan promissory note or the holder of your loan.

You have the right to cancel all or part of your Federal Perkins Loan.

If your Federal Perkins Loan is placed in deferment, you will not have to make payments, and interest will not accrue.

You have the right to receive a statement of your account upon request.

You have the right to *forbearance* – a temporary cessation of payments, an extension of the time for making payments, or temporarily making smaller payments than were previously scheduled under certain health related or financial circumstances.

You have the right to prepay all or part of your loan without any penalty.

If you graduate or leave school, or if your enrollment drops below halftime, you have the right to a six month grace period before beginning repayment of your Federal Perkins Loan.

You have the right to have part or all of your loan cancelled for –

You have the right to defer payments on your Federal Perkins Loan if you are attending an eligible postsecondary school as at least a half-time student, and in some cases if you are –

- death or total and permanent disability;
- full-time employment in the Head Start Program;
- full-time employment as a teacher in an elementary school serving low-income students;
- full-time teaching as a special education teacher;
- full-time teaching of certain academic subjects in which there are teacher shortages;
- full-time employment as a nurse or medical technician;
- full-time employment in a public or nonprofit child or family service agency;
- full-time service as a qualified professional provider of early intervention services;
- full-time employment as a law enforcement or corrections officer; and
- military service.

- participating in a rehabilitation training program;
- enrolled and attending graduate school;
- participating in an internship or residency program in dentistry;
- seeking but unable to find full-time employment;
- experiencing economic hardship;
- serving in the Peace Corps;
- are receiving payment from a federal or state public assistance program; and
- are repaying federal education loans that exceed or for which the payments exceed certain specified amounts.

Summary of Federal Perkins Loan Borrowers Rights and Responsibilities, page 1

Sample Summary of the Rights and Responsibilities as a Federal Perkins Loan Borrower, contd.

This is only a summary of your rights and responsibilities. For more detailed information, consult your Federal Perkins Loan promissory note or the holder of your loan.

You are responsible for using the proceeds of your Federal Perkins Loan only to pay authorized educational expenses.

You are responsible for repaying the full amount of your Federal Perkins Loan even if you –

- do not complete the program;
- are unable to obtain employment upon completion; or
- are dissatisfied with the program or other services you purchased from the school.

Repayment begins the day after your nine month grace period ends.

You are responsible for notifying the financial aid office if you–

- change your local address, permanent address, or telephone number;
- change your name (for example, maiden name to married name);
- do not enroll at least half-time for the loan period certified by the school;
- do not enroll at the school that determined you were eligible to receive the loan;
- stop attending school or drop below half-time enrollment;
- transfer from one school to another school; or
- graduate.

You are also responsible for notifying the financial aid office if you–

- change your employer, or your employer’s address or telephone number changes, or
- have any other change in status that would affect your loan (for example, if you received a deferment while you were unemployed, but you have found a job and therefore no longer meet the eligibility requirements for the deferment).

You are responsible for obtaining, completing, and returning to the school for processing any forms required to apply for forbearance, deferment, or cancellation benefits.

You are responsible for notifying the school before the due date of any payment that you cannot remit.

You are responsible for making payments on time even if you do not receive a billing statement.

You may contact the school by writing to us at

School Name
Business Office
Building, Name, Room Number
City, State Zip

by calling us at

(555) 666-1234

by sending an email to

PerkinsRepayment@ZCC.edu

Initial grace periods

34 CFR 674.42



Pre-collection activities during the grace period

Effective collection procedures on the part of a school or its servicer begin on the day a student ceases to be enrolled at least half time. By performing certain pre-collection activities, a school or its servicer can increase the likelihood that a student will begin satisfactory repayment on his or her Federal Perkins loan.

The school must perform and maintain documentation substantiating that it has contacted the borrower.

1. For Federal Perkins Loans, the school shall contact the borrower three times within the initial grace period.
2. For loans with a six-month initial or post deferment grace period, the school shall contact the borrower twice during the grace period.
3. The school or its servicer shall contact the borrower for the first time 90 days after the commencement of any grace period. The school shall at this time remind the borrower of his or her responsibility to comply with the terms of the loan and shall send the borrower the following information:
 - a. the total amount remaining outstanding on the loan account, including principal and interest accruing over the remaining life of the loan; and
 - b. the date and amount of the first required payment.
4. The school shall contact the borrower the second time 150 days after the commencement of any grace period. The school shall at this time notify the borrower of the date and amount of the first required payment.
5. The school shall contact a borrower with a nine-month initial grace period a third time 240 days after the commencement of the grace period, and shall then inform him or her of the date and amount of the first required payment.

Billing procedures and late penalties

Billing refers to that series of actions you routinely perform to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

Your school must take steps to notify borrowers of payments due on their accounts, remind borrowers when payment will become overdue, and demand repayment of overdue balances.

Your initial billing procedures must include the following steps:

- If your school uses a coupon payment system, you must send the coupons to the borrower at least 30 days before the first payment is due.
- If your school does not use a coupon system, you must send a written notice to the borrower that gives the name and address where payment must be sent, and a statement of account, at least 30 days before the first payment is due, and additional reminder statements of account at least 15 days before each subsequent payment is due.

If you allow borrowers to send their payments electronically through EFT, you must send those borrowers annual statements of account that list the required amounts and dates of repayment, as well as any information tracking the status of any late charges.

If a borrower does not make a required payment and has not requested a deferment, postponement, or cancellation, your school must, within 15 days of the missed payment date, send an overdue notice to the borrower. In this notice, you must tell the borrower the amount of any late charge your school has assessed (see below for late charges), and whether your school has:

- added the charge amount to the principal amount as of the first day on which the payment was due; or
- demanded payment of the charge no later than the first day on which the next installment is due.

For borrowers who enrolled on or after January 1, 1986, your school may assess a late charge for any payment not made when due, or on a borrower who fails to submit sufficient information to enable your school to decide whether the borrower is eligible for the cancellation or deferment.

Federal Perkins billing procedures

34 CFR 674.43



Overdue notices

34 CFR 674.43(b)(c)



Late penalties on old loans

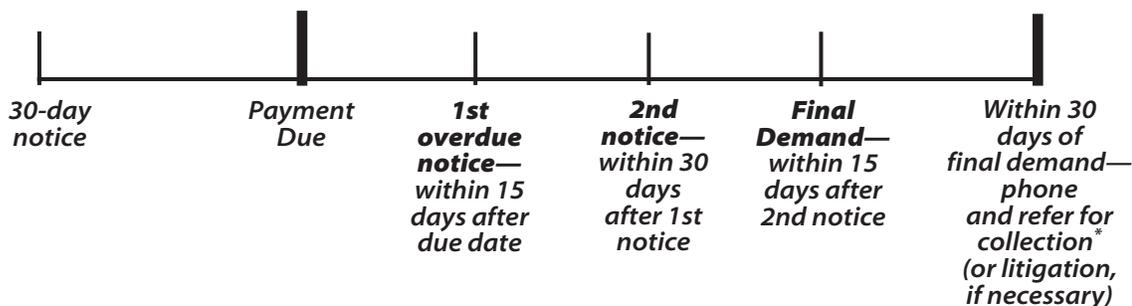
For borrowers that enrolled before January 1st, 1986, see 34 CFR 674.31(a)(5)(ii)



For borrowers who enrolled on or after January 1, 1986, the amount of the late fee your school is allowed to charge is either the actual costs incurred to secure the required payment or information from the borrower, or the average cost of similar attempts to secure similar payments or information from other borrowers. The late charge may not exceed 20% of the latest installment payment due.

If the borrower does not respond to the first overdue letter, your school must send a second letter within 30 days of sending the first one. After this, send a final demand letter 15 days after the second letter informing the borrower that unless they send payment or a request for deferment, postponement, or cancellation within 30 days of the date of the letter, your school will refer their account either to a collection agency or for litigation, and will report the account as defaulted to a credit bureau.

Billing Procedures



* The school can use the services of the Department's Default Reduction Assistance Project (DRAP) before the loan goes to a collection firm; DRAP is discussed in chapter 5 of this Volume.

For borrowers your school concludes do not intend to initiate repayment or seek deferment, cancellation, or postponement, or who have previously failed to make payments when due, you may send a final demand letter 15 days after any payment is missed.

If mail sent to a borrower is returned undelivered, or if the borrower fails to respond, you must take steps to locate the borrower. These steps must include:

- reviews of borrower records in all appropriate school offices;
- reviews of telephone directories or inquiries to directory assistance at the borrower's last known address, and attempting to reach the borrower by phone;
- attempting to locate and contact the borrower by electronic means; and
- after all other methods have been exhausted, IRS skip-tracing service.

Address Searches

34 CFR 674.44



IRS Skip-Tracing Program

DCL CB -02-16, November 2002



Acceleration

34 CFR 674.31(b)(8)



You may accelerate a loan if the borrower misses a payment or does not file for deferment, forbearance, or cancellation on time. **Acceleration is optional; it is not a requirement.** However, if you plan to assign a loan to the Department, you must first accelerate the loan. Once a loan has been accelerated, the borrower loses all rights to deferment and cancellation benefits for qualifying service performed **after** the date of acceleration.

If you accelerate a Federal Perkins loan (as described in 34 CFR 674.31(b)(8)), you must provide the borrower on or after the effective date of the acceleration, written notice of the date the loan was accelerated and the total amount due. This information may be provided in the final demand letter, or in a separate letter.

Any funds collected as a result of billing the borrower are to be –

- deposited in an account insured by the Federal Government, or secured by collateral of reasonable equivalent value, or
- invested in low-risk income-producing securities.

Your school must exercise the level of care required of a fiduciary with regard to these deposits and investments.

Collection procedures

When a borrower does not respond to routine billing methods, your school will need to institute more intensive collection procedures. Before beginning collection procedures, you must attempt all of the required contact methods described above.

If the borrower is unresponsive and normal billing procedures have been exhausted, you must make a **first effort to collect** using either your own personnel or hiring a collection firm. You must also report the borrower to at least one nationwide credit bureau. If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, or cancellation), you have two options—either to litigate or to make a second effort to collect.

A **second effort** to collect requires one of the following procedures:

1. If you first attempted to collect by using your own personnel, it must refer the account to a collection firm unless state law prohibits doing so.
2. If you first used a collection firm, you must attempt to collect by using your own personnel or by using a different collection firm, or the school must submit the account to

Collection Procedures

34 CFR 674.45



Efforts to collect cites



First effort

34 CFR 674.45(a)(2)

Litigation or second effort

34 CFR 674.45(c)

the Department for assignment. If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the firm must return the account to the school.

If you are unsuccessful in your effort to place the loan in repayment after a second collection effort, you must continue to make yearly attempts to collect from the borrower until –

- the loan is recovered through litigation;
- the account is assigned to the Department; or
- the loan is written off.

Collection Costs and Costs Chargeable to the Fund

Your school **must charge the borrower** for billing and collection costs incurred with regard to effort to collect past due payments. (The cost of routine billing and collection are covered by the ACA and are not chargeable to the borrower.)

For billing activities, you may charge the Fund for any portion of the cost of telephone calls to the borrower to demand payment that is not covered by the amount collected from the borrower.

For collection activities, you may charge the Fund for any portion of the cost of address searches, collection procedures including litigation and use of a collection service, reporting to national credit bureaus, and responding to borrowers' bankruptcy proceedings. You may charge the Fund for any portion of the aforementioned activities not covered by the amount collected from the borrower.

A school may waive late charges for a borrower who repays an amount past due. Before filing suit on a loan, a school may waive the percentage of collection costs applicable to the amount then past due in a loan equal to the percentage of that past due balance that the borrower pays within 30 days of the date the borrower and school enter into a written repayment arrangement. The school may charge to the Fund the following costs waived or not paid by the borrower:

Collection costs waived. If your school waives collection costs as incentive for repayment, the amount waived may be charged to the Fund.

Cost of a successful address search. You may charge to the Fund a reasonable amount for the cost of a successful address search if you used a commercial skip-tracing service or employed your school's personnel to locate the borrower using comparable methods. (Defining a reasonable amount is left to the school.)

Costs chargeable to the Fund

34 CFR 674.47



Address searches

34 CFR 674.44



Collection costs for loans made from 1981 through 1986

For loans made from 1981 through 1986, many promissory notes contain a limitation on the amount of costs that can be recovered from the borrower (25% of the outstanding principal and interest due on the loan). As this provision has not been applicable since the beginning of the 1987-1988 award year, if these borrowers ask for new advances, the Department strongly encourages schools to issue new promissory notes without this provision and to require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for **all** collection costs on all of his or her outstanding loans borrowed under this program. (However, the advances made prior to the signing of the new note do not qualify for new deferment and cancellation benefits.)

Cost of reporting defaulted loans to credit bureaus. You may charge to the Fund the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account, and responding to any inquiry from a credit bureau about the status of a loan.

Costs of first and second collection efforts. You may charge to the Fund collection costs not paid by the borrower if they do not exceed—for first collection efforts—30% of the total principal, interest, and late charges collected and—for second collection efforts—40% of the principal, interest, and late charges collected. The school must reimburse the Fund for collection costs initially charged to the Fund but subsequently paid by the borrower.

Collection costs resulting from rehabilitation. Collection costs charged to the borrower on a rehabilitated loan may not exceed 24% of the unpaid principal and accrued interest as of the date following application of the twelfth payment. Collection costs are not restricted to 24% in the event that the borrower defaults on the rehabilitated loan.

Collection costs resulting from litigation, including attorney's fees. Collection costs resulting from litigation, including attorney's fees, may be charged to the Fund if not paid by the borrower, but must not exceed the sum of:

- court costs specified in 28 U.S.C. 1920;
- other costs incurred in bankruptcy proceedings in taking actions required or authorized under 34 CFR 674.49;
- costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- 40% of the total amount recovered from the borrower in any other proceeding.

Costs of firm performing both collection and litigation services. If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the Fund may not exceed the sum of 40% of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.

Billing and Collection Contractors

34 CFR 674.48



Due diligence activities involving **fixed costs** (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the Fund whether or not the actions are successful. Other activities, such as address searches, collection, and litigation (other than bankruptcy), are typically performed on a **contingent-fee** basis. If these activities are *unsuccessful*, there are no costs charged to the school and therefore no costs may be charged to the Fund. If these activities are *successful*, you may charge the associated allowable costs to the Fund.

Assessing and documenting costs

You may charge either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency.

Your school must assess all reasonable collection costs against the borrower despite any provisions of state law that would conflict with the above provisions.

You must document the basis for the costs assessed. For audit purposes, a school must keep documentation supporting costs, including telephone bills and receipts from collection firms.

Using Billing and Collection Firms

Your school may use a contractor for billing or collection, but it remains the school's responsibility to comply with the due diligence regulations regarding those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. You are also responsible for decisions about cancelling, or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

If you use a billing service, you may not use a collection firm that owns or controls the billing service or is owned or controlled by the billing service. In addition, you may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

You must ensure that the billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service.

If you don't authorize your collection firm to deduct its fees from borrowers' payments, the firm must be bonded or insured for at least the amount that you expect to be repaid over a two-month period on the assigned accounts.

If you do authorize your collection firm to deduct its fees from borrowers' payments, you must ensure that:

- if the amount you expect to be repaid over a two-month period is **less than \$100,000**—the collection firm is bonded or insured for the lesser of (a) 10 times the amount the school expects to be repaid over a two-month period on assigned accounts; or (b) the amount the firm expects to collect in a two-month period on **all** accounts it has in its portfolio (not just the school's account).
- if the amount you expect to be repaid in a two-month period is **\$100,000 or more**—the collection firm has a fidelity bond or comparable insurance **that names your school as the beneficiary** and is bonded or insured for an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period.

At least once a year, you must review the amount of repayments you expect to receive from billing or collection firms to ensure adequate bond or insurance coverage. If a law firm performs your school's collection activities, your school must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

Ceasing collection

A school may cease collection activity on defaulted accounts with balances of less than **\$200** (including outstanding principal, accrued interest, collection costs, and late charges) if the school carried out the required due diligence and if the account has had no activity for four years.

However, the borrower will remain responsible for repaying the account, including accrued interest, and you may not assign the account to the Department. The account will still be included in the school's cohort default rate, if applicable, and the borrower will still be in default and ineligible for Federal Student Aid (FSA) funds.

Ceasing collections cites

Ceasing collections

34 CFR 674.47(g)



Account write-off

34 CFR 674.47(h)



Writing off accounts

You may write off a defaulted account with a balance of less than **\$25** (including outstanding principal, accrued interest, collection costs, and late charges).

You may also write off a defaulted account with a balance of less than **\$50** (including outstanding principal, accrued interest, collection costs, and late charges), if for a period of two years, you have billed the borrower as required by 34 CFR 674.43(a).

If you write off an account, the borrower is relieved of all payment obligations and you must deduct the amount of the account from the Federal Perkins Loan Fund. If you receive a payment from a borrower after you have written off the loan, you must deposit that payment into the Fund.

Litigation

If the collection procedures described in this section do not result in the repayment of a loan, the school must review the account for litigation once every two years. If all of the following conditions are met, the school must litigate. You must litigate if

- the total amount owed, including outstanding principal, interest, collection costs, and late charges, on all the borrower's Federal Perkins Loans and NDSLs at the school is more than \$500;
- the borrower can be located and served with process;
- the borrower either has enough assets attachable under state law to cover a major portion of the debt or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time (defining a *reasonable period of time* is left to the school);
- the borrower does not have a defense that will bar judgment for the school; and
- the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

Even if all the above conditions are not met, your school may still choose to sue a defaulted borrower. If the borrower has a partial defense that may bar judgment for the school, you must weigh the costs of litigation against the costs of recovery based on the amount of the enforceable portion of the debt. No federal or state statute of limitation can apply to enforcement actions to collect Federal Perkins Loans or NDSLs.

Litigation

34 CFR 674.46



Your school **must** attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. You are also required to try to recover all costs previously incurred in the collection of overdue payments if the borrower has not paid these collection costs. A percentage of these unrecovered costs may be charged to the Fund as explained earlier under the heading *Collection costs and charges chargeable to the fund*.

When a school has filed suit to collect a defaulted Federal Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. A defaulted loan that is being repaid under court order remains in default status until paid and is not eligible for consolidation. After a judgment is satisfied on the defaulted loan, the student is again eligible for future awards under these programs if all other eligibility criteria are met.

Alternatives to litigation

To avoid litigation, you may offer to waive collection costs as incentive for repayment. You may waive *all* collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding (including principal and interest). A written repayment agreement is not required. You may also waive a *portion* of the collection costs on a loan if the borrower agrees to pay a corresponding portion of the loan within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays one-half the outstanding balance on a loan within 30 days of the agreement, you may waive one-half of the collection costs incurred through the date of that payment. The amount of waived collection costs may be charged to the Federal Perkins Loan Fund.

A school may compromise on the repayment of a defaulted loan if the school has fully complied with all due diligence requirements and the borrower pays, in a single lump-sum payment, at least 90% of the outstanding principal balance, plus all interest and collection fees. The federal share of the compromise repayment must bear the same relation to the school's share as the FCC bears to the Institutional ICC.

A borrower may rehabilitate a defaulted Federal Perkins Loan by making 12 consecutive on-time payments. A rehabilitated loan is returned to regular repayment status.

Collection costs waiver

34 CFR 674.47(d)



Compromise

34 CFR 674.33(e)



A borrower may include her defaulted Federal Perkins Loan, NDSL, or Defense Loan in a Direct or Federal Consolidation Loan. The amount eligible for consolidation under either program is the sum of the unpaid principal, accrued unpaid interest, late charges, and outstanding collection costs. A defaulted loan that is being repaid under a court order remains in default status until paid and is not eligible for consolidation.

Federal Perkins Loan forbearance

Federal Perkins Forbearance

34 CFR 674.33(d)



Forbearance is a temporary postponement of payments. The borrower may alternatively request an extension of time allowed for making payments or the acceptance of smaller payments than were previously scheduled. Unlike deferment, interest continues to accrue during any period of forbearance. The borrower may request to pay interest as it accrues during periods of forbearance, but the school *may not* require the borrower to do so.

Schools may grant forbearance to borrowers who are experiencing financial hardship, poor health, or for other acceptable reasons. For example, the Department strongly encourages schools to grant periods of forbearance to borrowers who are serving in AmeriCorps. Also, the Department may authorize periods of forbearance due to national military mobilization or other national emergency.

Borrowers must request forbearance in writing, providing supporting documentation of the reason for forbearance. Both the borrower and the school must agree upon the terms of the forbearance.

Schools may grant the borrower forbearance for a period of up to one year at a time. The forbearance may be renewed, but the periods of forbearance collectively may not exceed a total of three years. A school may apply an authorized period of forbearance beginning retroactively (that is, to begin on an earlier date than the date of the borrower's request) if the borrower requests that the school do so, and if he or she provides adequate documentation to support the request.

Schools may not include periods of forbearance in determining the 10-year repayment period. Forbearance is available for all loans made under the Federal Perkins Loan Program, regardless of when they were made.

A school **must** grant forbearance if the total amount the borrower is obligated to pay monthly on all FSA loans is equal to or greater than 20% of the borrower's total monthly gross income. Total monthly gross income is the gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources.

To receive forbearance for hardship, the borrower must submit at least the following documentation–

- evidence of the amount of the borrower’s most recent total monthly gross income; and
- evidence of the amount of the monthly payments the borrower owes for the most recent month on his or her FSA loans.

If the borrower’s loan payments are due less frequently than monthly, a proportional share of the payments is used to determine the equivalent in total monthly payments. For example, if a payment is due quarterly, divide the amount by three (because the payment covers three months) to determine the equivalent monthly payment amount.

Federal Perkins Loan deferments

Under certain circumstances, a borrower is entitled to have the repayment of a loan deferred. During deferment, the borrower is not required to pay loan principal and interest does not accrue. After each deferment, the borrower is entitled to a post-deferment grace period of six consecutive months.

Borrowers are no longer required to request deferments in writing. However, a borrower who requests deferment must provide the school with all the information and documents the school requires by the school’s deadline. (The Department does **not** approve or supply deferment forms.) Borrowers must immediately report any change in their deferment status to lending schools.

The borrower must request deferment *unless* the borrower is engaged in service for which a borrower may qualify for loan cancellation.

If a borrower is currently in deferment, the school must reaffirm continued eligibility for deferment on at least an annual basis. However, if the borrower is currently in economic hardship deferment for service in the Peace Corps, the school must grant deferment for the full term of the borrower’s service, not to exceed three years or for the remaining period of economic hardship deferment eligibility, if it is less than the remaining period of service. Schools may not include periods of deferment in the 10-year repayment period.

For more detail on types of deferments and procedures for administering them, see the FSA Handbook, Volume 6, Campus-Based Program, chapter 4, Federal Perkins Repayment, Forbearance, Deferment, and Cancellation.

Federal Perkins deferments

34 CFR 674.34 Perkins, NDSLs, Defense Loans

34 CFR 674.35 Perkins Loans made before July 1, 1993

34 CFR 674.36 NDSLs made on or after October 1, 1980, but before July 1, 1993

34 CFR 674.37 NDSLs made before October 1, 1980 and Defense Loans

34 CFR 674.38 Deferment Procedures



Federal Perkins deferments may be available

depending on when a borrower obtained his or her loan to individuals –

1. continuing their post-secondary education;
2. enrolled in a rehabilitation training program for disabled individuals;
3. experiencing economic hardship, including an excessive Federal education debt burden;
4. serving in the Peace Corps;
5. serving in the U.S. Military, in the Public Health Service, as an active duty as a member of the National Oceanic and Atmospheric Administration Corps, and as a domestic volunteer;
6. performing service comparable to service under the Domestic Volunteer Service Act;
7. who are temporarily totally disabled;
8. during pregnancy, or while providing child care; and
9. engaged in service for which the borrower may qualify for loan cancellation e.g.,
 - a. full-time teaching; teaching in a public or other nonprofit elementary or secondary school serving low-income students; teaching in special education; teaching in mathematics, science, foreign languages, bilingual education, or any other field of expertise where there is a shortage of qualified teachers;
 - b. full-time employment as a nurse or medical technician;
 - c. full-time employment in a public or private nonprofit child or family service agency;
 - d. service as a qualified professional provider of early intervention services;

see continuation of deferments list on next page.

- e. service as a law enforcement or corrections officer for an eligible employing agency; and
- f. service as a full-time staff member in a Head Start program.

Deferment and default

A borrower is not entitled to a deferment on a defaulted loan. If the borrower signs a new repayment agreement, however, a school may grant a deferment even if the school has “accelerated” the loan. The school would have to de-accelerate the loan before granting the deferment. The policy permitting deferments on defaulted loans applies to all requests for deferment received after February 3, 1988, regardless of the date the loan was made.

The borrower must file for deferment by a deadline that the school establishes and provide satisfactory documentation that he or she qualifies for the deferment.

Before granting a deferment on a defaulted loan, the school may require the borrower to pay immediately late fees, collection costs, and some or all of the amount past due as of the date on which the school determined that the borrower had demonstrated eligibility for a deferment. The Department encourages schools to require the borrower to do so, thus “curing” the default.

A school is not required to grant deferments on loans in default. However, if a school does so, it is expected to calculate and collect past-due accrued interest. If a school believes this is too burdensome, it may deny deferments on defaulted loans.

Federal Perkins Loan Cancellation

Students are able to earn the right to have a portion of their Federal Perkins loans cancelled, based on certain types of service.

Schools determine, based on the borrower’s documentation, whether the borrower is entitled to have any portion of his or her loans canceled. **This responsibility cannot be delegated.**

The following cancellation procedures apply to any loan under the Federal Perkins program:

1. The borrower applies for cancellation of his or her loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan, or from the school’s billing service if it uses one. (The Department does not approve or supply cancellation forms.) The borrower must submit the form to the school, along with any supporting documentation the school requests, by the deadline the school establishes.
2. For teacher cancellations, the cancellation form the borrower files must be signed by an official in the school system or agency to certify the borrower’s service.

Federal Perkins cancellation, cite

34 CFR 674.51-62

FSA Handbook Volume. 6, Chapter 4



With the exception of cancellations for Head Start, military, and volunteer service, the cancellation rate per completed academic year of full-time teaching or for each year of otherwise qualifying full-time service is:

- 15% of the original principal loan amount—plus the interest that accrued during the year—for each of the first and second years;
- 20% of the original principal loan amount—plus the interest that accrued during the year—for each of the third and fourth years; and
- 30% of the original principal loan amount—plus any interest that accrued during the year—for the fifth year.

A *year of service* consists of 12 consecutive months of service.

For more detail on the available types of Federal Perkins service cancellations and how to administer them, see the FSA Handbook, Volume 6, Campus-Based programs, Chapter 4, Federal Perkins Repayment, Forbearance, Deferment, and Cancellation.

Canceling a defaulted loan

A school may cancel a defaulted loan if the only reason for the default was the borrower's failure to file a cancellation request on time.

If the loan has already been **accelerated**, only eligible service performed **prior** to the date of acceleration can be considered for cancellation. A borrower is not entitled to cancellation for any eligible service performed **after** the date of acceleration.

Reimbursement to schools for loan cancellation

For Federal Perkins Loans and NDSLs, the Department will reimburse your school for every award year for the principal and interest canceled from its Federal Perkins Loan Fund for all of the cancellation provisions except for death, total and permanent disability, bankruptcy, and closed school discharge. The school must deposit in its fund the amount reimbursed. Note that interest does not accrue on any loan during the period that a borrower is performing service to qualify for cancellation benefits. Schools are not required to deposit reimbursements for loans made prior to July 1, 1972, into the Federal Perkins Fund. These reimbursements are considered institutional funds.

Defaulted loans, cite

34 CFR 674.52(c)



Cancellation reimbursement, cite

34 CFR 674.63



Approximately two weeks before the Department sends schools their payments, ED posts each school's Payment Letter and Worksheet to the eCB Web site. You can view and print these documents by going to

<http://www.cbfsap.ed.gov>

and selecting the Self-service link from the top navigation bar.

Each year, Congress allocates funds for reimbursing schools for cancelled Federal Perkins Loans. Based on the amount allocated, the Department sends any school that reported Federal Perkins cancellations on its Fiscal Operations Report a percentage the amount cancelled. The percentage each school receives is equal to the amount Congress allocates for this purpose divided by the total reported cancelled by all schools.

Discharging Federal Perkins loans

Due to death or total and permanent disability

You **must** discharge the remaining balance of any Federal Perkins Loan, NDSL, or Defense Loan if the borrower dies or becomes totally and permanently disabled. Your school does not receive reimbursement for discharges due to death or disability. See Dear Colleague Letters CB-02-8, CB-02-10, and CB-02-18 for total and permanent disability discharge forms and procedures.

You **must** base your determination of death of the borrower on an original or certified copy of the death certificate. Previously, you could make a discharge due to death on the basis of a death certificate or other certification recognized by state law.

Under exceptional circumstances and on a case-by-case basis, the chief financial officer of the school may approve a discharge based upon other reliable documentation supporting the discharge request.

Total and permanent disability is the inability to work and earn money because of an injury or illness that is expected to continue indefinitely or to result in death. The definition of total and permanent disability no longer requires that the borrower be unable to attend school.

The borrower must submit a physician's certification of total and permanent disability. The physician must certify that the borrower is 100% disabled according to the Federal Perkins Loan Program definition of disability.

The following procedures became effective on July 1, 2002:

1. If your school determines, based on certification from the borrower's physician, that the borrower is totally and permanently disabled, your school must assign the account to the Department. You must notify the borrower that you have assigned the account, including the amount, to the Department for determination of eligibility for a total and permanent disability discharge.

Death and disability discharge cite

34 CFR 674.61, Dear Colleague Letter CB-02-08.



Closed school discharge cite

34 CFR 674.33(g)



2. If the Department makes an initial determination that the borrower is eligible for discharge, the Department will place the loan in a conditional discharge status for up to three years after the date the borrower became totally and permanently disabled as certified by the borrower's physician. A loan placed in conditional discharge status is not considered past due or in default unless the loan was past due or in default at the time the conditional discharge was granted.
3. If your school receives payments from a borrower on a loan that is in conditional discharge status, you must forward these payments to the Department and notify the borrower that there is no need to make payments on the loan while it is in conditional discharge status. If the Department grants final discharge to the borrower, your school must refund any payments the borrower made after the certified disability date and before the account was assigned to the Department. The Department will refund any payments received after the assignment, and update the status of the loan in NSLDS.

Closed school discharge

A school that is closing must assign to Federal Student Aid (FSA) Collections all of its outstanding Federal Perkins and NDSL loans (see Assigning Loans to the Department, below).

FSA Collections may discharge a Federal Perkins Loan or NDSL made on or after January 1, 1986, if the borrower is unable to complete his or her program of study due to the closure of the school. FSA Collections must reimburse borrowers for payments made voluntarily or by forced collection.

A borrower whose loan was in default and then discharged under this provision is not considered to have been in default and reestablishes FSA eligibility, provided he or she meets all other eligibility criteria.

FSA Collections reports the discharge to the credit bureaus to which the previous loan status was reported.

You can find a searchable database of closed schools online at

<http://wdcrobcop01.ed.gov/CFAPPS/FSA/closedschool/searchpage.cfm>

FSA Closed School Unit Contact

202-377-4374

Bankruptcy laws

11 U.S.C. 1307, 1325, and 1328(b) are laws applicable to bankruptcy cases in general, not just to Federal Perkins Loan bankruptcy cases. 11 U.S.C. 1307 concerns the dismissal of a Chapter 13 case or the conversion of a case filed under Chapter 13 to a Chapter 7 proceeding. 11 U.S.C. 1325 concerns the confirmation by the court of a borrower's proposed repayment plan. 11 U.S.C. 1328(b) allows a debtor who fails to complete the payments required under the plan to obtain a discharge if conditions are met. A school should consult an attorney for the best advice in bankruptcy cases.

Bankruptcy discharge

The basic actions your school must take when a borrower files for bankruptcy protection are covered here, in Dear Colleague Letter GEN-95-40, dated September 1995, and in 34 CFR 674.49. For the best advice on how to proceed when a borrower files for bankruptcy protection, your school should consult its attorney. The school should ensure that the attorney is aware of the due diligence provisions that apply to school actions.

If your school receives notice that a borrower has filed for bankruptcy protection, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser.

Your school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Effective for bankruptcies filed on or after October 8, 1998, a borrower who receives a general discharge in bankruptcy does not by that order obtain a discharge of a loan that has been in repayment for seven years or more at the time of the bankruptcy filing. For these bankruptcies, a student loan is discharged by a general discharge order only if the borrower also obtains a court ruling that repayment of the loan would impose an undue hardship on the borrower and his or her dependents.

Responding to complaint for determination of dischargeability

Customarily, a borrower obtains a judicial ruling of undue hardship by filing an adversary proceeding—a lawsuit within the bankruptcy proceeding—in the bankruptcy court seeking to prove undue hardship. If a borrower files an adversary proceeding to prove undue hardship under 11 U.S.C. 523(a)(8), your school must decide, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents.

If your school concludes that repayment would not impose an undue hardship, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, your school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. If necessary, the school may compromise a portion of that amount to obtain a judgment.

If your school opposes a request for determination of dischargeability on the ground of undue hardship, you may also file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

Schools that are state instrumentalities may, as an alternative, oppose an undue hardship claim by asserting their immunity from suit in bankruptcy. As with any other action in defending student loans in bankruptcy, the school should consult with counsel, and should ensure that counsel is fully informed about recent changes in Department regulations to support this position.

Procedures for responding to proposed Chapter 13 repayment plan

Under Chapter 13, the borrower may generally obtain an adjustment in repayment terms of all of his or her debts. The borrower proposes a repayment plan that addresses whether and how each debt or class of debts will be paid. If the court approves the plan, creditors are bound to the terms of that plan for duration of the plan, typically three to five years. If the borrower's repayment plan proposes full repayment of the Federal Perkins Loan, including all principal, interest, late charges, and collection costs on the loan, no response from your school is required. Your school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the Federal Perkins Loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed and that the remainder be discharged, your school must determine, from its own records and court documents, the amount of the loan dischargeable under the plan. Your school does this by subtracting the total proposed payments from the total amount owed. Your school must also determine from its own records and court documents whether the borrower's proposed repayment plan meets the requirements of 11 U.S.C. 1325. Two of those requirements are particularly relevant:

1. The amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.
2. To pay creditors under the plan, the debtor must use all income not needed to support himself or herself and his or her dependents.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, your school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, your school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, your school must determine whether grounds exist under 11 U.S.C. 1307 for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges. If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

After a borrower's proposed repayment plan is confirmed by the court, your school must monitor the borrower's compliance with the repayment plan. If your school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b), your school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, your school must move to convert or dismiss the case. If a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), your school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.

Bankruptcies filed before October 8, 1998

For bankruptcies filed before October 8, 1998, loans in repayment more than seven years by the date of the bankruptcy filing may be discharged by a general discharge order. Your school may therefore not resume collection after the borrower has received a discharge if the loan entered repayment more than seven years before the filing of the petition and either of the following conditions apply: (1) the discharge was obtained in a Chapter 13 proceeding in which the plan provided for the debt specifically or for unsecured debts in general; or (2) the discharge was obtained in any other bankruptcy proceeding, and the debt was not excepted from discharge by a provision of the Code other than 11 U.S.C. 523(a)(8).

If these conditions are met, you must terminate all collection action and write off the loan. If the conditions above are met and the borrower additionally files an adversary proceeding for discharge of a loan on the ground of undue hardship under 11 U.S.C. 523(a)(8), you still may not oppose a determination of dischargeability.

Resuming/terminating billing and collection

Your school must resume billing and collection procedures after the borrower has received a discharge under 11 U.S.C. 727, 11 U.S.C. 1141, 11 U.S.C. 1228, 11 U.S.C. 1328(a), or U.S.C. 1328(b) unless the court has found that repayment would impose an undue hardship. If the court has found that repayment would impose an undue hardship, the school must terminate all collection action and write off the loan.

Assigning loans to the Department

You may assign a defaulted Federal Perkins Loan or NDSL to FSA Collections if:

- the school has not been able to collect despite having followed due diligence procedures (including at least a first level of collection and litigation, if required by the regulations in effect on the date the loan entered default);
- the total amount of the borrower's account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is \$25 or more; and
- the loan has been accelerated.

You may not assign a loan to FSA Collections if:

- the borrower has received a discharge in bankruptcy— unless the bankruptcy court has determined that the student loan obligation is nondischargeable and has entered a judgment against the borrower or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;
- your school has sued the borrower (unless the judgment has been entered and assigned to the United States); or
- the loan has been canceled because the borrower has died.

Required documentation

A school *may be required* to submit the following documents to FSA Collections for any loan it proposes to assign:

- one original and one photocopy of the assignment form (found in Dear Colleague Letter CB-03-12, August 2003) completed by the school (**the form must include the borrower's Social Security Number**);
- the original promissory note or a certified copy of the original note;
- a copy of the repayment schedule and a complete statement of the payment history;

Assignment

34 CFR 674.50

Dear Colleague Letter CB-03-12



Mail assignments to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, Texas 75403-4316

- copies of all approved requests for deferment and cancellation;
- a copy of the notice to the borrower of the effective date of acceleration and the total amount due on the loan; and
- documentation that the school has withdrawn the loan from any firm that it employed for address search, billing, collection, or litigation services and has notified that firm to cease collection activity on the loans.

Internal controls in the Federal Perkins Loan Program – reconciliation, fiscal and program records

As described in chapter 12, your school must reconcile, at least monthly, your Federal Perkins draws recorded in GAPS to the funds received in the bank account your school has designated to receive electronic transfers. You must also reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to ED, and explain all discrepancies.

In addition, you should examine your Federal Perkins program and fiscal records at the start of the year and monthly.

- Do all funds paid directly by students, collected by third-party servicers, received for loans cancelled, and received as interest flow into your Federal Perkins Bank Account and are they reflected on your Asset Account, *Cash - Federal Perkins Loan*?
- Do you ensure that you only request FCC funds if the total of disbursements you anticipate making exceeds the balance in your Federal Perkins Bank Account and reflected on your Asset Account Cash, *Federal Perkins Loan* (cash on hand and available for lending)?
- Is your ICC consistently deposited at the same time you receive your FCC?
- You are required to return to ED any excess liquid capital (the amount by which your cash from all sources for the award year significantly exceeds your year's total expenditures). Do you have a system that ensures the cash on hand in your Perkins account at the end of the award year is kept to a reasonable minimum?

When one of your Federal Perkins loans is consolidated

If a student with an outstanding Federal Perkins loan from your school applies to have that loan consolidated, the consolidating lender (*consolidator*) will send you a *Loan Verification Certificate (LVC)*. You have 10 days to provide the consolidating lender with a completed LVC.

You are not required to provide the requested loan information if –

- there is a judgment against the borrower on the loan that the borrower wants to consolidate;
- the loan has been sold; or
- the loan is more than 270 days delinquent and a default claim has been submitted.

If the lender to whom the consolidation application has been made makes the consolidation loan, you will receive the amount you indicated on the LVC. You must deposit the funds in the account holding your Federal Perkins revolving fund, record the deposit in the appropriate ledgers (and contra accounts), and report the payment on your FISAP.

LVC, cites

34 CFR 682.209(j)

34 CFR 685.220(f)(1)(i)

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