

Disbursing FSA Funds



These rules apply to the following programs: Pell Grants, TEACH, Iraq and Afghanistan Service Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), Perkins Loans, and Direct Loans. We have indicated when a rule applies to Federal Work-Study (FWS) funds. This chapter will discuss the rules for crediting Federal Student Aid (FSA) funds to the student's account and making direct disbursements to the student or to the parent, with provisions for early disbursements, delayed disbursements, and late disbursements.

NOTIFICATIONS

Notification of disbursement

In general, there are two types of notifications a school must provide: (1) a general notification to parent Direct PLUS borrowers and all students receiving FSA funds, and (2) a notice when FSA loan funds or TEACH Grant funds are credited to a student's account.

General notification

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made.

If the funds include a Direct Loan, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. A school must provide the best information that it has regarding the amount of FSA program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), you may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Loan and TEACH Grant notification

Except in the case of loan funds made as part of a post-withdrawal disbursement, when Perkins Loan, Direct Loan or TEACH funds are being credited to a student's ledger account, the school must also notify the borrower in writing (paper or electronically) of the

- ◆ anticipated date and amount of the disbursement;
- ◆ student's or parent's right to cancel all or a portion of a loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds or TEACH Grant proceeds returned to the Department; and

Notices and Authorizations

Notices

34 CFR 668.165(a)

Student and parent authorizations

34 CFR 165 (b)

HEA Sec. 420R(d) specifies that Iraq and Afghanistan Service grants shall be awarded in the same manner, and with the same terms and conditions, as Pell Grants.

Borrower Notification via email

If you are notifying the student of the next disbursement by email or other electronic means, you are encouraged to follow up on any electronic notice for which you receive an "undeliverable" message.

The loan notification requirements for post-withdrawal disbursements are covered in *Volume 5*.

Privacy of Loan Data

Schools are reminded that the details of any loan transaction may be shared only with the borrower.

Acceptable means of notification

Your school may not use an in-person or telephonic conversation as the sole means of notification of disbursement because these are not adequate and verifiable methods of providing notice. However, a school may use in-person and telephone notices in addition to those provided in writing.

- ◆ procedures and deadlines by which the student or parent must notify the school that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

The timing of a loan or TEACH Grant notification varies depending on whether a school obtains affirmative confirmation from a student that she wants a loan **or** accepts the grant. Under affirmative confirmation a school obtains written confirmation of the types and amounts of Title IV loans a student wants for the period of enrollment before the school credits the student's account with those loan funds (34 CFR 668.165(a)(6)). The process under which the TEACH Grant program is administered is considered to be an affirmative confirmation process.

This notification must be sent

- ◆ *if the school obtains affirmative confirmation*, no earlier than 30 days before and no later than 30 days after crediting the student's account; or
- ◆ *if the school does NOT obtain affirmative confirmation*, no earlier than 30 days before and no later than 7 days after crediting the student's account.

If the borrower or TEACH Grant recipient wishes to cancel all or a portion of a loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement, he must inform the school. A school must return the loan or grant, cancel it, or do both, provided that the school receives the loan cancellation request within the following time frames:

- ◆ *If the school obtains affirmative confirmation from the student*, by the later of the first day of a payment period or 14 days after the date the school notifies the student or parent of her right to cancel all or a part of a loan or grant.
- ◆ *If the school does not obtain affirmative confirmation from the student*, within 30 days of the date the school notifies the student or parent of his right to cancel all or a part of a loan.

If a school receives a borrower's request for cancellation outside of the period during which the school is required to cancel the loan, grant, or loan or grant disbursement, the school has the option of canceling and returning the loan or grant. In the case of a loan, if a school declines to return a disbursement, the school should direct the borrower to contact the borrower's assigned loan servicer.

The school must inform the student or parent **in writing** of the outcome of any cancellation request. **Schools should not return loan funds on a borrower's behalf if more than 120 days have elapsed since the funds were disbursed.**

Self-assessment tool for fiscal management procedures

You can evaluate your school's fiscal management procedures by referring to the "Fiscal Management Assessment" in the Schools section of the FSA Assessments at ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html.

Schools should not return Direct Loan funds to ED’s federal loan servicers directly. If a borrower asks the school to return Direct Loan funds more than 120 days after the disbursement date, the school should direct the borrower to the appropriate servicer for guidance on how the borrower can return the money. However, if a school must return Direct Loan funds in its possession when a borrower dies, the school may return those funds to the appropriate servicer.

When acting upon a cancellation request, your school must return the funds (if received) and/or cancel the loan or grant as appropriate. A school is not responsible for returning any portion of a loan or grant that was disbursed to a student or parent directly (e.g., as a result of a credit on the student’s account) before the request for cancellation was received. However, you are encouraged to take an active role in advising the borrower to return the funds already received.

Direct Loan funds that are returned within 120 days of the disbursement by the school or the borrower, for any reason, are treated as a partial or full cancellation, with the appropriate adjustment of the loan fee and interest. In addition, Direct Loan funds that are returned by a school at any time to comply with a regulatory or statutory requirement are treated as a partial or full cancellation.

Direct Loan funds that a borrower returns 120 days or more after disbursement are processed as a payment, and there is no adjustment of the loan fee or interest. For additional information on returning loan funds, see *Chapters 3 and 4* in this volume and *Volume 5* (for the return of loan funds when a student withdraws).

AUTHORIZATIONS

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

- ◆ Use FSA funds to pay for allowable educationally related charges **other than** tuition, fees, and room and board (if the student contracts with the school).
- ◆ Credit FWS wages to a student’s account to pay any educationally related charges [34 CFR 675.16(b)(1)(i)].
- ◆ Disburse FWS wages by Electronic Funds Transfer (EFT) to a bank account designated by the student or parent.
- ◆ Hold an FSA credit balance (see the discussion later in this chapter).
- ◆ Apply up to \$200 of FSA funds to prior-year charges other than for tuition, fees, room, and board [34 CFR 668.164(c)(3)(i)(B) and 675.16(b)(1)(ii) and (b)(2)].

TIP

Schools should always use G5 to return funds from loans or grants cancelled within the 120-day period.

When a student dies

See Appendix C of the FSA Handbook, *Actions a School Should Take When a Current Student Dies*, for information about loan discharge and other issues when a student dies.

Authorizations

34 CFR 668.165(b)

Electronic disclosures

CFR 34 668.41(b) & (c)

Information Security Requirements

The Gramm-Leach-Bliley (GLB) Act requires schools to have an information security program to ensure the security and confidentiality of customer information, protect against anticipated threats to the security or integrity of such information, and guard against the unauthorized access to or use of such information. For more information related to the GLB Act, see “FTC standards for safeguarding customer information” in *Volume 2*.

An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered by the authorization. Unless otherwise specified, a student or parent may authorize a school to carry out the allowable activities for a specific period of time such as an academic year or for the entire period the student is enrolled, including multiple academic years.

A school may not require or coerce the student or parent to provide an authorization, and it must clearly explain to the student or parent how to cancel or modify the authorization. The school must also explain how it will go about cancelling the authorization and that a cancellation is not retroactive.

A student or parent may cancel or modify an authorization at any time. A cancellation or modification is not retroactive—it takes effect on the date that the school receives it from the student or parent. If a student or parent cancels an authorization to use FSA funds to pay for other allowable charges, the school may use FSA funds to pay only authorized charges incurred by the student before the school received the notice.

If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible but no later than 14 days after the school receives the notice. (See the discussion under *Time frame for paying FSA credit balances* later in this chapter.)

If a school holds excess student funds, the school must

- ◆ identify the amount of funds the institution holds for each student or parent in a subsidiary ledger account designed for that purpose;
- ◆ maintain, at all times, cash in its depository account in an amount at least equal to the amount of funds the institution holds on behalf of the student or the parent; and
- ◆ notwithstanding any authorization obtained by the school, pay any remaining balance on loan funds by the end of the loan period, and any remaining other Title IV funds by the end of the last payment period in the award year for which the funds were awarded.

A school may include two or more of the items that require authorization in one statement. Each component and term in the authorization must be conspicuous to the reader, and a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

An authorization must clearly explain how the school will carry out an activity, but it does not need to detail every aspect pertaining to the activity. However, a blanket authorization that only identifies the activities to be performed is not acceptable. For instance, an authorization permitting a school to use an FSA credit balance (discussed later in this chapter) must provide detail that is sufficient to give the student or parent a general idea of what charges the credit balance would be used to pay. A blanket statement that the credit balance would cover any charges is not acceptable.

Using electronic processes for notifications and authorizations

So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically. You may also use an electronic process to provide required notices and make disclosures by directing students to a secure website that contains the required notifications and disclosures.

If you use an electronic process to provide notices, make disclosures, or direct students to a secure website, then you must notify each student individually every year. You may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an email address.

The annual individual notice must

- ◆ identify the information required to be disclosed that year;
- ◆ provide the exact Internet or intranet address where the information can be found; and
- ◆ state that, upon request, individuals are entitled to a paper copy, and inform students how to request a paper copy.

A School Must Obtain a Student's Voluntary Consent to Participate in Electronic Transactions



Voluntary consent to participate in electronic transactions is required for all financial information provided or made available to student loan borrowers and for all notices and authorizations to FSA recipients required under 34 CFR 668.165. (The Electronic Signatures in Global and National Commerce Act or E-Sign Act)

Power of attorney

Perkins: 34 CFR 674.16(g)

FWS: 34 CFR 675.16(a)(8)

Limitations on using power of attorney in disbursing FWS and Perkins funds

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

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

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

INSTITUTIONAL CHARGES***Institutional versus noninstitutional charges***

Institutional charges generally are defined as the charges for tuition and fees, room and board, and other educational expenses that are paid to the school directly. If a fee (like a registration or technology fee) is required for all students in a program, then the fee should be considered an institutional charge. A charge does not have to appear on a student’s account to be considered an institutional charge.

All charges for tuition, fees, and room and board (if contracted with the school) must be considered institutional charges.

A school may include the costs of books and supplies as part of tuition and fees in any of the following three situations:

1. The school demonstrates there is a compelling health or safety reason for it to provide the books and supplies;
2. The school documents on a current basis that the books and supplies, including digital and electronic course materials, are not available elsewhere or accessible by students enrolled in that program from sources other than those provided or authorized by the school; or

3. The school

- has an arrangement with a book publisher or other entity that enables it to make those books or supplies available to students below competitive market rates,
- provides a way for a student to obtain those books and supplies by the seventh day of a payment period, and
- offers a way for a student to opt out of how the school provides books and supplies.

Exceptions: When calculating returns under 34 CFR 668.22 a school may exclude from the total amount of institutional costs, such as the documented cost of unreturnable equipment and documented cost of returnable equipment if not returned in good condition within 20 days of withdrawal.

Noninstitutional charges (not included in a return calculation) include

- ♦ charges for any required course materials that a school can document a student had a real and reasonable opportunity to purchase elsewhere (see the discussion that follows);
- ♦ charges to a student's account for group health insurance fees if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal, and
- ♦ charges to a student's account for discretionary, educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.).

Apportioning and prorating charges

In most cases, the total charges a school assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some schools charge a student up front for the total cost of a multiyear program (for example, the student signs an enrollment agreement and is charged for the total costs of an 1,800-clock-hour program at the beginning of the program). In this case, because the charges assessed up front represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate).

Institutional charges (in general, tuition and fees) allocated to each year or portion of a year would be based on the education and services the school provides during that period of time, in the same way as they

Paying Overtime Charges is Prohibited



A school may not use Title IV funds to pay overtime charges for a student who fails to complete his or her academic program within the normal time frame. Section 472 of the HEA defines cost of attendance as the tuition and fees normally assessed a student carrying the academic workload required of all students in the same course of study. Overtime charges are in addition to normal tuition and fees. Since they are not charges normally assessed, they may not be included in a student's cost of attendance for Title IV purposes. (See *Volume 3, Chapter 2* for additional information.)

Apportioning and prorating charges

34 CFR 668.164 (c)(5)

are for schools that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current-year charges. The amount of current-year charges would then be used for determining whether the student has an FSA credit balance as described later in this chapter.

Please see the discussion later in this chapter under *Disbursements by payment period* for additional information about the charges and payment periods.

Note that this procedure for apportioning the costs over the length of the program does not affect how a school maintains or should maintain its accounting records.

Three Principles Associated With Institutional Charges

Published in a January 7, 1999, policy bulletin, these principles are applicable to determining institutional charges.

Principle 1: Most costs charged by the school are institutional charges.

The most important principle to keep in mind is that all tuition, fees, room and board, and other educationally related charges a school assesses a student are institutional charges, unless demonstrated otherwise. If you want to exclude specific charges or costs from a calculation, you must document that the charges are not institutional charges.

Principle 2: An institutional charge does not need to be assessed to all students.

A charge assessed to all students enrolled in a course or program is an institutional charge whether or not it is assessed to all students at the school. Moreover, a charge does not have to be specified in a student's enrollment agreement to be considered an institutional charge.

Principle 3: Charges on a student's account are not always school charges; school charges do not always appear on a student's account.

With the student's authorization, a school may credit a student's account with Title IV funds to pay for noninstitutional charges. If a student withdraws from the school with debits for noninstitutional charges on his or her account, the school should exclude those charges from the Return calculation.

Conversely, there may be institutional charges that do not appear on a student's account. If a school disburses Title IV funds to a student to buy required books, equipment, supplies, or materials and the student does not have a real and reasonable opportunity to purchase them from another source, those costs must be classified as institutional charges.

PAYING INSTITUTIONAL CHARGES

Paying pass-through charges

The law allows a school to credit a student's account with FSA funds to pay for institutionally provided housing or to pay for charges incurred at a school-owned bookstore. However, it is not necessary that the school actually own the student housing or the bookstore. The school may enter into a contract with a third party to provide institutional housing and/or bookstore services. A school that has such a contractual agreement for housing and books and supplies is viewed as providing the goods and services itself.

As allowed under 34 CFR 668.164(c), with the student's authorization a school may credit his or her account with Title IV, HEA funds to pay for housing and for educationally related goods and services from the bookstore. If a third party operates the bookstore, the school must have a written contract or other legal agreement with it, under which the student is able to charge the goods and services. Other FSA requirements apply to housing and the bookstore. For instance,

- ◆ A school must include the cost of housing as an institutional charge in any return calculation required when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment. (See *Volume 5*.)
- ◆ Bookstore charges must count as institutional charges when performing a return calculation if students did not have a “real and reasonable opportunity” to purchase the books and supplies from any place other than that bookstore. (See *Volume 5*.)
- ◆ The school must include the contracted third-party housing among the locations for which it fulfills the requirements for reporting campus crime and safety information.
- ◆ If the bookstore is on campus or in any off-campus building or property the school owns or controls, the school must include the bookstore among the locations for which it reports campus crime and safety information. See *Volume 2* and [The Handbook for Campus Safety and Security Reporting](#) for more information.

The third party that owns the housing or bookstore also must comply with the civil rights and privacy requirements contained in the school's program participation agreement (see *Volume 2*).

Charges Incurred at Bookstores

34 CFR 668.164(c)

DCL GEN-12-21, November 28, 2012

Students must have an option

A school must give a Title IV eligible student the opportunity to opt out of having purchases of books and supplies from any institutionally owned or contracted bookstore charged to the student's account.

34 CFR 668.164(m)(3)

Campus security

34 CFR 668.41(e), 668.46, and 668.49

Example: Apportioning Charges that Are All Posted During the First Payment Period

Katrina Technical Center (KTC) is a nonprofit postsecondary institution located in Houma, Louisiana, offering a program in storm water abatement. Hanna Galiano enters KTC’s abatement program on May 1, 2017. KTC posts the charges for the entire (1,500-hour) program at its beginning.

Program Profile

Academic Year/Program	900 hours 30 weeks of instructional time
Program	1,500 hours 50 weeks of instructional time
Program Start Date	May 1, 2017
Program End Date	April 13, 2018
Program Cost	\$13,500
Pell Award Years Included	July 1, 2016–June 30, 2017 July 1, 2017–June 30, 2018
Payment Period 1 (450 hours)	May 1, 2017, to August 11, 2017
Payment Period 2 (450 hours)	August 14, 2017, to November 24, 2017
Payment Period 3 (300 hours)	November 27, 2017, to February 2, 2018
Payment Period 4 (300 hours)	February 5, 2018, to April 13, 2018
First loan period (900 hours)	May 1, 2017, to November 24, 2017
Second loan period (600 hours)	November 27, 2017, to April 13, 2018

Hanna’s Federal Student Aid Information

Hanna is eligible to receive the following Federal Student Aid during her program:

2016–2017 Pell Grant Scheduled Award	\$4,800
2017–2018 Pell Grant Scheduled Award	\$4,800
Subsidized Direct Loan for First Loan Period	\$3,500
Subsidized Direct Loan for Second Loan Period	\$2,334
Unsubsidized Direct Loan for Second Loan Period	\$1,000

When a school charges for an entire program at the start of the course (up front), it may apportion or otherwise assign the total charges for a multiyear program to determine the amount of those charges applicable to each year (loan period or award year as appropriate). **Note that a school must use the same basis to apportion the charges for all students in a program.** For example, KTC could

- apportion the charges in proportion to the number of clock hours in each loan period (900 hours/\$8,100 in the first loan period and 600 hours/\$5,400 in the second loan period); or
- increase the charges it assigns to the first loan period and decrease the charges in the second loan period because it retains charges for books and materials in the first period; or

Apportioning charges example continued

- apportion the \$13,500 equally (\$6,750) over each of the two loan periods (four payment periods).

KTC chose to divide the charges in proportion to the number of clock hours in each loan period.

Student's Apportioned Charges

First Payment Period (450 hours)	\$ 4,050
Second Payment Period (450 hours)	\$ 4,050
Third Payment Period (300 hours)	\$ 2,700
Fourth Payment Period (300 hours)	\$ 2,700

On May 1, 2017, the school credits Hanna's account with \$4,150 in FSA funds—\$2,400 in 2016–2017 Pell Grant funds and \$1,750 in Direct Loan funds. When applied against the \$4,050 in school charges for the first payment period, the FSA funds create an FSA credit balance of \$100 ($\$4,150 - \$4,050$) that the school electronically transfers to the bank account that Hanna previously specified to be used for that purpose.

On August 14, 2017, the school credits Hanna's account with \$4,150 in FSA funds—\$2,400 in 2017–2018 Pell funds and \$1,750 in Direct Loan funds. When applied against the \$4,050 in school charges for the second payment period, the FSA funds create an FSA credit balance of \$100 ($\$4,150 - \$4,050$) that the school electronically transfers to her specified bank account.

On November 27, 2017, the school credits her account with \$2,767 in FSA funds—\$1,600 in 2017–2018 Pell funds and \$1,167 in Direct Loan funds. When applied against the \$2,700 in school charges for the third payment period, the FSA funds create an FSA credit balance of \$67 ($\$2,767 - \$2,700$) that the school electronically transfers to Hanna's specified bank account.

Hanna begins the fourth and final payment period on February 5, 2018, and the aid officer posts \$1,167 in Direct Loan funds to Hanna's account. When the aid officer looks at Hanna's Pell eligibility, she finds that Hanna has already used \$4,000 of her \$4,800 scheduled award, so she is eligible for only \$800 in Pell funds and a total of \$1,967 in FSA funds ($\$1,167 + \800).

When the \$1,967 in FSA funds is applied against the \$2,700 in school charges for the fourth payment period, an unpaid balance of \$733 ($\$2,700 - \$1,967$) remains. Hanna tells the aid officer that she is able to meet her living expenses through her part-time job but needs additional help to pay her tuition. She also says that she could use a little help with other school-related bills.

After discussing the matter, they arrive at the decision that Hanna will use an Unsubsidized Direct Loan of \$1,000 to cover the balance of the tuition, and the aid officer will transfer any credit balance remaining after her tuition is paid to her bank account. Hannah's tuition and fees are now paid in full.

Hanna graduates from KTC and starts to work for the Army Corps of Engineers to help ensure that the levees in New Orleans never fail again.

Prior-year charges

34 CFR 668.164(c)(3) & (4)

Authorizations for paying prior-year charges

34 CFR 668.165(b)

Prior Year

If the student's aid package does not include a Direct Loan, *prior year* means **any** award year that ended prior to the start of the current award year.

If the student's aid package includes a Direct Loan, *prior year* means **any** loan period that ended prior to the start of the current loan period.

Disbursements to Students on Leave of Absence

A school may disburse Pell, TEACH Grant, Iraq & Afghanistan Service Grant, FSEOG, or Perkins Loan funds to a student on a leave of absence. However, a school must not disburse Direct Loan funds to a student on a leave of absence.

Because FSA credit balance funds are funds that have already been disbursed, a school must pay an FSA credit balance to a student on a leave of absence.

Paying prior-year charges

In general, FSA funds may only be used to pay for the student's costs for the period for which the funds are provided. However, a school may use current-year funds to satisfy prior award year charges of not more than \$200 for

- ♦ tuition, fees, and room and board provided by the school without obtaining the student's or parent's authorization; and
- ♦ educationally related goods and services provided by the school if it obtains the student's or parent's authorization under §668.165(b).

A "prior year" is any award year or loan period prior to the current one, as applicable. See the margin note.

The costs of education and other services a school provides a student are associated with the year for which the education and services are provided. "Year" is defined as follows:

- ♦ For a student or parent who receives only a Direct Loan, the current year is the current loan period.
- ♦ For a student who does not receive a Direct Loan, the current year is the current award year.
- ♦ For a student or parent who receives a Direct Loan AND funds from any other Title IV program, the current year is either the current loan period or the current award year.

FSA funds may not be used to repay a student's loan. Loan payments are not part of the cost of attendance for the period of enrollment.

Disbursements by payment period

Except for paying a student her work-study earnings, or unless one or more payment periods have elapsed before a school makes a disbursement, a school must disburse during the current payment period the amount of FSA funds that the student or her parent is eligible to receive for that payment period. That is, a disbursement must be in direct relation to the actual cost incurred by the student for that payment period.

A school may not reduce or eliminate a student's eligibility for a Title IV credit balance by front-loading or apportioning institutional charges to a payment period the school cannot document are attributable to that payment period.

For a program with substantially equal payment periods, a school apportions the charges associated with a current payment period by dividing the total institutional charges for the program by the number of payment periods in the program.

For a program that does not have substantially equal payment periods, a school apportions the charges associated with a current payment period by dividing the number of credit or clock hours in the current payment period by the total number of credit or clock hours in the program, and multiplying that result by the total institutional charges for the program.

A school may make a prior-year, late, or retroactive disbursement during the current payment period as long as the student was enrolled and eligible during the payment period covered by that disbursement.

For more information about disbursing funds by payment periods, see *Volume 3, Chapter 1*.

CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT

Before you awarded funds to a student, you confirmed that she was an eligible student and was making satisfactory academic progress (see *Volume 1*). Also, before disbursing FSA funds, you must determine and document that she remains eligible to receive the type and amount of FSA funds that you expect to disburse. You and your third-party servicer must have a process (consistent with the regulations) for determining student eligibility at the time of disbursement. See the discussion under *When a School Uses Third-Party Servicers to Disburse FSA Funds by EFT and Tier One and Tier Two Arrangements* later in this chapter for additional information about working with third-party servicers. The things you must confirm include the following:

- ◆ that the number of credits the student is enrolled in continue to support the awards that were made;
- ◆ for Direct Loans, the student is enrolled at least half time and has a valid, linked MPN;
- ◆ for a student otherwise eligible for a Pell Grant, the scheduled disbursement will not cause the student to exceed her lifetime eligibility (see *Volume 3*);
- ◆ a student enrolled in a non-term program or nonstandard term program with terms that are not substantially equal in length has completed the previous period (credits and weeks of instruction or clock-hours and weeks of instruction);
- ◆ first-time FSA borrowers have completed entrance counseling, received the required disclosures, and completed the first 30 days of their academic program (see *Volume 3*);
- ◆ for TEACH Grant awards, the student has
 - a) completed the relevant initial or subsequent counseling;
 - b) signed an *Agreement to Serve*; and

If a Borrower Dies Before Loan Funds are Disbursed

The Department does not permit disbursement of Title IV loan funds when there is no possibility of repayment. Therefore, if a student borrower or parent PLUS loan borrower dies after the school has received the loan funds but before the loan is disbursed, the school must return the entire disbursement to the Department. See Appendix C of the FSA Handbook: *Actions a School Should Take When a Current Student Dies*.

Third-party servicer responsibility to check eligibility before disbursement

34 CFR 668.25(c)(4)
34 CFR 668.164(b)(3)



A third-party servicer is bound by the same provisions that apply to a school. The servicer must carry out its contracted activities in a manner keeping with a fiduciary under the Title IV, HEA programs.

Interim disbursements to students selected for verification

A school can make an interim disbursement of certain types of FSA funds to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). If the school has any conflicting documentation or other reason to believe that it does not have a valid output document, it may not make such a disbursement. See the *Application and Verification Guide*.

Disbursement of funds received under advance payment

34 CFR 668.162(b)(3)

- c) earned the appropriate GPA, otherwise met the performance standard through testing, or is a retiree or a current or former teacher (see *Volume 1*).

Importance of Timely Review of Pell Lifetime Eligibility Used

Electronic Announcement, August 13, 2012

TEACH Grant Counseling

Students must complete TEACH Grant initial counseling prior to receiving the first disbursement of their first TEACH Grant. See *Volume 3*.

The most common change that would make a student ineligible for a Direct Loan disbursement is if the student has dropped below half-time enrollment, so it is important that the financial aid office have a system to verify the student's enrollment status at the time of disbursement. If the student has only temporarily dropped below half-time enrollment, you may still make a Direct Loan disbursement after the student resumes at least half-time enrollment.

Conditions under which a third-party servicer is responsible for confirming a student's eligibility

A third-party servicer is responsible for confirming a student's eligibility if the school engages the servicer to perform activities or transactions that lead to or support a disbursement of Title IV funds. Examples of activities and transactions are:

- ◆ processing financial aid applications;
- ◆ performing need analysis;
- ◆ verifying students have begun attendance in the classes on which their Title IV aid was based;
- ◆ verifying that students are making satisfactory academic progress (SAP);
- ◆ performing verification;
- ◆ determining the type and amount of Title IV funds that students are eligible to receive;
- ◆ creating origination, disbursement, or other records in COD;
- ◆ requesting funds under the advance, reimbursement, or heightened cash monitoring (HCM) payment methods; or
- ◆ accounting for funds that are originated, requested, or disbursed in reports or data submissions to the Department.

TIME FRAMES FOR PAYING FSA FUNDS

Prompt disbursement (three-day) rules

In general, schools that are not receiving federal cash from the Department through one of the heightened cash monitoring payment methods must make disbursements as soon as administratively feasible but no later than three business days after receiving funds from the Department. The disbursements may be credited to the student's account or made directly to the student or parent, as discussed earlier.

In order to comply with the excess cash regulations (described in *Chapter 1*), when requesting funds with which to make FSA disbursements, schools must ensure they do not draw down more cash than they can disburse over the next three days.

Note that these time frames for disbursing to the student's account (or directly to the student or parent) are different than those for paying FSA credit balances to the student or parent. As we discuss later in this chapter, a school generally has 14 days to pay an FSA credit balance to the student or parent, unless it has written permission to hold the credit balance.

Submitting disbursement records

A school must submit Federal Pell Grant, TEACH Grant, and Direct Loan disbursement records no later than 15 days after making a disbursement or becoming aware of the need to adjust a student's disbursement.

A school's failure to submit disbursement records within the required time frame may result in an audit or program review finding. In addition, the Department may impose a fine or other penalty.

EARLY DISBURSEMENTS

The earliest a school may disburse Title IV funds to an eligible student or parent is

- ◆ if the student is enrolled in a credit-hour program offered in terms that are substantially equal in length, 10 days before the first day of classes of a payment period; or
- ◆ if the student is enrolled in a clock-hour program, a non-term credit-hour program, or a credit-hour program offered in terms that are not substantially equal in length, the later of
 - a) 10 days before the first day of classes of a payment period or
 - b) the date the student completed the previous payment period for which he received Title IV funds.

A school may not make an early disbursement of a Direct Loan to a first-year, first-time borrower who is subject to the 30-day delayed disbursement requirements in 34 CFR 685.303(b)(5).

A school may not compensate a student employed under the FWS program until the student earns that compensation by performing work, as provided in 34 CFR 675.16(a)(5).

Reporting Disbursements Within 15 Days

Schools must submit Direct Loan and Pell, TEACH, and Iraq and Afghanistan Service Grant disbursement records no later than 15 days after making the disbursement or becoming aware of the need to adjust a previously reported disbursement.

The Department considers that Title IV funds are disbursed on the date that schools (a) credit those funds in their general ledger or any subledger to a student's account or (b) pay those funds to a student directly. Title IV aid is disbursed even if schools use their own funds in advance of receiving program funds from the Department.

Failure to submit disbursement records within the required time frame may result in rejection of all or part of the reported disbursement and in an audit or program review finding. The Department may also impose a fine or other penalty.

Federal Register Volume 82, Number 122, June 27, 2017

Early Disbursements

34 CFR 668.164(i)

Exception to the 30-day delay

The 30-day restriction does not apply if the school is exempt from the 30-day delayed disbursement requirements under 34 CFR 685.303(b)(5)(i)(A) or (B).

34 CFR 668.164(i)(2)

Defining the Date of Disbursement (34 CFR 668.164(a))

(These rules apply to the FWS program as well.)

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must disburse an FSA credit balance to a student no later than 14 days after the date it was created or no later than 14 days after the first day of class, and you must notify a student of a loan disbursement within a time frame related to the date of that disbursement.

The date of disbursement also determines when the student becomes an FSA recipient and has the rights and responsibilities of an FSA recipient. For example, when FSA loan funds are disbursed to a recipient, the student or parent assumes responsibility for the loan and has the right to cancel the loan.

A disbursement occurs when your school credits a student's account **or** pays a student or parent directly with

- FSA funds received from the Department; or
- School funds labeled as FSA funds in advance of receiving actual FSA funds (except as noted below).¹

When using school funds in place of FSA funds, there are two situations where the FSA disbursement is considered to have taken place on the earliest day that the student could have received FSA funds rather than the actual disbursement date.

- If a school credits a student's account with its own funds earlier than 10 days before the first day of classes of a payment period, that credit is not considered an FSA disbursement until the 10th day before the first day of classes (the earliest a school may disburse FSA funds).
- If a student borrower is subject to the 30-day disbursement delay and a school credits the student's account with its own funds before the 30 days have elapsed, this is not counted as an FSA loan disbursement until the 30th day after the beginning of the payment period (the 31st day of classes).

¹If your school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an FSA credit (for example, an estimated Federal Pell Grant), it is not a disbursement. For example, some schools prepare billing statements or invoices showing the estimated amount of FSA funds that students are eligible to receive. These estimated amounts are not FSA disbursements.

RETROACTIVE PAYMENTS

If a school did not make a disbursement to an enrolled student for a payment period the student completed (for example, because of an administrative delay or because the student's ISIR was not available until a subsequent payment period), the school may pay the student for all prior payment periods in the current award year or loan period for which the student was eligible.

A retroactive Pell Grant payment must be calculated based on the student's enrollment status according to work already completed, as required by 34 CFR 690.76(b).

LATE DISBURSEMENTS

Generally, an otherwise eligible student or parent becomes ineligible to receive FSA funds on the date that

- ◆ for the Direct Loan program, the student is no longer enrolled at the school as at least a half-time student for the period of enrollment for which the loan was intended, or
- ◆ for the FSA grant and Perkins Loan programs, the student is no longer enrolled at the school for the award year.

However, if certain conditions are met, students must be considered for a disbursement after the date they became ineligible. These disbursements are called "late disbursements."

Conditions for a late disbursement

A student must be considered for a late disbursement (and the parent for a parent PLUS Loan disbursement) if the Department processed a SAR/ISIR with an official EFC before the student became ineligible. Therefore, a school must review its records to see if a student who did not receive a disbursement of FSA funds before becoming ineligible is eligible for a late disbursement. (Check the processed date as described in the sidebar.)

In addition, for a Direct Loan or an award under the TEACH Grant Program, the school must have originated the loan or award prior to the date the student became ineligible (see sidebar). For an FSEOG or a Federal Perkins Loan, the school must have made the award to the student prior to the date the student became ineligible.

If a school receives a valid SAR/ISIR for a student who is no longer enrolled, before performing a return calculation, the school must recalculate the FSA grant eligibility based on the student's enrollment status on the date the student ceased to be enrolled.

Retroactive payments

34 CFR 668.164(k)

Late disbursements

34 CFR 668.164(j)

Pell and Iraq and Afghanistan Service Grant disbursements

If a school receives a valid SAR or ISIR within the applicable deadlines, it must disburse the student's Pell or Iraq & Afghanistan Service Grant.

34 CFR 690.61(a)

Date of Origination

TIP

The regulations define the date of loan origination as "the date a school creates the electronic loan origination record."

If the school created an electronic loan origination record in its system before the date the student became ineligible, and the school can document the creation of that record, the school satisfies the date of origination component required for making a late disbursement (assuming that all other late disbursement requirements are met).

34 CFR 685.301(a)(6).

Processed Date

For purposes of determining eligibility for a late disbursement, use the processing date on the SAR/ISIR. For an ISIR, use the field labeled **Processed Date**. For a SAR, use the date above the EFC on the first page. For a SAR Acknowledgment, use the date labeled “transaction process date” in the school use box.

Obtaining SAR/ISIR With Earlier Process Date

In some cases, a school may have a SAR/ISIR with an official EFC processed while the student was enrolled but before the student listed the school on the FAFSA or ISIR. Subsequently, the school may have received a SAR/ISIR for the student with a processed date after the student ceased to be eligible. In this case you need to obtain a copy of the earlier SAR/ISIR to document eligibility for the late disbursement.

Post-withdrawal disbursement

This is a type of late disbursement that occurs after a student withdrew and that the student has earned based on a “Return of Title IV Funds” calculation. The conditions and limitations for a post-withdrawal disbursement are the same as for all other late disbursements though there are additional requirements. See *Volume 5* for the rules about offering and paying a post-withdrawal disbursement.

34 CFR 668.22(a)(5)

Late Disbursements May Be Declined

Though a school must, in some cases, offer a late disbursement, a student or parent is never required to accept it. For example, a student may decline a late disbursement of a loan to avoid taking on debt.

Late disbursements that must be made vs. late disbursements that may be made

If a student who qualifies for a late disbursement completes or withdraws during the payment period or period of enrollment, a school **must** make or offer, as appropriate, a late disbursement.

If the student completed the payment period or period of enrollment, the school must provide the student or parent the choice to receive the amount of Title IV, HEA program funds that she was eligible to receive while the student was enrolled at the institution. When making a late disbursement in this circumstance, the school may credit the student’s account for allowed charges but must pay or offer any remaining amount to the student or parent.

A late disbursement for a student who has withdrawn during the payment period or period of enrollment is called a post-withdrawal disbursement. The school **must** make any post-withdrawal disbursement required by the provisions of 34 CFR 668.22. See the margin note.

If a student did not withdraw or fail to complete the payment period or period of enrollment but ceased to be enrolled as at least a half-time student, the school **may** make a late disbursement of a Direct Loan. So long as the school previously confirmed that the student began attendance for the loan period and was enrolled at least half time, it is not required to reconfirm his attendance before making a late disbursement of the loan.

A student who withdraws and subsequently signs a promissory note in time for the school to include the loan funds in the return of Title IV aid calculation may receive a post-withdrawal disbursement of the applicable amount of her loan funds (see *Volume 5* for more information). In addition, a student who loses eligibility for a reason other than her withdrawal and subsequently signs a promissory note may receive a late disbursement of the applicable amount of her loan funds.

Limitations on making a late disbursement

The regulations prohibit a school from making a late disbursement in certain situations, **even if a student otherwise meets the conditions for a late disbursement. A school is prohibited from making**

- ◆ a late second or subsequent disbursement of Direct Loan funds unless the student has graduated or successfully completed the loan period;
- ◆ a late disbursement of Direct Loan funds to a first-year, first-time borrower who withdraws before the 30th day of the student’s program of study, unless the school meets the requirements for a waiver based on low default rates (see *Volume 2*); and

- ◆ a late disbursement of Title IV funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by the Department.

In addition, a school may not make a late disbursement later than 180 days after the date the student becomes ineligible.

Paying a late disbursement

If a school chooses to make a late disbursement of a Direct Loan to a student who ceases to be enrolled as at least a half-time student, the school determines the amount of the late disbursement of the Direct Loan it will offer the student by determining the educational costs the student incurred for the period of instruction during which the student was enrolled at least half time.

A school must contact a student prior to making any late disbursement of Direct Loan funds and explain to him his obligation to repay those funds if they are disbursed. This notification must include the information necessary for the student or parent to make an informed decision about accepting the loan disbursement. In addition, the school must confirm that the loan funds are still needed by the student and that he wants the school to make the disbursement.

A school may credit a student's account with a late disbursement of FSA grant funds without the student's permission for

- ◆ current allowable charges;
- ◆ prior-year charges of not more than \$200 for tuition, fees, and room and board provided by the school; and
- ◆ prior-year charges of not more than \$200 for educationally related goods and services provided by the school if it obtained the student's or parent's authorization under §668.165(b) before the student lost eligibility.

If grant funds remain to be disbursed from a late disbursement after the outstanding charges on the student's account have been satisfied, **the school must pay the grant funds directly to the student within 14 days.**

If a student with an FSA credit balance withdraws before the funds are disbursed, other limitations apply. See *Volume 5* for an explanation of the treatment of Title IV credit balances when a student withdraws.

Late Disbursement Limitations

34 CFR 668.164(j)(4)

Flexibility in Contacting Students

To avoid having to contact students multiple times, a school may use one contact to

- counsel borrowers about their loan repayment obligations;
- obtain permission to credit loan funds to students' accounts to cover unpaid institutional charges;
- obtain permission to make a late disbursement of grant or loan funds for other than institutional charges;
- obtain permission to make a late disbursement of grant or loan funds directly to students; and
- confirm that students wish the school to receive, as a direct disbursement, any grant or loan funds the students are due as a late disbursement.

Students' response to an offer of a late disbursement does not have to be in writing, but the school must document it.

Extended Direct Loan Processing

Direct Loan processing for an award year generally remains open in COD for 13 months following the end of the award year (until July 31 of the year following the end of the award year). A school should be able to submit data via batch or web processing through that time unless it has already confirmed closeout for the impacted award year. If a school finds the year is closed in COD before the 13 months are up, it should contact COD School Relations for help in re-opening the award year.

Once the 13-month period is over and COD has closed the year, a school may request extended processing through <https://cod.ed.gov>. Toward the end of each award year the Department publishes an announcement with the closeout deadline and instructions on requesting extended processing.

Conditions and Limitations on Late Disbursements

For students to receive a late disbursement, these conditions must be met before they lose eligibility [34 CFR 668.164(j)(2)]

Program		
Pell Grant ¹	For all programs, the Department processed a SAR/ISIR with an official EFC.	No additional requirements
FSEOG		Student is awarded a grant.
Direct Loans		A loan record is originated. ²
Perkins Loans		Student is awarded the loan.
TEACH Grants		The grant is originated.

These additional limitations must be satisfied before a school may make a late disbursement [34 CFR 668.164(j)(4)]³

Program	
Pell Grant ¹	For all Title IV programs, a school received a valid SAR/ISIR by the date established by the Department.
FSEOG	No additional limitations
Direct Loans	<ol style="list-style-type: none"> For a first-time, first-year borrower, student completed 30 days of the program. (Subject to waivers discussed in <i>Volume 3</i>) For a second disbursement, student graduated or completed the period for which the loan was intended.
Perkins Loans	No additional limitations
TEACH Grants	School received a valid SAR/ISIR by the date established by the Department.

¹ Within this chart, the rules for a Pell Grant also apply to Iraq and Afghanistan Service Grants.

² A school may not originate a Direct Loan for a loan period in which the student is no longer enrolled on at least a half-time basis, even if the student is otherwise still enrolled at the school.

³ For all programs, the late disbursement is made no later than 180 days after the date of the school's determination that the student withdrew, or, for a student who did not withdraw, 180 days after the student became ineligible.

DISBURSING FWS WAGES

Your school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other similar payrolls at the school. Unless you are paying the student with noncash contributions (see sidebar), you must pay the nonfederal share to the student at the same time you pay the federal share.

FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while he or she was still in school. However, when a student has withdrawn from school and is not planning to return, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving a disbursement under the FWS Program.

For audit and program review purposes, your school must have documentation (e.g., canceled checks, bank statements) showing that students received disbursements in the amount charged to the FWS Program.

Crossover payment periods

When a payment period is in two award years (that is, when it begins before July 1 and ends on or after July 1), the student is paid for compensation earned through June 30 with funds allocated for the first award year and for compensation earned beginning July 1 with funds allocated for the following award year. (See *Volume 6* for a discussion of carrying back funds for summer employment.)

Disbursing to students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization.

Holding FWS funds on behalf of the student

With written authorization from a student, a school may hold, on behalf of the student, FWS funds that would otherwise be paid directly to the student (unless this is prohibited by the terms of a reimbursement payment method). The restrictions for such an authorization are the same as those that apply to written authorizations for disbursements to student accounts. If your school holds FWS funds on behalf of students, it must:

- ◆ identify the amount of FWS funds held for each student in a designated subsidiary ledger account;
- ◆ maintain cash in its bank account that is always at a minimum equal to the FWS funds being held for students; and
- ◆ disburse any remaining balance by the end of the school's final FWS payroll period for the award period.

Extended processing and late disbursements of Pell and Direct Loans for a closed year

Extended processing or *post deadline processing* allows a school to make needed adjustments that may be identified after the closeout or processing deadline.

A school may request an extension to the data submission deadline for Direct Loans or grants via the post deadline/extended processing request page in COD.

Note: Schools do not need to request post deadline processing for Pell Grants if they are processing only downward disbursement adjustments.

Authorized school users must log on to the website, select the "School" menu and then select "Request Post Deadline/Extended Processing" on the left side. Users then

- select the correct award year and program for the request;
- choose the general reason why extended processing is being requested from the reason code drop-down menu;
- provide an explanation for the request; and
- select "Submit."

In the information a school provides to the students when the school informs them that they are due a late disbursement, the school may include information about the advantages of keeping loan debt to a minimum.

FWS payments to students

34 CFR 675.16

Crediting student's account

34 CFR 668.164(d)

Noncash contribution

Your school has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. However, you may not count forgiveness of a charge such as an FWS student's parking fine or library fine as part of the noncash contribution to the student.

Noncash payments (tuition, fees, services, or equipment) must be made before the student's final payroll period of the award period. If your school pays its share for a future academic period in the form of prepaid tuition, fees, services, or equipment, you must give the student—again, before the end of her final payroll period—a statement of the amount of the noncash contribution earned.

Self-assessment tool for disbursement procedures

You can evaluate your school's disbursement procedures by referring to the "Fiscal Management Assessment" in the schools section of the FSA Assessments at <https://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html>.

Method of disbursement

- Credit to student's account: 34 CFR 668.164(c)
- Direct disbursements: 34 CFR 668.164(d)
- Releasing a Pell check: 34 CFR 690.78(c)
- Cost of attendance: HEA Section 472

Tuition and fees

Section 472 of the HEA
34 CFR 668.164(d)

Crediting Direct Loan funds to current charges first

Direct Loan funds credited to a student's account must pay for current charges first.

METHOD OF DISBURSEMENT

There are two ways to disburse FSA funds: by crediting the student's account for allowable charges at your school or by paying the student or parent directly.

Credit to the student's account

When a school disburses FSA funds to a student by crediting a student's account, it may do so only for allowable charges associated with the current payment period (except for the allowances for prior year, late, or retroactive disbursements discussed elsewhere in this chapter).

Allowable charges include the following:

- ♦ current charges incurred by the student at the school for tuition and fees as defined in Volume 3, and room and board if the student contracts with the school (third-party or pass-through charges are not included except in the case of third-party housing, books, and supplies contracted by the school);
- ♦ the prorated amount of those charges if the institution debits the student's ledger account for more than the charges associated with the payment period.
- ♦ books, supplies, and other educationally related goods and services provided by the institution if you obtain the student's or parent's (as applicable) written authorization; and
- ♦ prior-year charges not exceeding \$200 (see the discussion under *Paying prior-year charges* earlier in this chapter).

Direct disbursement to the student or parent

You may also disburse FSA funds directly to the student or parent. Most schools choose to first credit FSA funds to the student's account at the school and then disburse the credit balance to the student or parent.

A school makes a direct payment for the amount of the Title IV program funds a student is eligible to receive (including Direct PLUS Loan funds that the student's parent authorized the student to receive) by

- ♦ initiating an EFT of that amount to the student's financial account, including transferring funds to stored-value cards and debit cards (see the discussion under *Paying FSA Credit Balances* later in this chapter);
- ♦ issuing a check or other instrument payable to and requiring the endorsement or certification of the student;
- ♦ dispensing cash for which the school obtains a receipt signed by the student.

A school makes a direct payment to a parent, for the amount of the Direct PLUS Loan funds that a parent does not authorize the student to receive, by

- ◆ initiating an EFT of that amount to the parent’s financial account;
- ◆ issuing a check for that amount payable to and requiring the endorsement of the parent; or
- ◆ dispensing cash for which the school obtains a receipt signed by the parent.

When the Department considers a check to have been issued

The Department considers that a school has issued a check on the date the school

- ◆ mails the check to the student or parent; or
- ◆ notifies the student or parent that the check is available for immediate pick-up at a specified location at the institution.

FSA CREDIT BALANCES

A Title IV credit balance occurs whenever the amount of Title IV funds credited to a student’s account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period. Please see *Volume 5* for a discussion of credit balances when a student withdraws.

If FSA disbursements to the student’s account at the school create an FSA credit balance, you must pay the credit balance directly to the student or parent as soon as possible but no later than 14 days after

- ◆ the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period;
- ◆ the balance occurred if the credit balance occurred after the first day of class of a payment period.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize your school (in writing or through StudentLoans.gov) to transfer the proceeds of a PLUS Loan credit balance directly to the student for whom the loan is made (for example, to a bank account in the student’s name). The Department does not specify how a school must determine which FSA funds create an FSA credit balance.

Disbursements in programs of less than one year where grades are not awarded

Before disbursing funds to students enrolled in programs equal to or less than one year in which they do not receive grades or credits until the end of the program, your school must have a satisfactory academic progress standard as described in *Volumes 1* and *2* of the Handbook, and you must

- measure a student’s academic progress by the time the student has completed one-half of the program (one payment period); if no grades are given for the first half/payment period, a comparable assessment must be made; and
- not make a second disbursement of FSA funds to students who are not making satisfactory academic progress, except that students on probation or warning may receive a second disbursement if they completed the clock hours or credit hours associated with the first period.

Holding a check

A school may hold the check for no longer than 21 days after the date the school notifies the student or parent. If the student or parent does not pick up the check, the school must immediately

- mail the check to the student or parent,
- pay the student or parent directly by other means, or
- return the funds to the appropriate Title IV program.

34 CFR 668.164(d)(2)

Credit balances

34 CFR 668.164(h)(1)

School responsibility to pay credit balance in time frame

34 CFR 668.164(h)(2)

School responsibility to pay credit balance by the end of the last payment period

34 CFR 668.165(b)(5)(iii)

Refunds vs. paying credit balances

FSA regulations refer to the amount of aid that exceeds the allowable charges as a credit balance. School administrators sometimes refer to this as a refund; however, it is not the same thing as a refund under the school's refund policy or a post-withdrawal disbursement given to a student under the Return of Title IV Funds rules.

Credit balances under \$1.00

A school is not required to pay a credit balance that is less than \$1.00.

Paying credit balance by check

34 CFR 668.164(d)(1)(i)(b)&(ii)(b)

Paying credit balance by EFT

34 CFR 668.164(d)(1)(i)(A) & (ii)(A)

Delivery of FSA Funds Must Be Free

Schools are prohibited from charging students a fee for delivering FSA funds. If a school delivers FSA funds to students by crediting funds to a school-issued debit or smart card, the school may not charge students a fee for making withdrawals of FSA funds from that card. However, the school may charge for a replacement card.

See the discussion under the treatment of T1 and T2 Accounts later in this chapter for a discussion of charges allowed under those accounts.

Bank Account

Bank Account means a Federal Deposit Insurance Corporation (FDIC) insured account or a National Credit Union Share Insurance Fund (NCUSIF) account. This account may be a checking, savings, or similar account that underlies a stored-value card or other transaction device.

A school may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time frames.

Notwithstanding any authorization obtained by the school, the school must provide the student with any remaining FSA credit balance resulting from FSA loan funds by the end of the loan period and any other FSA program credit balances by the end of the last payment period in the award year for which the funds were awarded.

PAYING FSA CREDIT BALANCES

Paying FSA credit balances by issuing a check

A school may pay a credit balance by issuing a check payable to and requiring the endorsement of the student or parent. A school is considered to have issued the check on the date that it

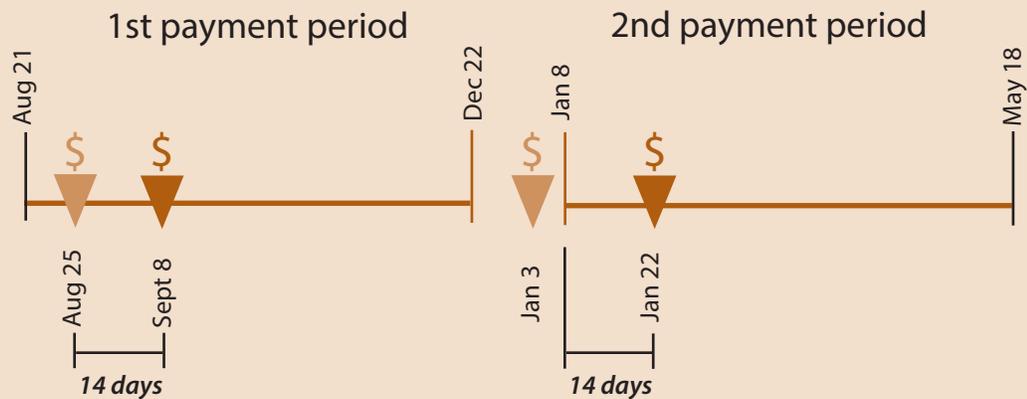
- ◆ mails the check to the student or parent; or
- ◆ notifies the student that the check is available for immediate pickup and provides the specific location.

A school that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day time frame. A school can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. A school that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the school's process complies with the rest of the regulation. That is, **the school must be able to give the student a check when the student comes to the office within the 14-day time frame.**

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored-value card), and not be told that a check will be mailed to him or her.

A school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.

Example—14-Day Time Frame for Paying Credit Balances



In the first payment period above, the school disburses FSA funds to incoming students after the students have started classes, so it has 14 days from that date to pay the credit balance to the student (or parent, in the case of PLUS).

In the second payment period, the school disburses FSA funds before classes start, so the school has 14 days *from the beginning of classes* to pay the credit balance.

FSA credit balances example

An FSA credit balance occurs only if the total amount of FSA program funds credited to the student's account exceeds allowable charges.

For example, Ms. Inu Nagar enrolls at Eaglewood Technical Institute as a computer student, and her total allowable charges for the fall term amount to \$1,500. ETI credits \$2,000 to her account, **composed of** \$1,000 in FSEOG, \$500 in private scholarship funds, and \$500 in Pell Grant funds.

Although there is an excess of \$500 on the account, this does not constitute an FSA credit balance because the total amount of FSA funds (\$1,500) credited to the student's account does not by itself exceed the amount of allowable charges (\$1,500).

If, in this example, ETI credited \$600 of Pell Grant funds, rather than \$500, an FSA credit balance of \$100 would be created because the total FSA funds credited to the account (\$1,600) would exceed the allowable charges (\$1,500). The order in which these funds were credited does not matter.

Provisions for books and supplies

34 CFR 668.164(m)

Authorization not required

If a Pell-eligible student uses the process provided by the school to obtain books or supplies, the student is considered to have authorized the use of the FSA funds, and no written authorization is required.

School options

A school has the flexibility to choose the method or methods to satisfy this provision based on its administrative needs and constraints or an evaluation of the costs and benefits of one or more method. For example, the school may issue a bookstore voucher, make a cash disbursement, issue a stored-value card, or otherwise extend credit to students to make needed purchases.

Effect of Verification

To be eligible to receive the disbursement for books and supplies, a student must meet all the student eligibility requirements before the start of the student's payment period.

A student who has not completed the verification process, has an unresolved "C" code on the SAR and ISIR, or has unresolved conflicting information is not covered by the special provisions for books and supplies if those issues have not been resolved at least 10 days before the start of the student's payment period.

Clarification

30-day Delay Requirement

If the 30-day delayed disbursement provisions for Direct Loans apply to a student, and a Direct Loan is the only Title IV aid the student is receiving, a school does not have to comply with the provisions of 34 CFR 668.164(m).

Paying FSA credit balances by initiating an EFT

A school may pay a credit balance by initiating an EFT to a bank account designated by the student or parent. Moreover, a school may establish a policy requiring its students to provide information about an existing bank account or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of FSA funds to students. Consequently, **if a student does not comply with the school's policy, the school must nevertheless disburse the funds to the student either by dispensing cash, for which the school obtains a signed receipt, or issuing a check. A school must disburse the credit balance within the regulatory time frame.** (See the discussion under *When a school uses third-party servicers to disburse FSA funds by EFT* later in this chapter for additional information.)

Special provisions for books and supplies

In order to academically succeed in a program, a student must be able to purchase books and supplies at the beginning of the academic period. Therefore, by the seventh day of a payment period, a school must provide a way for a student who is eligible for FSA funds to obtain or purchase the books and supplies required for the payment period if

- ◆ ten days before the beginning of the payment period, the school could have disbursed FSA funds to the student; and
- ◆ disbursement of those funds would have created an FSA credit balance.

A school must consider all the FSA funds a student is eligible to receive at the time it makes the determination, but the school need not consider aid from non FSA sources.

A school that includes the costs of books and supplies in the tuition charged and provides all of those materials to the student at the start of his or her classes meets the requirements of these regulations.

The amount a school must provide is the lesser of the presumed credit balance or the amount determined by the school that the student needs to obtain the books and supplies. In determining the required amount, a school may use the actual costs of books and supplies or the allowance for those materials used in estimating the student's cost of attendance for the period.

A school's policy must allow a student to decline to participate in the process the school provides for the student to obtain or purchase books and supplies.

If a student uses the method provided by the school to obtain or purchase books and supplies, the student is considered to have authorized the use of FSA funds, and the school does not need to obtain a written authorization for this purpose.

If a school uses a bank-issued stored-value or prepaid debit card that is supported by a federally insured bank account to deliver funds for books and supplies, a student must have access to the funds via the card by the seventh day of his or her payment period. If a bank delays issuing a stored-value or prepaid debit card to the student because it must resolve conflicting identity data under federal law, the Department will not hold the institution accountable as long as the institution exercises reasonable care and diligence in providing in a timely manner any identity information about the student to the bank. Likewise, the school is not responsible if the student provides inaccurate information or delays in responding to a request from the bank to resolve any discrepancies.

Under a consortium agreement between two eligible schools, if a student is enrolled in a course at the host school and classes start before the payment period begins at the home school that is paying the FSA funds, the regulations require that the student obtain the books and supplies by the seventh day of the start of the payment period of the home school. If the host school is paying the FSA funds, the student must be able to obtain the books and supplies by the seventh day of the start of the payment period of the host school.

A student may decline to participate (opt out) in the way a school provides for obtaining books and supplies. For instance, if a school provides a bookstore voucher, the student may opt out by not using the voucher. If the school provides the funds using a stored-value or prepaid debit card, the school must have a procedure through which the student may opt out. For example, a school may require a student to notify the school by a certain date so that the school does not unnecessarily issue a check to the student or transfer funds to the student's bank account. If a student opts out, the school may, but is not required to, offer the student another way to purchase books and supplies as long as it does not otherwise delay providing funds to the student as a credit balance.

A school is required to provide, in its financial aid information and its notifications provided to students receiving FSA funds, information on the way the school provides for Federal Pell Grant eligible students to obtain or purchase required books and supplies by the seventh day of a payment period under certain conditions and how the student may opt out. The information must indicate whether the school will enter a charge on the student's account at the school for books and supplies or pay funds to the student directly. Also, during the aid counseling process, the school must explain to a student who qualifies for the funds advanced to purchase books and supplies how the method is handled at the school and how a student may opt out.

Book vouchers and institutional charges in the return of Title IV funds calculations



Remember, if a book voucher issued by a school cannot be used to purchase course materials from a **convenient unaffiliated source**, the student does not have a **real and reasonable opportunity** to purchase his or her course materials elsewhere.

In that case, the school must include the cost of books and materials purchased with the voucher as institutional charges in Step 5, Part L of any Return of Title IV funds calculation. See *Volume 5*.

Returning Funds

34 CFR 668.164(l)

TIME FRAME FOR RETURNING AN UNCLAIMED TITLE IV CREDIT BALANCE

FSA funds may not escheat to a state or any other third party. (See the end of *Chapter 1* for more on escheating.) A school must return to the Department any Title IV funds, except FWS program funds, that it attempts to disburse directly to a student or parent that are not received by the student or parent. For FWS program funds, a school is required to return only the federal portion of the payroll disbursement.

If an EFT to a student’s or parent’s financial account is rejected, or a check to a student or parent is returned, a school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the EFT was rejected or the check returned. In cases where the school does not make another attempt, the funds must be returned to the Department before the end of this 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check. All unclaimed credit balances must be returned—there is no *de minimis* amount.

How to recognize TEACH Grants that have converted to Direct Unsubsidized Loans

TEACH Grants converted to Direct Loans will have in NSLDS a loan type code of D8—Direct Unsubsidized (TEACH). On ISIRs, the “Financial Aid History” page has a TEACH Grant Loan Conversion Flag with a “Y” for Yes or “N” for No.

HOLDING FSA CREDIT BALANCES

A school is permitted to hold credit balances if it obtains a voluntary authorization from the student (or parent, in the case of PLUS). If your school has the authorization to hold the credit balance, it must identify the amount of funds that it holds for the student or parent in a subsidiary ledger account designated for that purpose. Your school also must maintain, at all times, cash in its bank account at least equal to the amount that it holds for students. The school is permitted to retain any interest earned on the student’s credit balance funds.

Because FSA funds are awarded to students to pay current year charges, notwithstanding any authorization from the student or parent, you must pay

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

The order in which Title IV funds must be returned

- Unsubsidized Direct Loans (other than Direct PLUS Loans), including a loan created because a TEACH Grant recipient failed to provide the confirmation required under 34 CFR 686.40(a), 120 days after ceasing enrollment. See 686.43(a) and (a)(2).
- Subsidized Direct Loans
- Federal Perkins Loans
- Direct PLUS Loans
- Federal Pell Grants
- FSEOG Grants
- TEACH Grants
- Iraq and Afghanistan Service Grants

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. The FSA regulations do not set specific rules for determining which funds created a credit balance. However, we encourage schools to return FSA funds to loan programs first to reduce the borrower's loan balance. For more information on holding a credit balance, see the discussion under *Authorizations* earlier in this chapter and the sample authorization on the next page.

Clarification

When A School Must Return a Title IV Credit Balance After 240 Days

Because the regulations allow schools up to 240 days to deliver a Title IV Credit Balance to a student who left school before receiving the credit balance, a school might find that it is holding Title IV funds that belong to a student the school cannot locate. When that happens, the school should return the Title IV funds in the same order the school would use if the school had to return funds because the student withdrew before the 60% point in the payment period or period of enrollment (See sidebar for the order of return).

Direct Loans—The school must complete two separate procedures

1. The school must return the funds through G5.
2. The return must be offset by a downward adjustment in student's Direct Loan record in COD.

When the school reduces the student's Direct Loan actual disbursement amounts in COD, the information is transmitted to the student's loan servicer and results in a reduction of the outstanding principal balance on the student's loan.

Perkins Loans—The school must

- reimburse its Perkins Loan fund;
- report those funds as income in Part III, Section A of the FISAP; and
- reduce the student's Perkins Loan balance, and make an accounting entry that ties the reduction to the journal entry for the reimbursement of its Perkins Loan fund.

The school should not make any changes to the student's Perkins promissory note.

Pell Grants, TEACH Grants, and Iraq and Afghanistan Service Grants—The school must complete two separate procedures

1. The school must return the funds through G5.
2. The return must be offset by a downward adjustment in student's Pell or Iraq and Afghanistan Service Grant award in COD.

Supplemental Educational Opportunity Grants—If the award year has not changed, the school can immediately award the funds to another eligible student. If the award year has changed **and** the school has not already carried forward the maximum 10% allowable, the school may carry the funds forward to the current year and award them to another eligible student. Note that the school will have to amend Part IV, Sections B-E and Part VI of the FISAP to reflect the amount being carried forward.

If the FSEOG funds cannot be carried forward to the next award year the school must return them to the correct award year through G5, and amend Part IV, Sections C-E and Part VI of the FISAP.

Prohibited Behavior

A school may not suggest or require that all students, or all of a specific group of students (e.g., all those in the final term or payment period of a program, as applicable) allow the school to hold a Title IV credit balance for unanticipated expenses that do not currently appear on the student's account and are not part of the charges normally assessed to those enrolled in the student's program of study.

Title IV funds are provided to a student to pay current charges (charges for the payment period or period of enrollment), not charges that might or might not accrue to the student at some undefined "later time." Moreover, Title IV credit balances must be available for students to use to pay noninstitutional charges such as off-campus housing or transportation for the current period.

In addition, the requirement under 34 CFR 668(b)(5)(iii) that Title IV loan funds be disbursed by the end of the loan period means that those funds may not be held in anticipation of charges that might be posted to a student's account after the end of a loan period.

During a program review or federal audit, the Department will review authorizations to hold credit balances, and note patterns that suggest a school is pressuring students to allow the school to hold credit balances and then using those credit balances to pay charges for periods that begin after the end of the loan period or last payment period in the award year as applicable.

34 CFR 668.165(b)(5)(iii)

34 CFR 668.165(b)(2)(i)

Authorization to hold an FSA credit balance

All elements of an authorization to hold an FSA credit balance must be conspicuous. An authorization must include the following elements:

- ◆ An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered.
- ◆ An authorization must clearly provide the student or parent with the information he or she needs to make an informed decision.
- ◆ The student or parent must be informed that he or she may refuse to authorize any individual item, that he or she may cancel such authorization at any time, and that a cancellation is not retroactive.
- ◆ A credit-balance authorization must provide detail that is sufficient to give the student or parent an idea of how the credit balance will be used.

Schools on the HCM and reimbursement payment methods are prohibited from holding credit balances

Schools on the heightened cash monitoring and reimbursement payment methods must credit a student's ledger account for the amount of Title IV funds the student or parent is eligible to receive and **pay** the amount of any credit balance due under 34 CFR 668.164(h) before the schools submit a request for those funds. A requirement to pay students their credit balances prohibits schools from holding the funds. Since holding the funds is prohibited, obtaining an authorization do so is also prohibited.

Reimbursement and HCM payment methods

34 CFR 668.162(c) and (d)

Sample Authorization to Hold an FSA Credit Balance

TRISKAIDEKA MARLEY UNIVERSITY AUTHORIZATION TO HOLD A FEDERAL STUDENT AID CREDIT BALANCE

Through this document, you will tell Triskaideka Marley University (TKMU/the University) how you would like the school to manage the FSA credit balance on your student account.

An FSA credit balance is created when the total of all FSA funds credited to a student's account exceeds the total of tuition, fees, room, board, and other eligible educational charges on a student's account. Your FSA credit balance of \$2,500 was created by funds from the Federal Pell Grant and Direct Loan Programs.

Unless a student or parent (in the case of a parent PLUS loan) authorizes a school to hold a credit balance, the credit balance must be paid to the student or parent as soon as possible but no later than 14 calendar days after the balance is created (or 14 calendar days after the first day of class if the credit balance was created before the first day of class).

This form, if signed by you (the student or parent, as applicable), authorizes TKMU to retain an FSA credit balance and pay it to you in accordance with *TKMU'S Procedure for Paying Federal Student Aid Credit Balances*. TKMU will pay credit balances by depositing the funds in a savings or checking account or transferring the funds to a "stored-value" or debit card that you designate.

You have the right to withhold agreement from all or part of this authorization. If you elect not to authorize the University to hold your FSA credit balance, the funds will be paid to you within the 14-day period noted above. Note that if you elect not to sign this form or if you later cancel your authorization, you will be required to pay any outstanding charges to the University.

This authorization will remain in effect for each subsequent payment period unless you withdraw it. However, in no case will TKMU hold an FSA credit balance of loan funds beyond the end of the loan period nor an FSA credit balance of other funds beyond the end of the last payment period in the award year for which the funds were awarded.

This authorization may be withdrawn at any time by providing a written request to the following address:
TKMU Financial Aid Office
Director of Financial Aid
1300 Ted Drive, Suite 1313
Pixie, CA 13013

If you withdraw your authorization, the University will deliver any remaining credit balance to you within 14 days. Note that your cancellation is not retroactive.

Authorization

I voluntarily authorize the University to hold and manage my FSA credit balance as described above, and I acknowledge that interest will not be earned on these balances.

Signature

Date



See the discussion earlier in this chapter under *Conditions under which a third-party servicer is responsible for confirming a student's eligibility* for additional information about the responsibilities of third-party servicers.

Schools Must Notify the Department About their Relationships with Third-Party Servicers

Schools are required to notify the Department of all third-party servicer contracts—including a servicer that participates in any way in establishing or maintaining accounts into which Title IV credit balances are deposited.

If a school has submitted information regarding its third-party servicers as part of applying for certification or recertification, no additional submission is required.

A school notifies the Department by updating Section J of the E-App within 10 days of the date of the change or action. This notification must include the name and address of the servicer and the nature of the change or action.

The school must notify the Department within 10 days of any of the following changes to servicer arrangements:

- The school enters into a contract with a new third-party servicer.
- The school significantly modifies a contract with an existing third-party servicer.
- The school or one of its third-party servicers terminates a contract.
- A third-party servicer ceases to provide contracted services, goes out of business, or files for bankruptcy.

A school is only required to submit a copy of its contract with a third-party servicer if the Department requests it. A school is not required to submit the contract as part of the recertification process. (See *Volume 2* for more information about contracts with third-party servicers.)
34 CFR 668.25(e)

THIRD-PARTY SERVICERS DISBURSING CREDIT BALANCES BY EFT

In response to current trends, banks and financial service companies are now offering services that include the following:

- ♦ obtaining a student's authorization to perform electronic transfers;
- ♦ transferring Title IV funds electronically to a student's bank account;
- ♦ opening a bank account for the student; and
- ♦ issuing debit cards in conjunction with a participating bank.

Companies that contract with schools to provide these types of services in most instances become third-party servicers.

So long as a school cannot recall or receive a payment from a student or parent account, the Department considers the electronic transfer of funds to a bank account that a servicer opens on behalf of a student to be the equivalent of a school's transfer of funds to a student's account and the equivalent of making a direct payment to a student.

A school that enters into a contract with a servicer to provide debit, demand, or smart cards through which FSA credit balances are paid to students must have a system to ensure compliance with all regulatory time frames, including students having access to any credit balance within the 14 days and to any FWS wages at least once per month.

Schools must provide students a choice of the way they receive Title IV credit balances

A school located in a state that makes direct payments to students by EFT that enters into an arrangement described later in this chapter under **Tier One (T1) and Tier Two (T2) Arrangements** including an institution that uses a third-party servicer to make those payments, must establish a **selection process** under which students choose one of several options for receiving those payments.

In all cases student consent must be obtained in writing (including electronically) and schools must retain copies of that consent.

A school's selection process must

1. inform students in writing that they are not required to open or obtain a financial account or access device offered by or through a specific financial institution in order to receive their Title IV credit balances;
2. ensure that student options for receiving direct payments are described and presented in a clear, fact-based, and neutral manner;

3. ensure that initiating direct payments by EFT to students' existing financial accounts is as timely and no more onerous to students as initiating an EFT to accounts provided under Tier One and Tier Two arrangements;
4. allow students, at any time, to change their previously selected payment options, as long as students provide the school with written notice of the change within a reasonable time;
5. ensure that no account option is preselected; and
6. ensure that students who do not make an affirmative selection are paid the full amount of their credit balance within the time-frame specified in the appropriate regulations.

In describing the options under its selection process, a school

- ◆ must present prominently as the first option, a financial account belonging to the student;
- ◆ must list and identify the major features and commonly assessed fees associated with each financial account offered under Tier One and Tier Two arrangements;
- ◆ must provide a URL on which the terms and conditions associated with each account are provided;

The Department published in the [Federal Register on July 18, 2017](#), the final suggested format for the disclosures of the major features and assessed fees associated with these accounts. The date by which schools are expected to comply with the disclosure requirements has been postponed to January 1, 2018.

NEW

- ◆ may provide, for the benefit of the student, information about available financial accounts (other than those provided in Tier One and Tier Two arrangements) that are checking, savings, or similar accounts insured by the Federal Deposit Insurance Corporation (FDIC) accounts or National Credit Union Share Insurance Fund (NCUSIF).

Student Choice

34 CFR 668.164(d)

Definition

State—A State of the Union, American Samoa, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. The latter three are also known as the Freely Associated States. An institution is physically located in a state if it has a campus or other instructional site in that state.

34 CFR 600.2

Exception to Selection Process

A school that does not offer or use any financial accounts under Tier One or Tier Two arrangements may make direct payments to a student's or parent's existing financial account, or issue a check or disburse cash to the student or parent without establishing this selection process.

Third-Party Servicer Agreements

A third-party servicer is an individual or a state or a private, for-profit or non-profit organization that contracts with a school to administer any of the school's responsibilities under the FSA programs, including managing its Perkins Loan collections.

The agreement between the school and servicer must be in the form of a written contract that may or may not require compensation to the servicer. The contract must provide that the servicer agrees to the following:

- comply with all Title IV provisions, including those that refer solely to schools as well as those that explicitly refer to third-party servicers;
- be jointly and severally liable with the school for any violation by the servicer of any Title IV, HEA provision;
- use any Title IV funds (and any interest or earnings on them) solely for the purposes specified in and in accordance with the applicable program regulations;
- refer any reasonable suspicion of fraud or criminal conduct in the Title IV programs by the school or by an applicant or student to the Department's inspector general;
- return to the school all Title IV funds and records related to the servicer's administration of the Title IV programs if the contract is terminated, the servicer ceases to perform any functions prescribed under the contract, or if the servicer files for bankruptcy;
- annually submit a compliance audit as provided in 34 CFR 668.23. For a servicer that contracts with several participating schools, a single compliance audit can be performed that covers its administrative services for all the schools. Read more on these requirements at the Department's [Office of the Inspector General's website](#).

34 CFR 668.25

34 CFR 668.23(a)(3) & (c)

DCL GEN-12-08

34 CFR 99.31(a)(1)(i)(B)

34 CFR 668.2

DCL GEN 15-01

Note: For more about activities that define third-party servicers, see *Volume 1*, 34 CFR 668.2, and DCL GEN 15-01.

TIER ONE AND TIER TWO ARRANGEMENTS

Introduction

In 2009, due largely to concerns raised by consumer advocates and students related to the marketing practices and financial incentives contained in contractual relationships between institutions and credit card providers, Congress passed, and the President signed, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act). The CARD Act made a number of significant changes to the consumer protections available to college students by authorizing new rules to restrict credit card marketing practices on campus, impose transparency requirements, ban “free” gifts for signing up for an account, and require consumers under the age of 21 to show ability to pay or get a cosigner in order to get a credit card.

On October 30, 2015, the Department published regulations that build upon the protections extended to students under the CARD Act. The new regulations identify two types of agreements between schools and financial services providers—Tier 1 and Tier 2 arrangements.

Tier 1 arrangements

A Tier 1 (T1) arrangement is one in which a school located in a state contracts with a third-party servicer to perform one or more of the functions associated with processing direct payments of Title IV funds on behalf of the school, and the school, or third-party servicer makes payments to one of the following:

- ◆ One or more financial accounts that are offered to students under the contract
- ◆ A financial account where information about the account is communicated directly to students by the third-party servicer, or the school on behalf of or together with the third-party servicer
- ◆ A financial account where information about the account is communicated directly to students by an entity contracted with or affiliated with the third-party servicer.

Examples of functions associated with processing direct payments of Title IV funds on behalf of the school include: receiving Title IV funds; posting Title IV funds to student accounts; calculating a student’s Title IV credit balance; processing documents for direct payment to students; and disbursing or delivering FSA funds.

Why the Department Distinguished Between Financial Institutions and Third-Party Servicers that Process Direct Payments

Financial entities and third-party servicers have different incentives. Banks and credit unions seek to create long-term relationships with college students that will go on long after they have left school. Third-party servicers are more likely to seek to partner with schools to provide them and their students fee-based services.

A third-party servicer’s relationship with students typically ends once they are no longer enrolled. This short-term interaction creates an incentive to increase fee revenue over what traditional banks might charge. In addition, third-party servicers have privileged access to systems and data that traditional banks not serving as third-party servicers do not. As a result, third-party servicers have been able to brand or market access devices in ways that can (1) confuse students into assuming the device is required as part of enrollment, (2) prioritize electronic delivery of credit balances to a preferred account before a preexisting bank account, and (3) access personal student information for targeted marketing purposes.

Multiple independent agencies (Consumers Union, GAO, USPIRG, ED’s OIG, FDIC, etc.) have found that students in relationships with third-party servicers providing them direct payments often face higher costs, deceptive business practices, and misleading direct marketing.

Finally, the requirements described under Tier One and Tier Two arrangements do not apply to accounts only incidentally offered to students. The requirements apply to schools, third-party servicers, and the arrangements those entities voluntarily enter into that affect the delivery of Title IV funds.

Definitions

Access device—a card, code, or other means of access to a financial account, or any combination thereof, that may be used by a student to initiate electronic fund transfers.

Depository account—an account at a depository institution described in 12 U.S.C. 461(b)(1)(A), or an account maintained by a foreign institution at a comparable depository institution that meets the requirements of 34 CFR 668.163(a)(1).

EFT (electronic funds transfer)—a transaction initiated electronically instructing the crediting or debiting of a financial account or an institution's depository account. For transactions initiated by the Department, EFT includes all transactions covered by 31 CFR 208.2(f). For transactions initiated by or on behalf of an institution, EFT includes, from among the transactions covered by 31 CFR 208.2(f), only Automated Clearing House transactions.

Financial account—a student's or parent's checking or savings account, prepaid card account, or other consumer asset account held directly or indirectly by a financial institution.

Financial institution—a bank, savings association, credit union, or any other person or entity that directly or indirectly holds a financial account belonging to a student, issues to a student an access device associated with a financial account, and agrees with the student to provide EFT services.

Parent—the parent borrower of a Direct PLUS Loan.

Student ledger account—a bookkeeping account maintained by an institution to record the financial transactions pertaining to a student's enrollment at the institution.

Privacy and security in T1 accounts

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program that ensures the security and confidentiality of customer information, protects against anticipated threats to the security or integrity of such information, and guards against the unauthorized access to or use of such information. For more information related to the GLB Act, see “FTC standards for safeguarding customer information” in *Volume 2*.

Schools that participate in T1 arrangements must ensure that students actively consent to participate in any account offered under that T1 arrangement and that, in obtaining students' consent, schools must satisfy the standards presented earlier in this chapter under *Schools must provide students a choice*. We remind schools that informing students of the terms and conditions of the each financial account offered are part of that process.

A school must ensure that it obtains a student's consent to open an account under a T1 arrangement, before an access device, or a representation of an access device, is sent to the student. However, a school may send a student an access device that is a card provided to the student for school activities, such as a student ID card, so long as the school or financial institution obtains the student's consent before validating the access device for use by the student in relation to the financial account.

Before a student selects the way he or she will receive direct payments from a school, the school is prohibited from sharing any personally identifiable information (PII) about a student with a third-party servicer or financial institution except

- ◆ directory information;
- ◆ a unique student identifier generated by the school that does not include a Social Security number, in whole or in part;
- ◆ the disbursement amount;
- ◆ a password, PIN code, or other shared secret provided by the school that is used to identify the student; and
- ◆ any additional items specified by the Department in a notice published in the Federal Register.

Schools, third-party servicers and financial institutions are jointly responsible for ensuring that any personally identifiable information about students is used solely for activities that support making direct payments to the student and not for direct marketing or any other purpose; and is not shared with any other affiliate or entity except for purposes of making direct payments of Title IV, HEA program funds.

Student access to and costs for T1 accounts

Schools located in a state must ensure that students who choose to participate in accounts offered under T1 arrangements

1. have convenient access to the funds in the financial account through a surcharge-free national or regional Automated Teller Machine (ATM) network that has ATMs sufficient in number and housed and serviced in a way that guarantees that Title IV funds are reasonably available to students, including at the times the school or its third-party servicer makes direct payments into the financial accounts of those students;
2. do not incur any cost
 - for opening the financial account or initially receiving an access device;
 - conducting a balance inquiry or withdrawal of funds at an ATM in a state that belongs to the surcharge-free regional or national network;
 - when the student conducts point-of-sale transactions in a state (assessed by the institution, third-party servicer, or a financial institution associated with the third-party servicer);
3. have no credit extended or associated with the financial account; and
4. have no fees charged to the student for any transaction or withdrawal that exceeds the balance in the financial account or on the access device.

All T1 and T2 accounts must satisfy the regulations governing federal government participation in the Automated Clearing House (ACH)

34 CFR 668.164(g)

All T1 and T2 accounts opened through outreach to a school's students and made through ACH credit of Title IV funds are federal payments and as such must be deposited into an account at a financial institution.

The accounts at the financial institution must be in the name of the student.

All payments of Title IV funds deposited to an account that students will access through a prepaid card must

- be held at a financial institution;
- must meet the requirements for pass-through deposit or share insurance such that the funds accessible through the card are insured for the benefit of the recipient by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund in accordance with applicable law; and
- NOT be attached to a line of credit or loan agreement under which repayment from the account is triggered upon delivery of the Title IV payments.

In addition, the financial institution issuing the card must provide the holder of the card with all of the consumer protections, and must comply with all of the requirements that apply to a payroll card account under the rules implementing the Electronic Fund Transfer Act, as amended.

31 CFR 210.5(a) and (b)(5)

Disclosure Requirements Associated With Tier One Arrangements

No later than September 1, 2016, and thereafter no later than 60 days following the most recently completed award year, a school that offers accounts under T1 arrangements must disclose conspicuously on the school's website (and in a format established by the Department) the contract(s) establishing the T1 arrangement between the school and third-party servicer or financial institution acting on behalf of the third-party servicer, as applicable, except for any portions that, if disclosed, would compromise personal privacy, proprietary information technology, or the security of information technology of physical facilities.

In addition, no later than September 1, 2017, and thereafter no later than 60 days following the most recently completed award year, schools must disclose conspicuously on their website and in a format established by the Department

- the total consideration for the most recently completed award year, monetary and non-monetary, paid or received by the parties under the terms of the contract and contract data; and
- for any year in which the institution's enrolled students open 30 or more financial accounts under the T1 arrangement, the number of students who had financial accounts under the contract at any time during the most recently completed award year, and the mean and median of the actual costs incurred by those account holders.

See also [DCL GEN-16-16](#), in which we offer further information about how schools may gather data to comply with the cost disclosure requirements above, and the [June 16, 2017, electronic announcement](#), which gives information about the format schools should use in making the disclosures.

Circumstances that are neither T1 nor T2 arrangements

Examples of circumstances that are neither T1 nor T2 arrangements and therefore not subject to the regulations:

- General marketing of a financial institution that does not specify the kind of account or how it may be opened (i.e., not direct marketing described under §668.164(f)(3))
- Sponsorship of on-campus facilities with financial institution branding that does not promote particular accounts
- A lease permitting the operation of an on-campus branch or on-campus ATMs
- A list of area financial institutions recommended generally to students for informational purposes rather than being provided as part of a contract with the institution
- Providing students access to Title IV credit balances through school-issued, stored-value cards with no third-party involvement. See the discussion later in this chapter.

Other responsibilities of schools that offer T1 accounts

A school offering accounts under T1 arrangements must ensure that

- ♦ financial accounts and access devices are not marketed, portrayed as, or converted into credit cards;
- ♦ no credit is extended or associated with the financial account, and no fee is charged to the student for any transaction or withdrawal that exceeds the balance in the financial account or on the access device, except that a transaction or withdrawal that exceeds the balance may be permitted only for an inadvertently authorized overdraft, so long as no fee is charged to the student for such inadvertently authorized overdraft;
- ♦ the school, third-party servicer, or third-party servicer's associated financial institution provides a student account holder convenient access to Title IV, HEA program funds in part and in full up to the account balance via domestic withdrawals and transfers without charge, during the student's entire period of enrollment following the date that such Title IV, HEA program funds are deposited or transferred to the financial account;
- ♦ the school takes affirmative steps, by way of contractual arrangements with its' third-party servicer as necessary, to ensure all requirements for T1 arrangements are met;

- ◆ ensure that the terms of the accounts offered pursuant to a T1 arrangement are not inconsistent with the best financial interests of the students opening them.

The Department considers this requirement to be met if:

- a school documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the T1 arrangement are, considered as a whole, consistent with or below prevailing market rates; and
- all contracts for the marketing or offering of a school's T1 arrangements to its students make provision for termination of the arrangement by the school based on complaints received from students or a determination by the school that the fees assessed under the T1 arrangement are not consistent with or are higher than prevailing market rates.

When a student who has elected to receive direct payments to a T1 account is no longer enrolled

Except for the limitation on the use and sharing of PII, the requirements applicable to T1 arrangements no longer apply with respect to a student when that student is no longer enrolled and there are no pending Title IV disbursements at the school.

A school may continue to share information about the enrollment status of its students with the servicer or entity that is party to the arrangement so that the servicer or entity can continue to comply with the applicable regulations.

Tier 2 arrangements

A Tier 2 (T2) arrangement is one in which a school located in a state has a contract with a financial institution, or entity that offers financial accounts through a financial institution, under which financial accounts are offered and marketed directly to students enrolled at the school.

A financial account is marketed directly if

- ◆ the school communicates information directly to its students about the financial account and how it may be opened;
- ◆ the financial account or access device is cobranded with the school's name, logo, mascot, or other affiliation and is marketed principally to students at the institution; or
- ◆ a card or tool provided to the student for school purposes, such as a student ID card, is validated, enabling the student to use the device to access a financial account.

Formula for determining the required level of school compliance

A school must comply with all of the requirements that apply to Tier 2 arrangements if for the three most recently completed award years

1. an average of 500 or more of its students had a Title IV credit balance; or
2. an average of 5% or more of the students enrolled at the institution had a Title IV credit balance as determined through the following formula:

The average number of students with credit balances
for the three most recently completed award years

The average number of students enrolled at the institution
at any time during the three most recently completed award years.

Schools that fall below this threshold but have at least one student with a Title IV credit balance for the three most recently completed award years, are exempt from certain requirements as described later in this chapter under *Schools that fall below the threshold*.

Privacy and security in T2 accounts

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program that ensures the security and confidentiality of customer information, protects against anticipated threats to the security or integrity of such information, and guards against the unauthorized access to or use of such information. For more information related to the GLB Act, see “FTC standards for safeguarding customer information” in *Volume 2*.

Schools that participate in T2 arrangements must ensure that students actively consent to participate in any account offered under a T2 arrangement. A school must obtain that consent before

- ◆ the school provides, or permits a third-party servicer to provide, any personally identifiable information about the student to the financial institution or its agents, other than directory information; and
- ◆ an access device, or a representation of an access device, is sent to the student.

However, a school may send a student an access device that is a card provided to the student for school activities, such as a student ID card, so long as the school or financial institution obtains the student’s consent before validating the access device for use by the student in relation to the financial account.

In addition, before the final T2 account is opened, schools must

- ◆ list and identify the major features and commonly assessed fees associated with each financial account offered under Tier One and Tier Two arrangements; and
- ◆ provide a URL on which the terms and conditions associated with each account are provided.

Limited Applicability of Fee Restrictions

Note that the fee restrictions that apply to Tier 1 accounts do not apply to Tier 2 accounts.

Student access to and costs for T2 accounts

Schools must ensure that students who choose to participate in accounts offered under T2 arrangements

1. have convenient access to the funds in the financial account through a surcharge-free national or regional automated teller machine (ATM) network that has ATMs sufficient in number and housed and serviced in a way that guarantees that Title IV funds are reasonably available to students, including at the times the school or its third-party servicer makes direct payments into the financial accounts of those students; and
2. do not incur any cost for
 - opening the financial account or initially receiving an access device; or
 - conducting a balance inquiry or withdrawal of funds at an ATM in a state that belongs to the surcharge-free regional or national network.

Other responsibilities of schools that offer T2 accounts

A school offering accounts under T2 arrangements must ensure that

- ◆ the financial accounts are not marketed or portrayed as, or converted into, credit cards;
- ◆ the school takes affirmative steps, by way of contractual arrangements with its third-party servicer as necessary, to ensure all requirements for T2 arrangements are met;
- ◆ the terms of all T2 accounts offered are not inconsistent with the best financial interests of the students opening them.

The Department considers this requirement to be met if—

- The school documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the T2 arrangement are, on the whole, consistent with or below prevailing market rates; and



The Department encourages schools that fall below the threshold to comply voluntarily with the web disclosure requirements described under *Disclosure Requirements Associated with Tier Two Arrangements* earlier in this chapter.

- All contracts for the marketing or offering of accounts to students allow the school to end the arrangement based on complaints from students or a determination in a school review (see the previous bullet) that the fees assessed under the T2 arrangement are not consistent with or are above prevailing market rates.

When a student who has a T2 account is no longer enrolled

Except for the disclosure requirements associated with Tier Two arrangements with respect to students enrolled during the award year for which the institution is reporting, the requirements applicable to T2 arrangements no longer apply with respect to a student when that student is no longer enrolled and there are no pending Title IV disbursements at the school.

A school may continue to share information related to enrollment status with the financial institution or entity that is party to the arrangement.

Schools that fall below the threshold

A school that had at least one student with a Title IV credit balance for the three most recently completed award years, but had less than the number and percentage of students with credit balances described under *Formula for determining the required level of school compliance* earlier in this chapter is exempt from the following T2 requirements:

- ◆ the requirement discussed earlier in this chapter under *Schools must provide students a choice*;
- ◆ the web disclosure requirements described under *Disclosure Requirements Associated with Tier Two Arrangements* earlier in this chapter;
- ◆ ensuring the terms of all accounts offered under a T2 arrangement are consistent with the best financial interests of the students opening them; and
- ◆ ensuring that students have convenient access to the funds in the financial account through a surcharge-free national or regional ATM network that has ATMs sufficient in number and housed and serviced in a way that guarantees that Title IV funds are reasonably available to students, including at the times the school or its third-party servicer makes direct payments into the financial accounts of those students.

Disclosure Requirements Associated With Tier Two Arrangements

No later than September 1, 2016, and thereafter no later than 60 days following the most recently completed award year, a school that offers accounts under T2 arrangements must disclose conspicuously on the school's website (and in a format established by the Department) the contract(s) establishing the T2 arrangement between the school and third-party servicer or financial institution acting on behalf of the third-party servicer, as applicable, except for any portions that, if disclosed, would compromise personal privacy, proprietary information technology, or the security of information technology or physical facilities.

No later than September 1, 2017, and thereafter no later than 60 days following the most recently completed award year, schools must disclose conspicuously on their website and in a format established by the Department

- the total consideration for the most recently completed award year, monetary and non-monetary, paid or received by the parties under the terms of the contract; and
- for any year in which the institution's enrolled students open 30 or more financial accounts under the T2 arrangement, the number of students who had financial accounts under the contract at any time during the most recently completed award year, and the mean and median of the actual costs incurred by those account holders.

Schools with T2 accounts are also required to ensure this data is posted in the centralized database on a URL provided by the Department. See also [DCL GEN-16-16](#) for more information about the cost disclosure requirements above, and the [June 16, 2017, electronic announcement](#), which gives information about the format schools should use in making the disclosures.

Cobranding of financial accounts that are not T2 accounts

If a school enters into an agreement for the cobranding of a financial account with the school's name, logo, mascot, or other school insignia but the school maintains that the account is not marketed principally to its enrolled students and does not otherwise satisfy the definition of a Tier 2 account, the school must retain the cobranding contract and all other documentation the school believes provides evidence that the account is not marketed directly to its enrolled students.

A school must include in the documentation it maintains all evidence that the cobranding financial account or access device is offered generally to the public.

SCHOOL-ISSUED STORED-VALUE CARDS WITH NO THIRD-PARTY INVOLVEMENT

Historically, there have been instances where schools themselves have provided student ID cards which, in addition to allowing access to controlled buildings, permitting the use of labs and equipment, providing library privileges, etc., are used to hold funds for student use. In some cases, those schools also allow students to have their Title IV credit balances placed on those "school-issued stored-value" cards.

As long as

- ◆ there is no financial institution or third-party involved in marketing the school-issued stored-value cards;
- ◆ the school itself is holding and is in control of the funds held on those cards;
- ◆ the “stored-value cards” are the students’ IDs;
- ◆ the ID cards are not “branded” with the name of a financial institution or bank; and
- ◆ the ATMs through which students access their funds are leased or owned by the school—

then the school-issued cards do not fall under the definition of an account with a third-party servicer.

When a school pays an FSA credit balance to a student by making those funds available through a **school-issued stored-value card over which the school exercises control, and with which there is no third-party involvement**, the school is, in effect, holding a student’s FSA credit balance. **Therefore, all of the conditions on holding credit balances apply.**

If a student withdraws his or her authorization for the school to hold the credit balance in a school-issued stored-value card, **the school must deliver any remaining credit balance within 14 days.**

If a student withdraws from school and any of the FSA credit balance in his or her school-issued stored-value card is unclaimed, the school must return to the Department any unclaimed funds within the time frames specified earlier in this volume under *Time frame for returning unclaimed FSA credit balances*.