4 Disbursing Title IV Funds

CONTENTS

OBJECTIVES

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

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

RESOURCES

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

A. MAINTAINING FUNDS

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

1. Bank Accounts

Notes

BANK ACCOUNTS*

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

***See 34 CFR 668.163**

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

Separate Bank Account for Title IV Funds

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

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

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

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

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Notes

2. Remitting Interest or Investment Revenue to ED

Remitting Interest To ED

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

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B. DISBURSING FUNDS

1. Disbursement Defined

Definition of Disbursement

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

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

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Notes

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

FFEL Disbursement and Delivery

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

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

Delivery: A school makes FFEL funds available to borrower.

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

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Notes

Notifying Students About Disbursements

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

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Yes-or-No Exercise:

Circle the correct answer.

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

   Yes or No

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

   Yes or No

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

   Yes or No

Notes

2. Academic Year Requirements

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

Academic Year Definition

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

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

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

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Definition of Week

A week of instructional time is defined as:

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

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Notes

C. IMPACT OF PAYMENT PERIODS ON DISBURSING TITLE IV AID

Payment Periods

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

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1. Term-Based Credit-Hour Programs

a. Standard Terms

Definition of a Payment Period for Standard Terms

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

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Notes

Direct Loan/FFEL Program Loan Payment Periods

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

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b. Nonstandard Terms

Definition of a Payment Period for Nonstandard Terms

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

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Notes

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

Notes

Nonterm Programs and All Clock-Hour Programs

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

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

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

- longer than an academic year and the remainder of the program is:
  - *shorter than an academic year, but longer than one half of an academic year or*
  - *equal to or shorter than one half of an academic year.*

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

NONTERM CREDIT-HOUR PROGRAMS AND ALL CLOCK-HOUR PROGRAMS

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

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

Programs That Are Multiples of a Full Academic Year

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

Other Programs Longer Than an Academic Year

Remaining Program Portion Longer Than One-Half Year

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

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

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

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

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

Test Yourself Quiz 1

Determining Payment Periods

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

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

   Year 1:

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

   Year 2:

   Payment Period #3: ____ hours to ____ hours

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

   Year 1:

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

Test Yourself
Quiz 1 (cont'd)

Determining Payment Periods

3. Program Length: 38 credit hours
   Academic Year: 24 credit hours

Year 1:

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

Year 2:

Payment Period #3:	___	hours	to	___	hours
Payment Period #4:	___	hours	to	___	hours

D. METHODS OF DISBURSEMENT

1. Crediting Students' Accounts

Notes

REQUIREMENTS FOR CREDITING STUDENTS' ACCOUNTS*

When Authorizations are Required

- No written authorization is required to apply Title IV funds to the following allowable charges:
  - tuition,
  - fees, and
  - contractual charges with the school for room and board.
- With written authorization from a student or parent, Title IV funds may be used for:
  - institutional charges that are incurred by the student for educationally related activities.
  - minor prior-year charges, if these charges are less than $100 or if the payment of these charges does not and will not prevent the student from paying his or her current educational costs.

Loan Programs

- When a school disburses Direct Loan Program funds by crediting a student's account at the school, the school must first credit the student's account with those funds to pay for outstanding current and authorized charges.
- When a school credits a student's account with Federal Perkins Loan funds (applies to promissory notes containing provisions effective 7/1/96 and beyond), Direct Loan funds, or FFEL funds received by EFT or master check, it must notify the student or parent in writing or electronically no earlier than 30 days before or later than 30 days after crediting the account of:
  - the date and amount of the disbursement,
  - the borrower's right to cancel all or a portion of the loan, and
  - the procedures and time by which the borrower must notify the school that he or she wishes to cancel all or a portion of the loan.

  If the school sends the notice electronically, it must require the recipient of the notice to confirm receipt of the notice and the school must maintain a copy of that confirmation. The school must return the loan proceeds, cancel the loan, or do both, if the school receives a cancellation request from the borrower within 14 days after the date the school sends the disbursement notice or, if the school sends the notice more than 14 days before the first day of the payment period, by the first day of the payment period. In addition, a school may return the loan proceeds, cancel the loan, or do both, if the school receives the notice after this deadline, but *it is not required to do so.* A school must inform the borrower in writing or electronically about the results of any cancellation request.

***** See 34 CFR 668.164 and 34 CFR 668.165.

2. Paying Students or Parents Directly

- If a school does not credit a student's account, it must pay the student or parent directly.

Paying Students or Parents Directly

- A direct payment may be a check payable to a student.
- A co-payable check sent by an FFEL lender may be used to pay the student or parent borrower directly.
- A direct payment may be an EFT to a bank account designated by the student or parent.
- A school may dispense cash to a student or parent.

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Notes

E. TITLE IV CREDIT BALANCES

- Crediting a student's account may generate a credit balance.

Discussion Questions:

- How many schools do we have where the financial aid office is responsible for getting student authorization to hold Title IV credit balances? The business office?
- Do you have good systems for sharing this information?

Notes

AUTHORIZATIONS*

- Schools must get written authorization from a student or parent to:
  - disburse Title IV Program funds to a student's or parent's bank account by EFT,
  - use Title IV Program funds to pay for charges other than those specifically allowed by federal regulations (tuition, fees, and contractual charges with the school for room and board), or
  - hold Title IV credit balances.
- These authorizations cannot be required by the school.
- A written authorization is good for the period during which the student is enrolled at the school, as long as the student or parent does not rescind it. A break in enrollment does not invalidate the authorization.
- The written authorization must allow the student or parent the opportunity to cancel or modify the original authorization at any time.

* See 34 CFR 668.165.

F. PAYING TITLE IV CREDIT BALANCES

Paying Title IV Credit Balances

A school must pay a credit balance to a student or notify the student that the credit balance is available on request no later than 14 days after:

- the first day of classes of a payment period if the credit balance occurred on or before the first day of class of the payment period,

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Paying Title IV Credit Balances (cont'd)

- the date the balance occurs if the credit balance occurred after the first day of class of the payment period, or
- the date when a student or parent rescinds authorization to hold funds.

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- Examples of when credit balances must be paid appear on the next page. *The Blue Book*, Section 4.7, page 4-27, has another example.

Notes

When Title IV Credit Balances Must be Paid

Example A

No later than 14 calendar days after the first day of class of a payment period if the Title IV credit balance occurred *on or before* the first day of that payment period.

Day Title IV Credit Balance Occurred	First Day of Classes	14 Days After First Day of Classes of Payment Period
September 5, 1999	September 10, 1999	September 24, 1999

Example B

No later than 14 calendar days after the balance occurred if the Title IV credit balance occurred *after* the first day of a payment period.

First Day of Classes	Day Title IV Credit Balance Occurred	14 Days After First Title IV Credit Balance Occurred
September 10, 1999	September 20, 1999	October 4, 1999

Example C

No later than 14 calendar days after the date the student or parent rescinds the authorization for the school to hold funds.

Student/Parent Rescinds Authorization	14 Days After Authorization Rescinded
September 13, 1999	September 27, 1999

G. HOLDING TITLE IV CREDIT BALANCES

Holding Title IV Credit Balances With Authorization

The school must:

- identify the student and the amount of funds held for that student in a subsidiary ledger;
- maintain, at all times, cash in its bank account at least equal to the amount of the funds being held; and
- release any remaining balance on loan funds by the end of the loan period and any remaining Title IV funds by the end of the award year.

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H. OTHER TIMING ISSUES: WHEN IS A "DISBURSEMENT" REALLY A DISBURSEMENT?

- A school may not credit a student's account with Title IV funds until the student is enrolled.

Definition of Enrolled Student

Federal regulations define an enrolled student as one who:

- has completed registration requirements (except for paying tuition and fees) at the school the student is actually attending or
- has been admitted to a correspondence program and submitted one lesson completed by the student after being officially accepted.

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Notes

Early Disbursement

Except for students subject to delayed disbursement, the earliest a school may pay a student directly or credit a student's account with Title IV funds is ten days before:

- the first day of an enrollment period for which the disbursement is intended. This applies to first, second, and subsequent disbursements of Title IV funds, with certain exceptions.

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Notes

EXCEPTIONS TO DISBURSING TITLE IV FUNDS TEN DAYS BEFORE FIRST DAY OF ENROLLMENT PERIOD

- Students subject to the 30-day delayed disbursement in the FFEL and Direct Loan Programs
- For credit-hour standard term programs:
  - if the loan period is one payment period, the second disbursement of Direct Loan Program funds or the second delivery of FFEL Program funds cannot be made until the calendar midpoint between the first and last scheduled days of classes of the loan period.
- For clock-hour or nonterm credit-hour or nonstandard term programs:
  - the second or subsequent disbursement may not be made until the student has completed all of the hours for which he or she has already been paid.
  - the second disbursement of Direct Loan Program funds or the second delivery of FFEL Program funds cannot be made until the later of:
    - the calendar midpoint between the first and last scheduled days of the loan period or
    - the date, determined by the school, that the student has completed half of the coursework in the loan period for credit hour programs or half the clock hours in the loan period for clock-hour programs.

Delayed Disbursement

- No initial installments of Direct Loans or FFEL funds are credited to the accounts of or paid directly to first-year, first-time borrowers until 30 days after classes begin.
- This requirement does not apply to Federal PLUS loans or certain schools with low default rates.

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Notes

- Other disbursement considerations:
  - All FFEL Program loan checks must be delivered within 30 days of receipt.
  - All FFEL Program loan proceeds in the form of EFT or a master check must be delivered within ten business days (three business days as of July 1, 1999).
  - Direct Loans cannot be disbursed without a signed promissory note.
  - School must have a valid ISIR or SAR for a student before disbursing a Federal Pell Grant.
  - FWS wages cannot be paid without a signed time sheet indicating the hours actually worked.
- A quiz on managing funds appears on the next page. Take a few minutes to complete it.

Test Yourself
Quiz 2

Managing Funds

Michael, a first-time, first-year Title IV participant, is scheduled to receive a Federal Pell Grant and an FFEL Program loan for the upcoming academic year, which begins on September 2. The school is subject to the 30-day delayed disbursement requirement. Your school posts a credit of institutional funds to Michael's account for his Title IV funds on August 11.

1. The disbursement of Michael's Pell Grant officially occurs on:

   a. August 11
   b. August 23
   c. September 2
   d. none of the above

2. The disbursement of Michael's FFEL Program loan officially occurs on:

   a. August 11
   b. August 23
   c. September 2
   d. October 2

3. Michael would like some of his Title IV funds credited to some charges outside of fees, room, and board. What should your school do in response?

   a. Don't take any special action, except to use Michael's funds based on his verbal request for charges covered after tuition, fees, room, and board have been met.

   b. Obtain Michael's written authorization to use his Title IV funds to meet his request.

   c. Tell Michael you are not allowed to use his funds for anything except room, board, books, and supplies.

   d. Cut Michael a check for the amount of these extra charges.

4. After all of Michael's charges are met (October 4), a $100 credit balance remains. Your school must pay Michael $100 by:

   a. October 4
   b. October 11
   c. October 18
   d. the end of the payment period

I. LATE DISBURSEMENTS

Late Disbursements

A school may make a late disbursement:

- for the Pell Grant, FSEOG, and Perkins Loan Programs if the student is no longer enrolled at the school for the award year and
- for the Direct Loan and FFEL Programs if the student is enrolled on at least a half-time basis for the loan period.

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Late Disbursement Criteria

- Funds must be used to pay for educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible.
- The disbursement must be made no later than 90 days after the student became ineligible.

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Notes

Program-Specific Late Disbursement Criteria

School must have documentation on file before the date the student stopped being eligible:

- Federal Pell Grant: Valid SAR or ISIR.
- Federal Perkins Loan and FSEOG Program award: Documented award to the student.
- Direct Loan: Created an electronic origination record.
- FFEL: Certified loan application.

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- Group Discussion: A case study appears on the next page. This case study places the institution in a difficult situation. Take several minutes to read it and formulate some responses to the case study's questions.

Notes

CASE STUDY — USE OF TITLE IV FUNDS

You are the business officer at AAA College. A number of students left school in the spring with high outstanding balances, and it is too late to process late disbursements of FFEL funds. These students never enrolled for fall classes because the college has a policy that students are not allowed to register for and attend classes if they have an outstanding balance. Facing a significant enrollment shortfall, however, senior management adopts the following strategies:

- ❖ The business office will identify all prior-year students who have not yet enrolled for fall classes due to an outstanding balance.
- ❖ The business office will send a letter to these students urging them to contact the financial aid office because funds may be available to cover their outstanding balances.
- ❖ The financial aid office is instructed to construct a cost of attendance that maximizes books, transportation, and other expenses, to enable students to borrow as much subsidized and unsubsidized FFEL funds as possible.
- ❖ The financial aid office is also instructed to revise the award letter so that it lists a student's subsidized and unsubsidized loan eligibility and the amount of Federal PLUS Loan eligibility.
- ❖ The business office is instructed to "clear" students with outstanding balances and allow them enroll for fall if FFEL funds for the new academic year can be increased to cover these balances.

A number of students have outstanding balances of $500 to $10,000. They are anxious to return and are willing to sign for any loan amount to attend classes. These same students have excess loan dollars after Title IV funds have been applied to current charges due to the increased cost of attendance.

- ❖ As an institution, how do you respond to these strategies?
- ❖ What would you communicate to senior management?