UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

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Subject: Responses to recent, recurring Federal Student Aid questions

Summary: This letter responds to a number of issues that have been raised recently at conferences or other venues.

Dear Colleague:

The purpose of this letter is to respond to a number of issues that have been raised recently that need further clarification. Unless specifically noted, the answers to the questions we have addressed here are based on pre-existing policy. In some instances, schools have noted inconsistencies in prior guidance that we have given on different but similar issues and have asked for additional clarification. Thus, we are providing guidance in this letter to clarify some of those circumstances and provide for more consistent treatment of similar situations. Any specific changes to existing guidance are noted in the discussions below. For situations where new or changed guidance is set out, program reviews or audits for prior periods will take into consideration whether the institution was following prior guidance that was available or was using other reasonable interpretations of the regulations.

The following topics are addressed here:

1. The requirement for a signed promissory note for loan funds to be counted as "aid that could have been disbursed," or to be disbursed as a late disbursement;

2. The use of Web sites to provide required notifications and disclosures directly to students;

3. Additional unsubsidized Stafford loan amounts for an otherwise eligible child of a parent who is not a U.S. citizen or permanent resident;

4. Bankruptcy and eligibility for Parent Loans for Undergraduate Students (PLUS) and additional unsubsidized loan amounts;

5. Free Application for Federal Student Aid (FAFSA) questions and same-sex marriage;

6. Asset valuation of a rental unit within a principal place of residence in need analysis;

7. The definition of a veteran;

8. The treatment of combat pay;

9. The use of stored-value cards and other alternative methods of managing Title IV funds;

10. Debit cards and third party servicers; and

11. The Reserve Educational Assistance Program (REAP or Chapter 1607).

Sincerely,

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Assistant Secretary for
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Attachment

The requirement for a signed promissory note for loan funds to be included as "aid that could have been disbursed" in the Return of Title IV Aid calculation and for such funds to be available to be disbursed as late disbursements.

The Return of Title IV Aid calculation calls for a determination of the amount of aid that Title IV recipients have earned when they withdraw from an institution before completing the payment period or period of enrollment, as applicable. In making that determination, the institution considers both the amount of aid that has already been disbursed and the amount of aid that could have been disbursed for the period for which the Return of Title IV Aid calculation is performed. Aid amounts that fall into the category of "aid that could have been disbursed" are determined in accordance with the "late disbursement" regulations. (See 34 CFR 668.22 (l) (1) and 668.164 (g) (2).)

Under 34 CFR 668.164 (g) (2), Federal Family Education Loan (FFEL), William D. Ford Federal Direct Loan (DL), or Perkins Loan, funds can be disbursed as a late disbursement to an otherwise eligible student who has lost eligibility if, before the student loses eligibility, we have processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official expected family contribution on it, and the institution has certified the FFEL, originated the DL, or awarded the Perkins Loan.

Q1. Does a promissory note have to be signed before a student withdraws in order for a loan to be included as "aid that could have been disbursed" in the Return of Title IV Aid (Return) calculation?

A1. No. However, a promissory note must be signed before the loan funds can be included in the Return calculation.

Of course, an institution can only include aid (e.g., the loan funds) for the period for which the institution does the Return Aid calculation. If the calculation is being done on a payment period basis, the loan funds counted are those for the payment period; if the calculation is being done on the period of enrollment basis (e.g., the academic year basis), the loan funds counted are those for the entire period of enrollment.

Q2. What is the effective date of this requirement to have a signed promissory note for loan funds to be included in the Return of Title IV Aid calculation?

A2. As we have not previously addressed this issue in a comprehensive manner, institutions may have operated under different, reasonable interpretations of whether a signed promissory note was required for the loan funds in question to be included in a Return calculation. Thus, institutions that have previously used a reasonable interpretation of this requirement that included FFEL, DL, or Perkins Loans in Return calculations as "aid that could have been disbursed" when a promissory note had not been signed will not be found to be in noncompliance for that action. However, effective with

the publication of this Dear Colleague Letter, all institutions are required to follow the guidance in the first answer above.

Q3. May a student who withdraws and subsequently signs a promissory note in time for the institution to include the loan funds in the Return of Title IV Aid calculation receive a late (post withdrawal) disbursement of the loan funds? May a student who loses eligibility for a reason other than his or her withdrawal and subsequently signs a promissory note qualify for a late disbursement?

A3. Yes. Provided that such students are not otherwise prohibited from receiving a late disbursement by one of the provisions of 34 CFR 668.164 (g) (4), they may receive a post withdrawal or other late disbursement of the applicable amount of their loan funds.

In general an institution may not make a late disbursement later than 120 days after it determines that the student has withdrawn, or later than 120 days after the student otherwise became ineligible in those cases where the student did not withdraw. Also, institutions are prohibited from making second or subsequent disbursements of FFEL or DL funds when a student has not successfully completed the period for which the loans were intended. They are prohibited from disbursing FFEL or DL funds to first-year, first-time borrowers if those students have not completed the first 30 days of their program. The regulations provide for late disbursements beyond 120 days in certain exceptional circumstances. (See GEN-05-07.)

Use of Web sites to provide required notifications and disclosures directly to students.

Before an institution disburses Title IV, Higher Education Act of 1965, as amended (HEA), program funds for an award year (including crediting student accounts at the institution), the institution must provide the notifications required by 34 CFR 668.165 (a). For Perkins Loan borrowers, before making first disbursements of Perkins Loans each award year, the institution must also provide students with the disclosures required by 34 CFR 674.16 (a) (1). An institution may provide these notifications and disclosures to students with a hard copy (paper) of the material or electronically.

Q4. Is the institution in compliance with 34 CFR 668.165 (a) and 674.16 (a) (1) if it directs its students to a secure Web site that contains the required notifications and disclosures, rather than providing the required notifications and disclosures directly to the students?

A4. Yes. Since we have eliminated the distinction between providing notices and disclosures with hard copy materials or electronically, an institution is in compliance with 34 CFR 668.165 (a) and 674.16 (a) (1) if it directs students to a secure Web site that contains the required notifications and disclosures.

However, in accordance with the Electronic Signatures in Global and National Commerce Act (Public Law 106-229), before conducting electronic transactions that

require information to be provided or made available in writing to a borrower, the borrower must affirmatively consent to the use of an electronic record in a manner that reasonably demonstrates that the individual is able to access the information to be provided in an electronic form. The borrower's consent must be voluntary and based on accurate information about the transactions to be completed. Section 2 of the U.S. Department of Education (Department) "Standards for Electronic Signatures in Electronic Student Loan Transactions" provides some additional information on this issue. (See http://ifap.ed.gov/dpcletters/gen0106.html.) In addition, in accordance with the Gramm-Leach-Bliley (GLB) Act, an institution must have in place 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. The GLB Act also requires institutions to implement certain privacy provisions. In nearly all cases, an institution is deemed to be in compliance with the privacy provisions of the GLB Act if it is in compliance with the Family Educational Rights and Privacy Act (FERPA). Compliance with FERPA does not constitute compliance with the GLB Act information security program requirements.

Additional unsubsidized Stafford loan amounts for an otherwise eligible child of a parent who is not a U.S. citizen or permanent resident.

Q5. If an institution documents that a parent of a dependent student is not a U.S. citizen or permanent resident, or is not able to provide evidence from the U.S. Citizenship and Immigration Service that he or she is in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident, and is therefore ineligible for a PLUS loan, may the institution award that dependent student additional unsubsidized Stafford loan amounts based on the fact that there are exceptional circumstances that preclude the parent from borrowing a PLUS?

A5. Yes. This case would be an acceptable exceptional circumstance under which a dependent student could be awarded additional unsubsidized Stafford loan amounts.

Bankruptcy and eligibility for PLUS and additional unsubsidized loan amounts.

Q6. Can an institution accept an official letter or ruling from a bankruptcy court that states that an individual parent has filed for bankruptcy relief in a case pending before that court and is prohibited from incurring additional debt or obtaining additional credit as acceptable and sufficient documentation for determining that a parent is precluded from borrowing a PLUS loan and, as a result, that the dependent student is eligible for additional unsubsidized Stafford loan amounts?

A6. Yes, if a parent provides a copy of an official letter or ruling from a bankruptcy court stating that the parent has filed for bankruptcy relief and is prohibited by the court from borrowing, that is sufficient documentation.

Q7. If one parent is precluded from borrowing a PLUS due to adverse credit or other exceptional circumstances, must the school determine the other parent's eligibility before awarding additional unsubsidized loans to the dependent student?

A7. No. Only one parent must apply for a PLUS and be denied based on adverse credit or other exceptional circumstances before a school can award additional unsubsidized loans to a dependent student. However, if both parents apply independently and one is approved and the other denied, the dependent student is not eligible for the increased loan amounts.

Free Application for Federal Student Aid (FAFSA) questions and same-sex marriage.

Q8. May an individual who is a member of a same-sex union report his or her marital status on the FAFSA as "married?"

A8. No. According to the Defense of Marriage Act of 1996, "...the word 'marriage'means only a legal union between one man and one woman as husband and wife, and the word 'spouse' refers only to a person of the opposite sex who is a husband or a wife." Therefore, an individual in a same sex-union may not indicate that he or she is married on the FAFSA.

Q9. If an individual is a dependent student and his or her parents are living together as a couple, but are not married, whose information must the individual report on the FAFSA? What if the individual's parents are of the same sex and living together as a couple?

A9. A dependent applicant whose parents are living together as a couple but are not married (regardless of whether the parents are a same-sex couple or not) must provide information for the parent with whom he or she lived with more during the 12 months preceding the date the FAFSA is signed. If the individual did not live with one parent more than the other, the individual must provide information for the parent who provided more financial support during the 12 months preceding the date the FAFSA is signed, or during the most recent year that the individual received support from a parent.

Asset valuations of a rental unit within a principal place of residence in need analysis.

Q10. Should the net value of rented or leased portions of the applicant's (or parent's) principal place of residence be listed on the FAFSA?

A10. Consistent with section 480 (f) (2) of the Higher Education Act of 1965, as amended (HEA), the family's principal place of residence is excluded from being listed on the FAFSA as an asset and, therefore, is excluded in the calculation of the expected family contribution (EFC). However, if there is within the primary residence rental space with its own entrance, kitchen, and bath facilities as a separate living unit and that space is rented out (or available for rent) to someone other than a family member, the net value

of the rental portion of the residence must be listed as part of the net investment value on the FAFSA.

Q11. Should the value of a single room in the applicant's principal place of residence that is rented be listed as an asset on the FAFSA?

A11. No. When a room within a principal place of residence that does not have a separate entry, kitchen, and bath is rented, that rented space is not listed as an asset on the FAFSA.

Q12. How should the applicant determine the value of the rental space that must be reported on the FAFSA?

A12. The applicant should estimate the value of the rented space. One way of doing that would be for the applicant and his or her family to start with the fair market value of the entire residence, subtract any outstanding debt on the property to determine its net value, and then multiply that value by the ratio of the rented space to the entire residence. The family could also use the Internal Revenue Service (IRS) depreciation rules as provided in IRS Publication 946. IRS Publication 527, Residential Rental Property, may also be useful.

Definition of a veteran.

The term veteran as defined in the HEA, means any individual who, a) has engaged in active duty in the United States Army, Navy, Air Force, Marines, or Coast Guard; and b) was released under a condition other than dishonorable. Previously, the Department took the position that applicants who fraudulently entered military service did not meet the definition of a veteran for Title IV purposes. Generally, someone who fraudulently enters active duty in the U.S. Armed Forces cannot be considered a veteran for Title IV purposes; however, when the period of active duty service is recognized by the U.S. Armed Forces and the Department of Veterans Affairs, this may not be true.

Q13. Does a Title IV applicant who fraudulently entered active duty in the U.S. Armed Forces meet the definition of a veteran?

A13. Consistent with the provisions of Title 38 of the Code of Federal Regulations (Pensions, Bonuses, and Veterans' Relief), section 3.14, an individual who fraudulently entered active duty in the U.S. Armed Forces is considered a veteran for the purpose of Title IV program assistance if:

1. The individual is subsequently discharged but the period of service was not voided; and
2. The character of service for that limited period of time was other than dishonorable.

Q14. If a Title IV aid applicant has received an undesirable discharge by reason of the fraudulent enlistment, can he or she meet the Department's definition of a veteran for Title IV purposes?

A14. An undesirable (dishonorable) discharge because of the fraudulent enlistment voids the enlistment from the beginning. This outcome occurs if the person did not have the legal capacity to contract due to being insane or the enlistment was prohibited by statute, such as in the case of a deserter or a felon. When the service is completely voided, the individual cannot be deemed a veteran for Title IV purposes.

Q15. What about when an individual enters active duty by fraudulently concealing his or her age?

A15. If the veteran is released from service under conditions other than dishonorable, active duty service that was terminated because of misrepresentation of age qualifies the person as a veteran for Title IV purposes.

Q16. If the military voids an applicant's enlistment for reasons other than the statutory reasons listed in Q & A14, can the applicant be considered a veteran based on the period of his or her active duty until the date the enlistment was voided?

A16. For an enlistment that is voided for other than the statutory reasons listed in Q & A14, the service is valid from the date of entry into active duty to the date it is voided. If the discharge is made under conditions other than dishonorable, the individual would meet the Department's definition of a veteran for Title IV purposes.

Treatment of combat pay.

Q17. What is combat pay and can it be excluded from income? How should it be reported on the FAFSA?

A17. A person who is or was a member of the U.S. Armed Forces and who serves or served in a combat zone as defined in Internal Revenue Service Publication 3 - Armed Forces' Tax Guide (see http://www.irs.gov/pub/irs-pdf/p3.pdf), may exclude certain pay from income for federal income tax purposes. The details of this combat zone or imminent danger and hostile fire pay exclusion are explained in IRS Publication 3. The IRS publication describes a variety of special pay categories such as combat zone pay, imminent danger pay, or hostile fire pay. The Department will refer to all of these types of special pay generically as combat pay.

Generally, combat pay is excluded from taxable income. However, a service member may elect to have a portion or all of the combat pay included as taxable income in order to qualify for an Earned Income Credit (EIC).

For all applicants, the full amount of combat pay should be reported as Income Earned From Work, so that the appropriate allowances such as Federal Insurance Contributions

Act (FICA) can be calculated for the EFC. Currently, the full amount of combat pay is being reported in Box 14 of the service member's IRS W-2 Form using Code Q.

For applicants who file a tax return, the amount of combat pay not included in Adjusted Gross Income (AGI) must be included on Worksheet B. The portion of combat pay in AGI would remain in AGI and get reported on the appropriate line of the FAFSA. For tax filers, the EFC calculation derives Total Income from AGI plus Untaxed Income (from Worksheets A and B). It does not use Income Earned From Work in that calculation.

For applicants who do not file a tax return, the amount of combat pay should only be reported in Income Earned from Work on the FAFSA. These applicants should not include combat pay in untaxed income because the EFC calculation for them derives Total Income from Income Earned From Work plus Untaxed Income (from Worksheets A and B). To include combat pay as Untaxed Income (as listed in Worksheet B) for these applicants would cause their income attributable to combat pay to be double counted.

Thus, applicants with combat pay will take the following specific steps in completing their 2005-06 FAFSAs.

Instructions for the completion of the FAFSA by an applicant (or parent of an applicant) who has chosen to include some or all of the combat pay as taxable income on his or her federal income tax return.

1. Indicate either a. "I have already completed my return" or b. "I will file, but I have not yet completed my return" for the FAFSA question asking if you have completed your IRS income tax return. (Questions 32 or 70 on the 2005-06 FAFSA);

2. Report the type of tax form that was filed or will be filed. (Questions 33 or 71);

3. Report the Adjusted Gross Income, which will include the combat pay that was (or will be) included on the tax return. (Questions 35 or 73);

4. Report all of the combat pay as Income Earned From Work (along with any other income that was earned from work) on the FAFSA. (Questions 38 –39 or 76 – 77); and

5. If any amount of the combat pay was not included in the Adjusted Gross Income, report that amount on FAFSA Worksheet B.

Instructions for the completion of the FAFSA by an applicant (or parent of an applicant) who has chosen to exclude combat pay as taxable income on his or her federal income tax return.

There are two possibilities with regard to the filing of a federal income tax return when a service member chooses to exclude combat pay from taxable income: either the amount of his or her gross income is below the threshold amount indicated in IRS publication 17 (see http://www.irs.gov/pub/irs-pdf/p17.pdf) and, therefore, he or she is not required to file an IRS income tax return; or the amount of gross income equals or exceeds the threshold amount and he or she is required to file an IRS income tax return.

For those not required to file an IRS income tax return.

When combat pay is excluded from taxable income and the individual is not required to file an income tax return with the IRS, the rules for the completion of the FAFSA are similar to those for all other applicants completing the FAFSA who are not required to file a return with the IRS.

1. Indicate c. "I'm not going to file" for the FAFSA question asking if you have completed your IRS income tax return. (Questions 32 or 70);

2. Skip to Question 38 – 39 or 76 – 77 "How much did you earn from working in 2004?" and list the amount of the combat pay that was excluded (along with any other earnings from work); and

3. Do not report the amount of the combat pay that was excluded from taxable income on the FAFSA worksheets (A – C).

For those required to file an IRS income tax return.

When a service member with sufficient other income that requires the filing of an IRS income tax return has elected to exclude his or her combat pay from taxable income, a combination of information must be provided on the FAFSA.

1. Indicate either a. "I have already completed my return" or b. "I will file, but I have not yet completed my return" for the FAFSA question asking if you have completed your IRS income tax return. (Questions 32 or 70);

2. Report the type of tax form that was filed or will be filed. (Questions 33 or 71);

3. Report the Adjusted Gross Income on the FAFSA that excludes the combat pay. (Questions 35 or 73);

4. Go to Question 38 or 76 – "How much did you earn from working in 2004?" and report the amount of the combat pay that was excluded, plus any other earnings from work (including your taxable income); and

5. Report the amount of the combat pay that was excluded from taxable income on the FAFSA Worksheet B.

Stored-value cards.

A stored-value card is a prepaid debit card that can be used to withdraw cash from an automated teller machine (ATM) or to purchase goods from a merchant. We distinguish a stored-value card from a traditional debit card in this discussion by defining a stored-value card as not being linked to a checking or savings account. Historically, these cards had the narrow purpose of serving as a replacement for paper gift certificates. Now, stored-value cards are used to conduct a variety of financial transactions in a safer and more convenient manner than using cash or checks. For example, instead of issuing checks, many companies deposit payroll funds to stored-value cards issued to their employees.

Q18. May an institution use stored-value cards for paying Title IV funds to students?

A18. Yes. An institution may use stored-value cards as a way to make direct payments to students (such as credit balances and Federal Work Study (FWS) wages).

Q19. Who issues stored-value cards and how are the cards funded?

A19. Typically, an institution enters into an agreement with a bank under which the bank issues stored-value cards directly to students identified by the institution. In a payroll or credit balance transaction, the institution electronically transfers funds to the bank on behalf of a student and the bank makes those funds available to the student by increasing the value of the card. Since the funds are transferred from the institution's account to the bank, so long as the institution cannot recall those funds to pay other charges for the student without the student's written permission, the transaction would be equivalent to paying the funds directly to the student.

Q20. Since the cash management regulations do not specifically identify stored-value cards as a method of making payments to students, how does an institution that wants to use the cards comply with the regulations?

A20. Under the following conditions, an institution may use a stored-value card to disburse Title IV funds directly to a student:

The institution must obtain the student's authorization to use a stored-value card for paying credit balances or FWS wages, just like the authorization the institution must obtain before it makes an electronic funds transfer to a student's checking account.

1. The value of the card must be convertible to cash (e.g., the student must be able to use it at an ATM to make a cash withdrawal). In some cases, the cards are branded with the VISA or MasterCard logo, so the card may also be used to buy goods and services. However, we would not expect the institution to limit the use of the card to specific vendors.

2. The student should not incur any fees for using the card to withdraw the disbursement from the institution over a reasonable period of time. It would appear to be reasonable for an issuing bank to allow ATM withdrawals from it to be free, or to provide several free withdrawals per month. So long as ATMs from the issuing bank are conveniently located for the student, it would also appear to be reasonable for a fee to be charged if the student chooses to use an ATM that is not affiliated with the issuing bank.

3. Since the stored-value card would be an alternative means for the institution to make the disbursement to the student, the student should not be charged by either the institution or the affiliated bank for issuing a stored-value card, but it would be reasonable if the student was charged for a replacement card.

4. In order to minimize any risks with disbursing funds to a stored-value card account set up for a student, the account at the bank must be Federal Deposit Insurance Corporation (FDIC) insured. This means that there has to be an individual account for each student that is FDIC insured.

5. In order for the disbursements to the stored-value card to be treated as payments made to the student, the institution cannot make any claims against the funds on the card without the written permission of the student, except to correct an error in transferring the funds to the bank under existing banking rules.

6. Since the stored-value card is being set up to disburse Federal Student Aid funds to the student, this account should not be marketed or portrayed as a credit card account and should not be structured to be converted into a credit card at any time after it is issued. The bank may wish to use its relationship with the student to offer other banking services such as checking accounts, savings accounts, or credit cards, but those should not link to the stored-value card account.

7. The institution must inform the student of any terms and conditions associated with accepting and using the stored-value card.

8. The institution must ensure that its stored-value card process meets all regulatory time frames. (For example, the student must have access via the card to any credit balance within the 14-day time frames in 34 CFR 668.164, or to any FWS wages at least once per month.)

9. The student's access to the funds on the stored-value card should not be conditioned upon the student's continued enrollment, academic status, or financial standing with the institution.

Debit cards and third-party servicers.

Institutions are increasingly changing the way they disburse funds to students by moving away from issuing checks to transferring funds electronically. In response to this trend, several companies are offering services that include:

- Obtaining the student's authorization to perform electronic transfers;
- Transferring the funds electronically to the student's bank account;
- Opening a bank account for the student; and
- Issuing debit cards in conjunction with a participating bank.

Companies that contract with institutions to provide these types of services, in some instances, become third party servicers. The regulations in 34 CFR 668.2 define a third-party servicer as an entity that contracts with an institution to administer any aspect of its Title IV programs. Thus, if an institution contracts with a company to perform activities that are the institution's responsibilities under the Title IV programs, the company is a third-party servicer. In the contract between the institution and the servicer, both parties must agree to comply with all statutory and regulatory provisions governing the Title IV programs and agree to be jointly and severally liable for any violation by the servicer of these provisions. Other items that the institution and servicer must agree to are described in 34 CFR 668.25 (c). Also, a third-party servicer must submit an annual audit of the activities it performs on behalf of the institution to the Department as specified in 34 CFR 668.23 (c).

Q21. Are there any differences between an institution transferring funds electronically to a student's bank account and a third-party servicer transferring funds to a bank account the servicer opens on behalf of the student?

A21. No. In both cases, the Department considers the electronic transfer to be equivalent to making a direct payment to a student so long as the institution cannot recall or receive a payment from that account that is not specifically initiated or authorized in writing by the student. The same general guidance set out in the discussion on stored-value cards would also apply to debit cards issued by a servicer through a participating bank.

Reserve Educational Assistance Program (REAP or Chapter 1607).

A new veterans education benefit program referred to as REAP or Chapter 1607 was signed into law on October 28, 2004. It is for reservists who serve on active duty on or after September 11, 2001, under Title 10 U.S.C. for a contingency operation and who serve at least 90 consecutive days or more. National Guard members also are eligible if their active duty is under section 502 (f), Title 32 U.S.C. and they serve for 90 consecutive days when authorized by the President or Secretary of Defense for a national emergency and that active duty is supported by federal funds. Disabled members who are injured or have an illness or disease incurred or aggravated in the line of duty and

who are released from active duty before completing 90 consecutive days are also eligible. The U.S. Department of Defense will fully identify contingency operations that qualify for benefits under Chapter 1607.

Q22. When will students start receiving Chapter 1607 benefit payments?

A22. The U.S. Department of Veterans Affairs anticipates that the Chapter 1607 benefit payments will begin by October 1, 2005. It is important to note that Chapter 1607 benefits may be paid retroactively for the 2001-02, 2002-03, 2003-04, and 2004-05 award years. Initial payments made to reservists during the 2005-06 award year will include many lump-sum payments for past training.

Q23. Are the Chapter 1607 benefits taxable and part of the Expected Family Contribution (EFC) calculation?

A23. As with all veterans' education benefits, Chapter 1607 benefits are not taxable and will not be used in the EFC calculation. However, the Chapter 1607 benefits are considered "resources" under the campus-based regulations (34 CFR 673.5) and "estimated financial assistance" under the FFEL and the Direct Loan Program regulations (34 CFR 682.200 and 685.102).

Q24. Since some students will receive retroactive payments of Chapter 1607 education benefits in one lump sum for training completed in prior award years, what action must the school take to handle these education benefit payments?

A24. A school must account for Chapter 1607 education benefits as a "resource" and "estimated financial assistance" beginning with the 2005-06 award year, excluding retroactive payments made for previous award years. Chapter 1607 education benefits paid only for enrollment during the 2005-06 award year must be reported in questions 46 and 47 of the 2005-06 Free Application For Federal Student Aid (FAFSA). Retroactive payments for the 2001-02, 2002-03, 2003-04, and 2004-05 award years will not have to be considered by a school for purposes of over awards and overpayments in the 2005-06 or prior award years.