
Overpayments and Overawards

An overpayment occurs when the student receives more aid than she was eligible to receive. One kind of overpayment, traditionally called an overaward, results from changes in the student's aid package. This chapter does not discuss situations where the student was eligible for payment but withdrew from school—see instead Volume 2, chapter 6 for “Return of Title IV Funds.”

CORRECTING OVERAWARDS

An overaward is created when the student's aid package exceeds the student's need. While you must always take care not to overaward the student when packaging aid, circumstances may change after the aid has been awarded and may result in an overaward. For instance, the student may receive an academic scholarship, or the student may want to extend his or her work-study employment. When these circumstances would lead to an overaward, you may be required to adjust the federal student aid in the package.

Pell Grants

Pell Grants are never adjusted to take into account other forms of aid. If there's an overaward, you must look at other aid that your school controls, and reduce that aid.

Stafford Loans

If you find out that there's going to be an overaward before Stafford funds are delivered to the student, you must try to eliminate the overaward. If you have certified or originated the loan but haven't received the funds, you can have the lender cancel or reduce the loan. As an alternative, you could reduce or cancel aid over which you have control.

If your school has already received the funds, you have a number of options:

- If the package includes an unsubsidized Stafford Loan, Direct Unsubsidized Loan, Direct PLUS Loan, PLUS Loan, or nonfederal loan and the aid package doesn't already apply these loans to finance the EFC, the aid package can be adjusted so that all or some part of these loans replaces the EFC, thus reducing or eliminating the overaward.

Regulations

- SFA debts—eliminating overpayments
34 CFR 668.35
- Verification—recovery of funds
34 CFR 668.61
- Immigration status—recovery of funds
34 CFR 668.139
- Campus-based overaward
34 CFR 673.5
- Pell Grants—overpayments
34 CFR 690.79

Overaward and unsubsidized loan example

Hector's EFC is 4,000. His cost of attendance is \$12,000. He is supposed to receive a subsidized Stafford Loan of \$5,000 and an unsubsidized Stafford Loan of \$3,000, which completely meet his need. Before he receives his first loan disbursement, Guerrero University also gives him a \$2,000 scholarship. If Hector's entire loan amount of \$8,000 had been subsidized, Guerrero would have to send some of the loan back. But because part of the loan amount is unsubsidized, Guerrero simply considers that \$2,000 of the unsubsidized loan that applied to Hector's financial need is now being used to finance his EFC.

Example: student ineligible for part of disbursement

Owen's loan disbursement was \$1,000. However, Guerrero discovered after it received the loan funds that Owen also received a private loan, which created an overaward. Guerrero determines that the overaward is \$800. Guerrero could return just the \$800 or could instead return the entire check and have the lender issue a new check for \$200. If Owen were at a Direct Loan school, the school could return just the \$800 or return the full disbursement, cancel the loan, and originate a new loan for \$200.

FWS overaward tolerance

In general, there is no overaward tolerance for Title IV loans. However, if a student's financial aid package also contains FWS, there's a \$300 overaward tolerance for the loan overaward—you only need to adjust the Stafford Loan if the overaward would exceed \$300.

- The second or subsequent disbursement of a Stafford or Direct Loan can be canceled or reduced. You must inform the lender of the reduced award and request cancellation or reduction of subsequent disbursements.
- If these adjustments have been made and an overaward still exists for a Stafford Loan or Direct Loan borrower, you must withhold and promptly return to the lender or the federal government any funds that have not yet been delivered to the borrower. If the student is determined to be ineligible for the entire loan disbursement and the overaward cannot be reduced or eliminated, you must return the entire loan proceeds. Note that Stafford and Direct Loan overawards must be repaid before adjusting or canceling campus-based funds.
- If the student is ineligible for only a part of the disbursement, you can return the entire undelivered amount or can choose to return only the amount of aid for which the student becomes ineligible. For a Direct Loan, you can reduce the loan to eliminate the amount for which the student is ineligible. For a Stafford Loan, a school that returns the entire disbursement then requests a new check for the correct amount. You must provide the lender with a written statement describing why the funds were returned, and the lender must credit to the borrower's account the portion of the insurance premium and origination fee attributable to the amount returned. If you return the entire amount and ask for a new disbursement, the student will pay only for the reduced insurance premium and origination fee (if applicable) attributable to the reduced loan amount. To return only the amount for which the student is ineligible, you must have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer (EFT), obtain the student's authorization to release loan funds. You can then credit the student's account for the amount for which the student is eligible and promptly refund to the lender the portion of the disbursement for which the student is ineligible.

The requirement to return overawards does not apply to Stafford Loans made to cover the cost of attendance at foreign schools or to PLUS Loans.

If the overaward situation occurs after Stafford Loan funds have been delivered, there is no Stafford Loan overaward. However, you might have to adjust the aid package to prevent an overaward of campus-based funds. Although a school isn't required to return Stafford Loan funds that were delivered to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law doesn't prevent your school from returning funds that were applied to the student account if you choose to do so. A borrower who receives a direct payment of loan funds is not required to repay an overawarded amount, unless the overaward was caused by his or her misreporting or withholding of information.

Perkins, FSEOG, and LEAP programs

You must first try to reduce the overaward by following the steps above for undisbursed Stafford loans. If reducing undisbursed Stafford Loans doesn't eliminate the overaward, you may have to reduce the amount of campus-based aid in the student's package. Campus-based aid need not be reduced if the overaward doesn't exceed \$300, which is the overaward threshold for all campus-based programs. The \$300 threshold is allowed only if an overaward occurs *after* campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other resources, exceeds the student's financial need. (See *Volume 4: Campus-based Common Provisions*.)

You should try to eliminate the overaward by reducing future payments of campus-based aid. If the overaward can't be eliminated by reducing future payments of campus-based aid, the student must repay the full amount of the campus-based disbursements that exceeded his or her need. However, the student cannot be required to repay FWS wages that have been earned.

FWS Program

Because the student can't be required to repay wages earned, you can only adjust FWS by reducing future payments. You can continue to employ the student, but the student can't be paid from FWS funds. If you've already adjusted all other federal aid and institutional aid, and there's still an overaward, you must reimburse the FWS program from your school's funds. You cannot require the student to repay wages earned, except in the case of proven student fraud.

TREATMENT OF OVERPAYMENTS

An overpayment is created whenever the student receives FSA funds that exceed her eligibility. Overawards are one cause of overpayments; overpayments can also be caused by misreported FAFSA information, miscalculated costs or EFC, payments to an ineligible student, or payments in excess of grant or loan maximums.

Generally a student is liable for any Perkins, FSEOG, or Pell overpayment he receives unless, of course, the school is liable for it. Also, the student is not liable for the overpayment if it is less than \$25 and is not a remaining balance nor, in the case of a Perkins loan or FSEOG, the result of the application of the \$300 overaward threshold. A remaining balance is an amount that was originally higher but was reduced by payments.

Overpayments for which the school is responsible

Your school is liable for overpayments that result from failing to follow the regulations. If your school makes an overpayment in any amount because it did not follow the regulations, it must immediately restore an amount equal to the overpayment (plus any campus-based administrative costs claimed on that amount) to the appropriate account or fund (Perkins, FSEOG, or Pell). Note that

Examples of overpayments due to school error

Allen received a Pell at Sarven Technical Institute. Although Sarven had the correct EFC on Allen's ISIR, a different EFC was used in the Pell calculation, so Allen received too much money. Because the overpayment is due to a school error, Sarven is liable for the overpayment.

Owen received an outside scholarship to attend Guerrero University. The bursar's office was notified of the scholarship so that it would apply the payments properly, but didn't notify the financial aid office. Owen received a Perkins Loan, but the financial aid office didn't take the scholarship into account when awarding the loan, because it didn't know about the scholarship. When the financial aid office later found out about the scholarship, it discovered that Owen received too much aid and had a \$600 Perkins overpayment. Because the school had information about the scholarship (even though the financial aid office didn't), the overpayment is due to a school error.

Overpayment due to interim disbursement cite

34 CFR 668.61(a)

Overpayments and eligibility

HEA Sec. 484(a)(3)

General Provisions 34 CFR 668.22(h), 668.32(g)(4), 668.35(c), (e)

Repayment arrangements satisfactory to the holder

For defaulted loans, the law and regulations specify what a satisfactory repayment agreement is. For students who have exceeded loan limits or owe an overpayment, the law and regulations don't say what makes a repayment agreement satisfactory. The loan holder (for exceeded loan limits) or school (for overpayments) determines whether the repayment arrangement is satisfactory.

Examples of overpayments due to student error

When Chavo applied, he didn't have his W-2 forms, so he estimated his income and said that he wasn't going to file a tax return. After he received his aid from Sarven Technical Institute in June, he told the FAA that he'd underestimated his income, and had had to file a tax return. When Chavo submitted the corrections, his EFC was increased, and Sarven determined that he'd received a Pell overpayment. Sarven canceled his second Pell disbursement, but he still owed \$100. Sarven allowed Chavo to make a repayment agreement to repay \$25 a month for four months so that he'd still be eligible for other aid for the rest of the year.

Meurig has to report financial information about his father on the application although he's living with his stepfather. On the 2002-2003 application, he didn't report any assets for his father, and Brust Conservatory used the information from that application to award FSA aid. However, his 2003-2004 application is selected for verification, and during the verification process Brust discovers that Meurig's father has a business that should have been reported as an asset. Brust asks for tax information for the previous year and determines that Meurig should also have reported the business as an asset on the 2002-2003 application. Meurig's EFC increases when he makes the correction, and he received an overpayment for the 2002-2003 award year. Because he's already received all his aid for the year, he has to either pay the overpayment or make a repayment agreement.

Reporting overpayments to NSLDS

Dear Colleague Letter GEN-98-14, July 1998

the \$300 campus-based overaward threshold does not apply when your school was aware the student had received an award but neglected to count it in his aid package.

Your school may attempt to collect the amount of the overpayment from the student after you have returned the funds. However, this is not a Title IV debt and cannot be considered as such.

If the overpayment is the result of an interim disbursement (See the *Application and Verification Guide*), you can continue to pay FSA funds to the student if she repays the overpayment in full or makes repayment arrangements that you deem satisfactory. If she won't repay the overpayment, you must repay it from your school's funds within 60 days following the student's last day of enrollment or by the last day of the award year, whichever comes first. Once your school repays an overpayment due to an interim disbursement, the student regains eligibility.

Overpayments for which the student is responsible

In the case of student liability, you can try to eliminate a Pell overpayment by adjusting later Pell disbursements for the award year. For FSEOG and Perkins overpayments, you can try to adjust later FSEOG and Perkins (but not Pell) disbursements. If that is not possible, you must promptly attempt to recover the overpayment by sending a note (on paper or electronically) requesting full reimbursement. The written note must state that if the student fails to repay the overpayment or to make satisfactory arrangements for repayment, she will be ineligible for Title IV funds until the overpayment is resolved.

If the student claims that your school made a mistake in determining the overpayment, you must consider any information he provides and judge whether the objection is warranted.

If after notification to the student and consideration of possible objections the student has not repaid or made satisfactory arrangements to repay the overpayment, you must take further action. For FSEOG and Pell, you must refer the overpayment to the Department with the required information (see "Referring overpayment cases to ED Collections" below), and you must report to NSLDS the unresolved overpayment (see below). You are then not required to make any further attempt to collect the FSEOG or Pell overpayment. For Perkins loans, you are not required to refer overpayments to the Department—though you must refer them to NSLDS—because all payments must be returned to your school's revolving loan fund.

Your school may decide to pay the student's obligation by returning to the appropriate FSA program account the amount overpaid to the student. He is then no longer considered to owe a Title IV debt, but rather a debt to your school that you can collect according to your procedures, and he is again eligible for FSA funds as long as the other eligibility criteria are met.

Reporting overpayments to NSLDS

You must report overpayments or changes to previously submitted information to NSLDS within 30 days of the date you learn of the overpayment or change.

If the grant overpayment is the result of the student's withdrawal and a return to Title IV calculation, you must contact the student within 30 days of the determination. See volume 2 of the FSA Handbook, *Institutional Eligibility and Participation*, chapter 6.

You only report unresolved overpayments if they're due to student error; don't report overpayments that are a result of school error. Instead, as discussed previously, you must use school funds to repay the overpayment.

You must use the online NSLDS screens to report overpayments, which means that your school must have Internet access to NSLDS. (Dear Partner Letter GEN-00-20 gives the most recent technical specifications.)

Once the overpayment is reported to NSLDS, the student's future output documents will show that she has an overpayment (see "NSLDS Match"). The Financial Aid History section of the SAR and ISIR will have information on the overpayment, including whether the student has made repayment arrangements.

Referring overpayment cases to ED Collections

If you have tried but not succeeded in collecting a Pell or FSEOG overpayment for which the student is liable, you must refer the overpayment to FSA's Student Management Collections (ED Collections). To be referred, the amount of the overpayment must be at least \$25. For an FSEOG overpayment this includes only the federal share when a school awards using the individual recipient or aggregate matching share methods; it includes both the federal and non-federal shares when the school uses the fund-specific method of matching. See the Pell grant and the campus-based program volumes for more information.

You would still refer a student debt to Collections if the amount was less than \$25 and it was due to a remaining balance or to the application of the campus-based overaward threshold. You must make this referral in addition to reporting the overpayment to NSLDS. If you choose not to refer overpayment cases to Collections, your school is liable for the overpayments, and it must repay from its own funds the appropriate FSA program.

To refer a Pell or FSEOG overpayment case, you must provide all information necessary for collection, as described later in this chapter. In addition, when you refer the overpayment, you should update the overpayment information previously reported to NSLDS by changing the Source field from SCH-SCHOOL to TRF-TRANSFER.

School resolves student concerns before referral

If a student claims that a school's FSEOG overpayment determination is erroneous, the school must consider any information the student provides and determine whether the objection is warranted before referring the case to DCS.

Overpayments created by exceeding loan limits

Another kind of overpayment occurs when the student has received FSA funds in excess of annual or aggregate loan limits. If the student inadvertently exceeded the limits, he or she must repay the extra loan amount in full or make repayment arrangements that are satisfactory to the loan holder. The student will remain ineligible for further FSA funds until one of these conditions is met.

Because you're responsible for knowing the student's prior FSA awards before disbursing additional funds to the student, excess borrowing shouldn't occur often. The most likely cases in which excess borrowing can occur is when the student received FSA funds at another school, and/or the student used different names or SSNs when borrowing.

Chapter 3 describes how the NSLDS postscreening and transfer monitoring processes can help prevent these kinds of overpayments.

Return to ED funds less than \$25

As discussed in Volume 2—Chapter 6, you may be required to report an overpayment to DCS in cases where a student withdraws and owes a return of funds to the FSA programs. If the original amount to be returned is less than \$25, it is considered a “de minimus” amount and does not need to be reported as an overpayment. See GEN-00-24.

▼ *School responsibility.* Once you have referred the account to ED Collections, you have no further responsibility in the collection of the debt unless the student contacts your school to make repayment or unless Collections sends the referral back because it is incomplete, in which case you’ll need to supply additional information and resend the referral. If the student tells you that he wishes to make a payment, you should accept it on behalf of the Department and forward it to Collections. Make sure the student’s name and SSN are on the check. If the check covers more than one student, list each student’s name and SSN and each payment amount. Send it to the U.S. Department of Education National Payment Center at P.O. Box 4169, Greenville, Texas 75403-4169.

If the student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, the student should contact Collections at 1-800-621-3115 or dcshelp@ncs.com.

▼ *ED Collections responsibility.* Upon receipt of an overpayment referral, the Department will determine if enough information has been provided to start collection activity; any referral lacking information will be returned to your school to be completed.

Collections will then try via letters and telephone to establish a repayment schedule or to secure payment in full. Collections will also update the NSLDS information that you’ve already reported to show that the Department now holds the overpayment. In the future, the student’s SAR and ISIR will show that she still owes an overpayment but will now direct the student to contact ED Collections instead of the school.

Information for Overpayment Referral to ED Collections

Not applicable for aid returned for student withdrawals—use referral information in Volume 2, Chapter 6.

ED Collections will need the following information before it can accept an overpayment account from a school. Each referral must be typed and submitted on institutional letterhead.

PART 1. Student Information

Name: _____ Social Security Number(s): _____ Date of Birth: _____
 Address(es): _____ Telephone Number(s): _____

PART 2. Parent/Spouse Information

Name(s): _____ Social Security Number(s): _____
 Address(es): _____ Telephone Number(s): _____

PART 3. Disbursements and Repayments

1. Name of aid program: _____
2. Total amounts disbursed: \$ _____
 - a. Amount credited to tuition account: \$ _____
 - b. Amount disbursed in hand: \$ _____
3. Dates of disbursement(s): _____
4. Costs incurred by student: \$ _____
5. Amount determined to be owed: \$ _____
6. Total amount of debt repaid to institution: \$ _____
7. Date of last payment to institution, if any: _____
8. Total amount being referred: \$ _____
 (For FSEOG, provide federal share amount only)

PART 4. Other Required Information

Award Year of Overpayment: _____
 Student Education Costs: _____
 Name and Telephone Number of Institutional Contact: _____
 Pell Identification Number of Institution: _____

PART 5. Detailed Explanation of Reason for Overpayment

Provide a detailed explanation of the reason for the overpayment. Each account reported to ED *must* contain this explanation.

**FORWARD THE
REFERRAL
INFORMATION
TO:**

U.S. Department of Education
 Federal Student Aid Programs
 c/o Student Loan Processing Center
 Program Overpayments
 P.O. Box 4157
 Greenville, Texas 75403

