
Overpayments and Overawards

CHAPTER 1

An overpayment occurs when the student receives more aid than he or she was eligible to receive. One kind of overpayment, traditionally called an overaward, results from changes in the student's aid package.

In this chapter we will discuss a student's and a school's responsibility for resolving overpayments and overawards. This chapter does not cover returning funds when a student withdraws. Please see chapter 2 for a discussion of those returns.

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 result in an overaward. For instance, the student may receive a scholarship or grant from an outside organization, or the student may want to extend his or her work-study employment. When these circumstances arise, you may be required to adjust the other federal student aid in the package.

Pell Grants

Pell Grants are never adjusted to take into account other forms of aid. If there's a Title IV 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 disbursed to the student, you must eliminate the overaward. If you have certified or originated the loan but haven't received the funds, you can ask the FFEL lender to cancel the loan or reduce the loan proceeds, or make a downward adjustment to a Direct Loan. As an alternative, you can 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, a PLUS Loan, or a nonfederal loan and the aid package doesn't already apply these loans to finance the EFC, and the school so chooses, the aid package can be adjusted so that all or some part of these loans replaces the EFC, thus reducing or eliminating the overaward.

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to a school, and the school's "delivery" of the loan proceeds to a student. More recently, the Cash Management regulations have used the term "disbursement" to refer to the payment of FSA funds to a student or parent, including the payment of loan funds. In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, all payments to a student or borrower.

Campus-based overawards, cite
34 CFR 673.5

Recovery of funds, cite
Verification 34 CFR 668.61
Immigration status 34 CFR 668.139

Overpayments, cite
Title IV debts 34 CFR 668.35(e)
Pell Grants 34 CFR 690.79
FFEL 34 CFR 682.604(h)
DL 34 CFR 685.303(e)

Treatment of excess loan proceeds, cite
34 CFR 682.604(h) and 34 CFR 685.303(e)

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 meets 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 replace his EFC.

Example: Student ineligible for part of an FFEL disbursement

Owen's EFC is 0. Owen's loan disbursement was \$1,000. However, Guerrero discovered after it received the loan funds that Owen also received an outside scholarship, which created an overaward. Guerrero determines that the overaward is \$800. Guerrero could return just the \$800 or could instead return the entire \$1,000 and have the lender issue a new check for \$200.

If Owen were at a Direct Loan school, the school should reduce the loan amount to \$200.

FWS overaward tolerance

In general, there is no overaward tolerance for Title IV loans. However, if a student's financial aid package only contains FWS & loans, 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 can be canceled or reduced. For an FFEL loan, you must inform the lender of the reduced award and request cancellation or reduction of subsequent disbursements. For a Direct Loan, you make the adjustments in COD.
- If these adjustments have been made and an overaward still exists for a Stafford Loan borrower, you must withhold and promptly return to the lender or the federal government any funds that have not yet been disbursed 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 Loan overawards must be repaid before adjusting or canceling campus-based funds.
- If a student becomes ineligible for only a part of a Direct Loan, you can reduce the loan to eliminate the amount for which the student is ineligible.

If a student becomes ineligible for only a part of an FFEL disbursement, you can return all the funds or only the amount for which the student is ineligible. A school that returns the entire disbursement must request a disbursement 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 fully disbursed, there is no Stafford Loan overaward that needs to be addressed. 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 disbursed 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 information.

Campus-based programs

There is a \$300 *overaward tolerance/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.

If a school learns that a student received resources that were not included in calculating the student's eligibility for aid from the campus-based programs and those resources would result in the student's total resources exceeding his or her financial need by more than \$300, the school must take steps to resolve the overpayment.

Before reducing the student's campus-based aid, the school should reevaluate the student's need to determine whether he or she has increased need that was not anticipated when the school initially awarded aid to the student. If the student's need has increased and if the total resources do not exceed the revised need by more than \$300, the school is not required to take further action.

If the school recalculates the student's need and determines that the student's need has **not** increased, or that his or her need has increased but that the total resources still exceed his or her need by more than \$300, the school must reduce or cancel any future Title IV or institutional disbursements.

If the student's total resources still exceed his or her need by more than \$300, and the student's resources include a Perkins Loan and/or FSEOG, the amount that exceeds the student's need by more than \$300 is a Perkins Loan or FSEOG overpayment.

The student must repay the full amount of the campus-based loan or grant disbursements that are considered an overpayment.

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

In general, a student is liable for any Perkins Loan or FSEOG overpayment made to him or her. A Perkins Loan or FSEOG overpayment is created whenever a student receives funds that exceed his or her eligibility. For purposes of FSEOG overpayments, when a school awards FSEOG using the individual recipient or aggregate matching share methods, the FSEOG overpayment amount includes only the federal share.

Overpayments for which the school is responsible

Your school is liable for any amount of a Pell Grant, Perkins Loan or FSEOG overpayment (including amounts under \$25) that occurred because your school failed to follow the procedures in 34 CFR parts 668, 673, 674, 676, or 690. If your school makes a Perkins Loan or FSEOG overpayment in any amount for which it is liable, you must immediately restore (to your Perkins loan fund or FSEOG account, as applicable) an amount equal to the overpayment plus any administrative cost allowance claimed on the overpayment. If your school makes a Pell overpayment, it must make a downward adjustment to the student's award in COD, and either return the funds through GAPS, or disburse them to another eligible student.

If returning the funds creates a debit on the student's account, the school may attempt to collect the amount of the overpayment from the student. However, this is not a Title IV debt.

If the overpayment is the result of an interim disbursement (see the *Application and Verification Guide*), you can continue to pay Title IV funds to the student if he or she repays the overpayment in full or makes repayment arrangements that you deem satisfactory. If the student refuses to repay an overpayment resulting from an interim disbursement, 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 and eligibility cite

HEA Sec. 484(a)(3)

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

Overpayment due to interim disbursement cite

34 CFR 668.61(a)

A student may not receive Federal Pell Grant funds for concurrent enrollment at more than one institution. The COD system will identify students who have been reported as Pell recipients by multiple institutions as potential overawards (POP files). The schools that awarded the student Pell Grant funds for the period must coordinate their response so that the student is receiving Pell Grant funds for attendance at only one school during the period. If after 30 days the schools have not resolved this issue, the COD system will reduce both schools' authorization for this student to zero, and the issue will have to be addressed with ED's involvement.

Overpayments for which the student is responsible

In some instances, a student rather than the school is responsible for repaying the overpayment.

If a student has received more Pell funds than the student was eligible to receive because the student's eligibility for Pell decreased, you can try to eliminate the Pell overpayment by adjusting later Pell disbursements for the award year. **You may not reduce a student's correctly awarded and disbursed Pell Grant to address overpayments in other programs.**

For FSEOG and Perkins overpayments, you can adjust subsequent FSEOG and Perkins disbursements.

If that is not possible, you must promptly attempt to recover the overpayment by notifying the student (by paper or electronically) requesting full payment by the student. The notice must state that if the student fails to repay the overpayment or to make satisfactory arrangements for repayment, he or 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 or she provides and judge whether the objection is warranted.

If after notification to the student and consideration of possible objections an overpayment remains, and 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 Collections* in chapter 2), and you must report to NSLDS the unresolved overpayment. After that, you are 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 Collections, but you must report them to NSLDS, because the student is required to repay the overpayment to your school's revolving loan fund.

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, the school looked at the wrong chart and used a different EFC 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.

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 to file a tax return. When Chavo submitted the corrections, his EFC 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 an 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 2004-2005 application, he didn't report any assets for his father, and Brust Conservatory used the information from that application to award Title IV aid. However, his 2005-2006 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 2004-2005 application. Meurig's EFC increases when he makes the correction, and he received an overpayment for the 2004-2005 award year. Because he's already received all his aid for the year, he has to either pay the overpayment or negotiate a satisfactory repayment agreement.

A student is not liable for an overpayment when the original amount of the overpayment is less than \$25. A student is liable for an overpayment of less than \$25 when that \$25 is a *remaining balance*. That is, when the overpayment amount was originally \$25 or more, but is now less than \$25 because the student has made payments.

A student is also liable for overpayments of less than \$25 when that amount is the *result of applying the \$300 campus-based overaward threshold/tolerance*. For example, if a school discovers that after a student's campus-based aid was disbursed, the student received additional aid that resulted in the aid the student received exceeding his or her need by \$314, the \$314 is an overaward. When the school applies the \$300 overaward tolerance, the student only has a campus-based overpayment of \$14. The student is responsible for repaying the \$14 because the initial amount of the overpayment (before the \$300 tolerance was applied) was \$314 (which is in excess of the less than \$25 *de minimus* amount).

Your school may decide to pay a student's obligation by returning to the appropriate Title IV program account the amount overpaid to the student. Once your school makes the appropriate returns, the student will no longer be considered to owe a Title IV debt, but rather a debt to your school that you can collect according to your procedures. The student's eligibility for Title IV funds is restored as long as the student meets other Title IV eligibility criteria.

A student who receives an overpayment of a Title IV program loan, or an Title IV program grant may reestablish eligibility for Title IV program assistance by repaying the excess amount, or by making arrangements satisfactory to the holder of the overpayment debt to pay the excess amount.

Exceptions to student liability

There are some exceptions to holding a student liable for a Pell, Perkins Loan or FSEOG overpayment.

Generally a student is liable for any Perkins, FSEOG, or Pell overpayment he or she receives unless the school is liable for it. Also, as noted previously, 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 less than \$25 is the result of the application of the \$300 overaward threshold.

Such overpayments do not affect the student's Title IV eligibility. Therefore, your school need not –

- attempt recovery of such overpayments,
- report such overpayments to NSLDS, or
- refer such overpayments to the Department for collection.

Overpayments created by inadvertent overborrowing

Another kind of overpayment occurs when a student inadvertently has received Title IV loan funds in excess of annual or aggregate loan limits and is no longer eligible for Title IV funds. A student who is not in default on a Title IV program loan, but who has inadvertently obtained Title IV program loan funds in an amount that exceeds the annual or aggregate loan limits is ineligible for any further Title IV program assistance until the student (1) repays in full the excess loan amount; or (2) makes arrangements, satisfactory to the holder of the loan, to repay that excess loan amount.

Satisfactory repayment arrangements are determined by the loan holder, but may involve having the borrower sign an agreement acknowledging the debt and affirming the borrower's intention to repay the excess amount as part of the normal repayment process.

If a student has inadvertently exceeded the subsidized annual or aggregate loan limit, it may be possible in some cases to eliminate the excess subsidized amount by changing it to an unsubsidized loan. The loan holder will determine whether this is an option.

If a student has consolidated the loan(s) that exceeded the annual or aggregate loan limit, he or she is considered to have made satisfactory arrangements to repay the debt, and no additional action on the part of the student is required.

Once you have documented that the inadvertent overborrowing has been resolved (through repayment in full, making satisfactory arrangements to repay the debt, replacement of an excess subsidized loan with an unsubsidized loan, or consolidation of the excess loan amount), you may award additional Title IV funds to the student. Keep in mind, however, that the student may have no remaining loan eligibility, or may be eligible only for unsubsidized loans.

Because you're responsible for knowing the student's prior Title IV loans before disbursing additional loan funds to the student, inadvertent overborrowing shouldn't occur often. Excess borrowing might occur if a school is unaware of loans a student received at another school. This might happen if the student received the loans under a different name or SSN. (See Volume 1, chapter 3 for a description of how the NSLDS postscreening and transfer monitoring processes can help prevent these kinds of overpayments.)

Satisfactory repayment arrangements

We require a borrower who does not repay the excess loan amount in full to make satisfactory repayment arrangements in order to ensure that the borrower acknowledges a debt in excess of the regulatory maximum.

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 of a Title IV grant, the law and regulations do not specify what makes a repayment agreement satisfactory. The loan holder or school determines whether the repayment arrangement is satisfactory.

Reporting overpayments to NSLDS

DCL GEN-98-14, July 1998

All new FSEOG overpayments and previously reported FSEOG overpayments for which a data element has changed must be reported.

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

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

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 determining that the student withdrew (see chapter 2).

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 on-line NSLDS screens to report overpayments, which means that your school must have Internet access to NSLDS. (DCL GEN-04-08 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 satisfactory repayment arrangements.

Referring overpayment cases to 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 Borrower Services – Collections (Collections). To be referred, the **initial amount** of the overpayment must have been at least \$25.

Note: For an FSEOG overpayment, when a school uses the individual recipient or aggregate matching methods, this overpayment includes only the federal share. When the school uses the fund-specific method of matching, the overpayment includes both the federal and nonfederal shares. See *Volume 6 – Campus-Based Programs* for more information.

You would still refer a student debt of less than \$25 to Collections when the amount due was a remaining balance or, when the amount less than \$25 was the result of the application of the campus-based overaward threshold/tolerance. You must make this referral in addition to reporting the overpayment to NSLDS. If your school elects not to refer an overpayment to Collections, then your school is liable for the overpayment. In that case, the school must repay the overpayment from its own funds.

School must resolve student concerns

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 Collections.

To refer student overpayments for collection, schools should use a format similar to the one found at the end of this chapter and send the form to the address at the bottom of that page. Each referral must be typed or printed and must be submitted on school letterhead.

In order to avoid creating a double record for a single overpayment, the school must populate its Overpayment Referral Form, *Dates of Disbursements*, with the exact same dates the school used when it created the NSLDS record. In addition, a school must ensure that it enters for *award year*, the year the disbursement was made.

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. Once Borrower Services has accepted a referred student overpayment, Borrower Services will transmit the information to NSLDS and “ED Region” will replace “School” as the appropriate contact source for information about the overpayment.

During the 2005-2006 award year, on its Overpayment Referral, schools must continue to provide their School’s Pell Identification Number. During the 2005-2006 award year, schools should not enter their Routing Identifier.

School responsibility after referral

Once you have referred the account to Collections, you have no further responsibility in the collection of the debt unless the student contacts your school to make a payment 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 or she wishes to make a payment, you may accept it on behalf of the Department and forward it to Collections.

You must return to ED any funds accepted from a student who owes an overpayment. Before forwarding the check 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 the check to the

**U.S. Department of Education National Payment Center
P.O. Box 4169
Greenville, Texas 75403-4169**

If you want a payment to be applied to a specific overpayment (by program and award year) you must include a memorandum on school letterhead. The memorandum must include the award year and program award number of the award you want credited, and your DUNS number.

Important



Accepting payments on referred current-year overpayments

If a student wants to make a payment on an overpayment from the current award year, and that payment will pay that overpayment in full, follow the procedures described in chapter 2 under “Accepting payments on referred overpayments.”

Important

If the student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, the student should contact Collections by calling

1-800-621-3115

or by E-mailing

dcshelp@pearson.com

Responsibilities of Borrower Services - Collections

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. Any future SARs or ISIRs for the student will show that he or she owes an overpayment and will direct the student to contact Collections instead of the school. Finally, Collections also communicates Pell overpayment referrals to the COD system. COD will then alert a school of a student's overpayment status if the student submits a future FAFSA.

Return of Title IV funds when a school does not maintain a separate federal bank account

The Department considers a school that maintains Title IV funds and general operating funds in the same bank account (commingles) to satisfy the requirement that it return unearned funds on a timely basis if:

- the school maintains subsidiary ledgers for each type of funds commingled in that account that clearly show how and when those funds were used and reconciled to its general ledger,
- the subsidiary ledger for each Title IV program provides a detailed audit trail on a student-by-student basis that reconciles to the amount of Title IV program funds received and disbursed by the school, and
- the school updates the relevant subsidiary ledger accounts in its general ledger no later than 30 days after it determines that the student withdrew.

More specifically, the return of an unearned funds transaction should be recorded as a debit to a Title IV program fund subsidiary ledger account and a credit to the school's operating fund subsidiary ledger account. The date of the return is the date this transaction is posted to the school's general ledger.

Student Overpayment Referral to Borrower Services Collections

Not applicable for returns resulting from student withdrawals (use information in chapter 2).

Student Information

Name (Last, First, MI):

Address:

Telephone Numbers:

Social Security Number:

Date of Birth:

If your Pell Reporting ID is different than your Pell Attended ID, please report both. Otherwise, just report the Pell Attended ID.

Reporting School's Pell Identification Number:

Parent/Spouse Information

Name (Last, First, MI):

Address:

Telephone Numbers:

School Information

Name of Contact:

Telephone Numbers:

Attended School's Pell Identification Number:

Disbursements and Repayments

	Federal Pell	Federal SEOG
Award year of overpayment:	_____	_____
Total Grant Disbursement:	_____	_____
Dates of disbursement: (must match NSLDS overpayment record)	_____	_____
Initial amount of overpayment:	_____	_____
Amount of grant for student to return:	_____	_____
Total grant amount repaid by student to school:	_____	_____
Date of last payment to school, if any:	_____	_____
Total being referred for collection:	_____	*

If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG. *

SEND INFORMATION TO ⇒ Student Loan Processing Center-Overpayments
P.O. Box 4157
Greenville, TX 75403

(903) 408-4595 ⇐ FAX