
Welcome to the Indexed Edition of the 2007–2008 Federal Student Aid Handbook

Welcome to the Indexed Edition of the 2007-08 Federal Student Aid Handbook. This edition contains the Application and Verification Guide, Handbook Volumes 1 through Volume 6, and an Index arranged alphabetically. The following conventions apply:

- Page numbers are given in the following format: Volume number - Page number.
- “AVG” in place of a volume number refers to the Application and Verification Guide.
- In general, concepts with established acronyms are found under the acronym (e.g., FAFSA, FSEOG).
- Entries with multiple page numbers are in blue italics.

Navigating the Indexed Edition

Please note that the **index is located at the end of the document**. Individual index entries are linked to the page of the Handbook edition that is referenced in the entry.

The index begins on page 842. To get to the first page of the Index, type “**842**” in the page number box (in Acrobat 7, at the bottom of the PDF window; in Acrobat 8 it’s at the top of the window) and press the enter button on your keyboard.

To get to the Handbook location for any entry in the index, simply move the cursor over the page number for that entry until the cursor changes into a finger pointing at the page number and click on the entry.

Keep in mind that there are additional navigation options for PDFs such as typing in the page number field and using the scroll bar.

Navigating with Adobe Acrobat 7

In Acrobat 7, at the bottom of the page, **the green and white forward and return buttons** to the right of the page number field operate similarly to the back and forward buttons on your Internet browser. You can click on the green and white back button, and you will return to the previous page – the one in the index you were just viewing.

Navigating with Adobe Acrobat 8

Acrobat 8 does **not** use the green and white forward and return buttons. When using Acrobat 8, to return to the previous page you must use keyboard shortcuts. To return to the previous page, hold down the “**Alt**” key and press the **left arrow key** (not the backspace key). The right arrow key will move you forward.

Introduction



This publication is intended for financial aid administrators and counselors who help students begin the student aid process—filing the Free Application for Federal Student Aid (FAFSA), verifying information, and making corrections and other changes to the information reported on the FAFSA.

Throughout the Handbook we use “college,” “school,” and “institution” interchangeably unless we mean something specific. “Parents” in this volume refers to the parents of dependent students, and “you” refers to the primary audience of the Handbook: financial aid administrators at colleges. “We” indicates the United States Department of Education.

We appreciate any comments that you have regarding the Application and Verification Guide (AVG) as well as all the volumes of the Federal Student Aid Handbook. We revise and clarify the text because of questions and feedback from the financial aid community, so please contact us at fsaschoolspubs@ed.gov to let us know how to improve the Handbook so that it is always clear and informative.

CHANGES FOR 2007–08

Most of the changes for this edition of the AVG arise from the Higher Education Reconciliation Act (HERA) that became law in February of 2006, though a few other revisions noted below are not related to the HERA.

On page 12 we added to the margin note on income earned from work the instruction that now appears on the FAFSA on how to account for partnership income so that a more accurate social security tax allowance and employment expense allowance are included in the expected family contribution (EFC) calculation.

Page 19 includes guidance pertaining to the exclusion of small businesses from assets, which is now effective because of the HERA.

On pages 19 and 20 we have updated the text for the newly uniform treatment in the need analysis of qualified tuition programs and Coverdell education savings accounts and for their categorization as qualified education benefits.

On page 21 we amended the guidance regarding treatment of an asset that has a lien against it. The asset is still counted on the FAFSA, as previously, but now the amount of the lien is to be deducted along with any debt owed on the asset to determine its net worth.

On page 23 we added a paragraph on the new category of independent students: active duty members of the military.

There was a margin note on page 25 that dealt with schools added to transactions that contained a dependency override. These schools then received an ISIR that contained the override. Because the CPS does not now permit schools to be added to transactions with overrides, we removed the note.

The EFC chapter contains the HERA-related changes to the elements of the need analysis: page 30 discusses the federal means-tested benefit option for the tax return requirement of the simplified needs and automatic zero EFC calculations; also, the income protection allowances, employment expense allowances, and student asset multiplication factors were all favorably adjusted by the HERA for the student.

In Chapter 3 we also added a margin note on page 37 about claiming the tuition and fees tax deduction or the educator expenses deduction on the IRS's Form 1040. This need not make a student or parent ineligible for consideration for the simplified needs calculation or automatic zero EFC.

We received inquiries about why using a zero on the FAFSA in place of a negative AGI from the tax return yields a different EFC. Since the worksheets for the EFC formulas direct users to substitute a zero for a negative AGI, wouldn't it be proper to make the same substitution on the FAFSA? It is not proper, and we explain this in a margin note on page 37.

On page 84 we added text allowing for an e-signature option for verification documents and text excluding a signed IRS e-file Signature Authorization (Form 8879) as a substitute for a signature on a tax return.

On page 99 we added a margin note reminding you that the section of the Higher Education Act authorizing the use of discretion by financial aid administrators, Section 479A, contains not only the provisions for adjusting the cost of attendance or the data used in the EFC calculation (paragraph a), but also the provisions that permit an FAA to refuse to certify or originate a FFEL or Direct loan or to reduce the loan amount (paragraph c). The reason must be documented in writing, given to the student, and must not be based on discrimination.

The Application Process: FAFSA to ISIR

The laws governing the Federal Student Aid (FSA) programs require that a person apply for aid with a form provided by the Department of Education (ED) and that no fee be charged for processing it. This form is the “Free Application for Federal Student Aid” (FAFSA), and its online version is “FAFSA on the Web.”

To be considered for federal student aid, a student must complete a FAFSA unless the only aid he wants to receive is a PLUS loan via his parent. The FAFSA collects financial and other information used to calculate the expected family contribution (EFC) and to determine a student’s eligibility through computer matches with other agencies.

The FAFSA is the only form students must fill out to apply for Title IV aid. A school cannot require extra information from students except for verification or resolution of conflicting information. However, a school may require additional information for other purposes, such as packaging private or institutional aid. If the school collects additional information that is related to Title IV eligibility, it must take the information into account when awarding Title IV aid.

TYPES OF APPLICATIONS

Students can fill out a paper FAFSA, or they can apply electronically using FAFSA on the Web or, with their school’s help, FAA Access to CPS Online. Students who applied in the previous year may be able to use the Renewal FAFSA on the Web.

FAFSA on the Web

Students can use FAFSA on the Web at www.fafsa.ed.gov to complete an application online and submit it directly to the Central Processing System (CPS). They can also correct any of their previously submitted data except for the Social Security number (SSN). There is much online help, and students can also call 1-800-4-FED-AID (1-800-433-3243).

Paper FAFSA

Some students still use the paper FAFSA, which they can order from the Federal Student Aid Information Center at 1-800-4-FED-AID. You can also order bulk quantities of the FAFSA to distribute on your campus or through outreach events. Go to www.fsapubs.org to access our online ordering system.

Exception to FAFSA filing requirement

If the only federal aid a dependent student wants to receive is a PLUS loan to one of her parents, she doesn’t have to complete a FAFSA, but the parent will need to complete a loan application and promissory note. Also, the student must still meet all the usual eligibility criteria, and the parent must meet the PLUS eligibility requirements. A student must submit a FAFSA, however, to receive a graduate PLUS loan.

FAFSA on the Web Worksheet

To make using the Web application easier, ED makes available the FAFSA on the Web Worksheet. The worksheet can be printed from the website, and schools can order bulk quantities on the Web at www.fsapubs.org.



Free CPS/SAIG technical support for schools or their destination points

1-800-330-5947
CPSSAIG@ed.gov

Advantages of electronic filing

We strongly recommend electronic applications over the paper FAFSA because of the following benefits:

- Faster processing
- Fewer errors and rejected applications because internal and end-of-entry data edits ensure that required fields are completed and conflicts are resolved prior to submission
- Skip logic, which helps “shorten” the form by allowing applicants to skip over questions that don’t pertain to them
- Availability of online help

Websites for students

www.fafsa.ed.gov

- FAFSA on the Web
- Corrections on the Web
- Renewal FAFSA on the Web
- Check status of application
- Online SAR

www.pin.ed.gov

PIN website

www.studentaid.ed.gov

Higher education portal for students

FAFSA on the Web demo

You can use the FAFSA on the Web demonstration to train financial aid staff or to show students how to use the on-line application. Go to

<http://fafsademotest.ed.gov> and type in **eddemo** for the user name and **fafsatest** for the password.

FAA Access to CPS Online

You can submit a student’s application data at FAA Access to CPS online (www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp). You can also connect to the site through EDEXPRESS.

Before submitting the data, print out the signature page/FAFSA summary for the student (and parent) to sign. Alternately, you can have the student fill out and sign a paper FAFSA, but to reduce the need for paper applications, we recommend the former method. As noted on page 33, you will need to retain either the signed signature page/summary or signed FAFSA for your records, even if the student doesn’t receive aid or attend your school.

The PIN

The Federal Student Aid personal identification number (PIN), along with other identifiers, gives students Internet access to their information in FSA systems. Students (and parents) can get a PIN by going to the website at www.pin.ed.gov. Students without a PIN will automatically receive one if their application was signed, passed the data match (see the next page) with the Social Security Administration (SSA), and had a complete address. They will receive a paper PIN mailer with the number or an e-mail (if an e-mail address was given) with a secure link to their PIN online. Applicants can use the PIN to:

- ◆ electronically sign a FAFSA on the Web or access and sign a renewal FAFSA on the Web
- ◆ correct their FAFSA online using Corrections on the Web
- ◆ see their EFC and other Student Aid Report (SAR) information as soon as the FAFSA is processed
- ◆ review their financial aid history as maintained in the National Student Loan Data System (NSLDS)
- ◆ access direct loan information and tools, including online entrance and exit counseling
- ◆ sign electronic promissory notes for direct loans

Students should not give their PIN to anyone, and no school official, financial advisor, or other person should ask for it or submit a PIN request on behalf of a student or parent. The unauthorized use of a PIN by anyone but the owner may result in the deactivation of the PIN or the invalidation of signed documents, including FAFSAs and promissory notes. See Dear Colleague Letter GEN-04-10.

Renewal FAFSA

Returning students can use a regular FAFSA, but they should be encouraged to use **Renewal FAFSA on the Web** (which requires a PIN) instead because some data from the application the student filed the year before will already be filled in. The student can review each item, correct any that has changed, and provide new information as needed.

Most students are automatically sent a renewal reminder by e-mail if they provided an e-mail address in the previous application year or by regular mail if they did not. The reminder tells students that they can reapply for aid on the Web and that if they forgot their PIN, they can retrieve it on the PIN website.

PROCESSING THE FAFSA

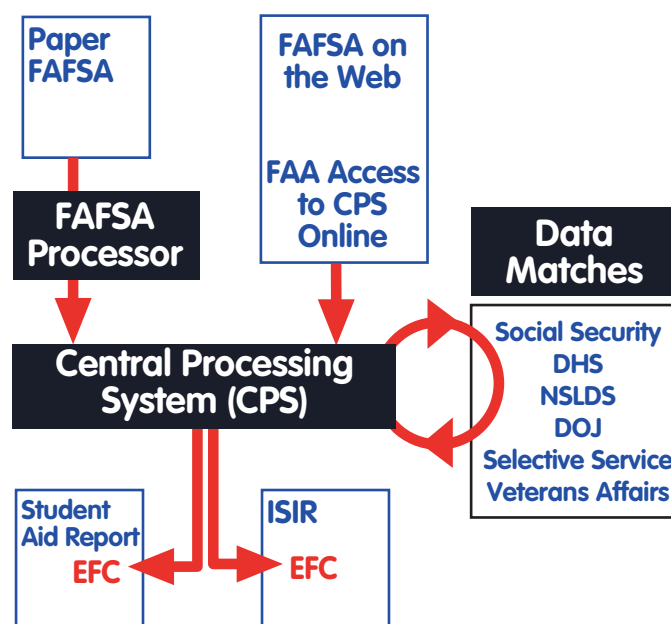
If the FAFSA was submitted on paper, it goes first to the FAFSA processor for data entry and then to the CPS. If the FAFSA was signed and submitted on the Web, it goes directly to the CPS. If a Web applicant indicated she would sign electronically later or send a paper signature page, the FAFSA goes to a signature hold file for up to 14 days. If some type of signature hasn't been received in that time, the application will be sent to the CPS but will result in a reject application; it won't be processed again until a signature is received. See the next section on output documents.

The CPS uses the application data to calculate the EFC and to match against several databases: those of NSLDS, the Department of Justice, the Social Security Administration, and the Department of Veterans Affairs; the Department of Homeland Security's database of non-citizens and the Selective Service System registration database.

The CPS also checks the application for possible inconsistencies and mistakes. For instance, if a dependent student reported the parents' marital status as married but reported the household size as "2," the edit checks would catch the inconsistency. Even when data is inconsistent, the CPS may be able to calculate an EFC based on assumptions. For applications that your school submits through FAA Access, you can anticipate certain assumptions and correct or override

Renewal FAFSA and Pacific island students

Because students from the Pacific islands known as the Freely Associated States are not eligible for a PIN (for lack of an SSN), they can't access Renewal FAFSA on the Web. But an FAA can use FAA Access to CPS Online to enter and access renewal applications for these students if they meet the renewal application eligibility requirements. An FAA will submit the application using the same "888" identifier that students used on their 2006–07 FAFSAs.



From FAFSA
to SAR/ISIR

2007-08 Summary of Changes for the Application Processing System

This is posted each autumn. Go to www.ifap.ed.gov and select "Application Processing Materials" and "2007–2008."

information on the student's FAFSA submission. Students who submit applications using FAFSA on the Web or Renewal FAFSA on the Web can also correct or override some of the CPS edits before submitting the application.

OUTPUT DOCUMENTS: THE SAR AND ISIR

After processing is complete, the CPS produces output documents or records that show the information the student originally provided, the EFC, the results of the eligibility matches, and information about any inconsistencies identified through the CPS edits. If the CPS was unable to calculate an EFC, the output record will not show one.

There are two types of output documents: the *Institutional Student Information Record* (ISIR), which is made available electronically to the schools the student listed on the FAFSA (or adds later), and the *Student Aid Report* (SAR), which is sent to the student or made available to her online.

You will receive an ISIR for the student only if she includes your school on her FAFSA. If your school is not listed, you can request an ISIR for her through FAA Access if you have her data release number or DRN. The DRN appears in the upper right corner of the first page of the SAR and at the top of the correctable pages. The DRN and PIN are different: the DRN authorizes your access to the student's application information; the PIN is the student's personal code, which she should give to no one. A school may ask for the student's DRN, but it should never request the PIN.

Schools are required to receive ISIRs and to accept SARs from students, but they cannot require students to submit SARs to the school in order to receive aid. We recommend making corrections electronically, via Corrections on the Web (the student) or FAA Access (the school); however, a school can require the student to use a SAR to make corrections. If you don't have an ISIR for a student who provided a SAR or SAR Acknowledgement, you **must** use the SAR or the acknowledgement to award and disburse the student aid. You must also make sure that your school is added to the CPS record for the student (see page 98).

The SAR arrives in one of three ways. Students who give an e-mail address, whether on a paper FAFSA or an electronic application (FAA Access, FAFSA or Renewal FAFSA on the Web), will receive an e-mail with a link to an online SAR that they can access by providing their SSN, date of birth, and first two letters of their last name. Students who don't give an e-mail address and who apply with a paper application will receive a paper SAR. Students who apply electronically and don't provide an e-mail address will receive a SAR Acknowledgement, which has fewer and less detailed comments than the SAR and which can't be used for corrections as the SAR can. If a student or parent signature is missing, students will receive a rejected paper SAR.

Reject example

Sioned is living with her boyfriend. She reports on the FAFSA that she's single, but also reports her boyfriend's income as spouse's income earned from work. Her application is rejected because if she is not married, there should be no entry for spouse's income. She receives a reject reason code of 11 and a comment explaining that she reported contradictory information. Sioned must submit a correction to blank out the boyfriend's income.

The SARs and ISIRs include comment codes and text explaining any questionable results from the matches and edits described above. For some of these there will also be a C code, which you must resolve before paying the student aid. For instance, if a student has defaulted on a federal student loan, the SAR and ISIR will note this in several places, including comments to the student and the NSLDS financial aid history page.

For other problems, the SAR and ISIR will show that the student's application has been rejected and no EFC has been calculated. The SAR will tell the student how to remove the reject by providing signatures or more information or by correcting errors. Reject codes are given in the FAA Information section, and a complete list of reject codes is in *The ISIR Guide 2007–2008* at www.ifap.ed.gov.

DEADLINES

The application processing cycle lasts 18 months. For the 2007–08 award year, applications are accepted beginning January 1, 2007 and will be accepted through June 30, 2008.

The CPS must receive a student's electronic FAFSA by June 30, 2008. **A paper FAFSA must be legible, and it must be mailed to the Federal Student Aid Programs address listed on the FAFSA in time for the processor to receive it by June 30, 2008. There are no exceptions to these deadlines.** An electronic application cannot be received before January 1, 2007, and if it is received after June 30, 2008, it will not be processed. A paper application received before January 1, 2007, or after June 30, 2008, will be returned unprocessed with a letter of explanation. If it is signed before and received after January 1, 2007, it will be accepted, but the student will receive a rejected SAR asking him to date and re-sign the SAR and return it for processing.

In addition to the above dates, the following are anticipated deadlines for the 2007–08 award year:

- Corrections on a paper SAR must be received by September 17, 2008.
- Corrections through Corrections on the Web or FAA Access to CPS Online must be received and accepted by the CPS before midnight (central time) on September 17, 2008.
- Address and school changes through the Federal Student Aid Information Center (FSAIC) can be made through September 17, 2008.
- A school must pay or offer to pay any disbursements for a student if it receives a SAR or ISIR with an official EFC while she is enrolled and eligible, but not later than September 24, 2008.
- To give a Pell grant to a student, a school must have a valid output document (one with an EFC computed from correct data)

Resources for aid administrators

For questions about EDconnect, EDEXpress, and Renewal FAFSAs, call CPS customer service:
1-800-330-5947
TDD/TTY 1-800-511-5806

For bulk orders of FAFSAs, technical systems publications, and more, visit the FSA Schools Portal at www.fsa4schools.ed.gov and click on "Publications and How to Order."

Deadline Date Notice

Every year the Department publishes in the Federal Register a deadline notice that provides all the processing deadline dates. When the official deadline notice for the 2007–08 award year is published, it will be available on the IFAP website under "Federal Registers."

while the student is still enrolled for the award year or in the timeframe the student qualifies for a late disbursement under 34 CFR 668.164(g)(4)(i), but no later than September 24, 2008.

- For students selected for verification (both ED-selected and school-selected), the school must have verification documents, and for Pell recipients a valid output document, no later than 120 days after the last day of enrollment or September 24, 2008, whichever is earlier. Schools may set earlier deadlines for the campus-based and loan programs.

For the deadlines above, the date the CPS processed the ISIR transaction is considered to be the date the institution received the ISIR. On the SAR, SAR Acknowledgement, and ISIR printout, the processed date is above the EFC on the first page.

Filling Out the FAFSA

The FAFSA is the first step in the financial aid process. Because it's important to complete the form correctly, this chapter discusses some of the more difficult questions that arise. While the chapter more closely follows the organization of the paper application, the guidance applies equally to FAFSA on the Web. To see how FAFSA data are used to calculate the expected family contribution, refer to Chapter 3.

The FAFSA is organized as steps, with each step consisting of a group of related questions. In addition, the FAFSA contains instructions and one page of worksheets for calculating amounts that are entered in Steps 2 and 4.

As of the date the FAFSA is signed, it is considered a “snapshot” of the family’s information that can be updated only in certain circumstances and only for certain items; see Chapter 5.

This chapter provides guidance that supplements the application instructions. Students can get similar counsel on filling out the FAFSA on our website for students at www.studentaid.ed.gov. Where parents are mentioned it refers to the parents of dependent students. In parentheses are the numbers for the items as they appear on the paper FAFSA, SAR, ISIR, and FAA Access.

STEP ONE: GENERAL STUDENT INFORMATION

Purpose: This section of the application identifies the student and establishes his aid eligibility based on factors such as citizenship, educational level, and Selective Service registration (see also *Volume 1: Student Eligibility*). Some questions are included to help the school package awards and to eliminate the need for students to fill out a separate state or school financial aid form.

- **Student’s name (1–3).** The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student’s name and Social Security Number (SSN) with the Social Security Administration (SSA), the name here should match the one in the SSA’s records.
- **Permanent mailing address (4–7).** This cannot be the school address, with one exception: an incarcerated student may use his college’s administrative address and, if he is submitting a paper FAFSA, he will include with it a letter from the school indicating

FAFSA Steps 1–7

- Step One**—General student info
- Step Two**—Student’s financial data
- Step Three**—Dependency questions
- Step Four**—Parent data (dependent students)
- Step Five**—Household size (independent students)
- Step Six**—Schools and school codes
- Step Seven**—Signature(s)

Completing the FAFSA

Information for students about completing the FAFSA is posted on the Web at www.studentaid.ed.gov/completefafsa

You may wish to add a link from pages that students use on your website to this reference information. You can also download FAFSA on the Web banner graphics to use on your website. Go to http://www.ifap.ed.gov/fafsa/doc0013_bodyoftext.html

STEP 1

Questions 8–20

Student information

The SSN and Pacific island residents

A student from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau is not required to have an SSN. These students mail their FAFSA to the same address as all other students. The CPS will assign an identification number to those who indicate on the application that their state of legal residence is one of the above Pacific island groups.

For Pacific island students who have been assigned an ID number in place of an SSN by the Department, we encourage them to use that number throughout their financial aid years.

Same-sex marriage and the Defense of Marriage Act (DOMA)

According to the Defense of Marriage Act (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, same-sex unions are not considered marriages for federal purposes, including the FAFSA.

that he is incarcerated and is using the school's address. If he is applying on the Web, he should send the letter to the FAFSA processor (the same address to which a paper FAFSA is sent) and be sure that it contains his SSN.

- **Student's SSN (8).** With the exception noted in the margin, a student must have an SSN to apply for federal student aid. If she submits a FAFSA without an SSN, the FAFSA will be returned to her unprocessed. To get an SSN or to determine what the number is if the Social Security card was lost, she must contact the local Social Security Administration office. Call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778) for more information.

The student should be careful when entering her SSN; although it can be corrected after the FAFSA is processed, the number originally entered will always be used as her ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn't match the student's SSN. While not required, the student can solve the confusion by filing a new original FAFSA using the correct SSN.

- **Student's e-mail address (13).** If the student provides this address, he should get an e-mail with a link to his online SAR data within one to three days after the CPS receives his application. The Department will also use this e-mail address to correspond with him regarding his application and PIN.
- **Citizenship status (14).** Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only a citizen or an eligible noncitizen is eligible for aid from the FSA programs; however, a student should still submit the FAFSA if she might be eligible for aid from institutional, state, or private sources that do not require U.S. citizenship.

- **Student's marital status (16 and 17).** This is marital status "as of today"—the day the application is signed. Marital status cannot be projected or updated during the award year.

- **Student's state and date of legal residence (18–20).** This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes.

It also indicates which state agency should receive the student's FAFSA information. States have varying criteria for determining whether the student is a resident for purposes of their financial aid. However, residing in one state for four years will meet any state's criteria. Therefore, a person answering "Yes" to question 19 will likely meet the residency requirements of the state reported in question 18, while the state eligibility for a person answering "No" will depend on the date reported in question 20 and the state's requirements.

STEP 1

Questions 24–31

Student information

- **Student’s grade level at the start of the school year (24).** Note that grade level is not based on the number of years the student has attended college but on work completed toward the degree/certificate. For instance, a full-time student might attain second-year grade level after one year of study, while a half-time student would take two years to reach that level. Note too that grade level is not the same as the Title IV academic year used in the ACG and National SMART Grant programs.
- **Enrollment status (25).** The student indicates whether at the start of the academic year she plans to attend full time, three-quarter time, half time, less than half time, or she doesn’t know. This information will help the college package her aid. A student who is applying to more than one school should provide the enrollment status for the school she is most likely to attend.
- **Types of aid (26).** The student indicates what types of aid, in addition to grants, she is interested in receiving. This helps the school in packaging her award. If she isn’t sure about wanting loans or work-study, she should answer “don’t know” so she will be considered for those types of aid that are available; later she can decline any aid she doesn’t want. If a dependent student doesn’t want to take out a loan but her parents want to get a PLUS loan, she should give an answer that doesn’t exclude loans.
- **First bachelor’s degree (28).** The FAFSA asks if the student will have a first bachelor’s degree before July 1, 2007, because eligibility for Pell grants and Federal Supplemental Educational Opportunity Grants (FSEOGs) is almost exclusively restricted to students who have not received bachelor’s degrees. See “Pell Grants” in Chapter 7 of *Volume 1: Student Eligibility* regarding degrees from unaccredited and foreign schools, which can count as bachelor’s degrees for Pell and FSEOG eligibility.
- **Highest level of school completed by student’s parents (29 and 30).** Some state agencies use this information to award grants and scholarships. Father and mother are defined here as the student’s birth or adoptive parents but not stepparents, guardians, or foster parents. This definition is unique to these questions—all others use the definition on page 3 of the FAFSA.
- **Conviction for possessing or selling illegal drugs (31).** Students convicted of a federal or state offense of selling or possessing illegal drugs that occurred while they were receiving federal student aid should still complete and submit the FAFSA because they may be eligible for federal aid, and even if they aren’t, they may be eligible for state or institutional aid.

Students who fill out their FAFSA online and answer “Yes” to question 31 will immediately receive a series of questions to determine their eligibility.

Undergraduate student definition

A student who is enrolled in a program of study that usually does not exceed four (and can be up to five) academic years in length and that is designed to lead to a degree or certificate at or below the baccalaureate level.

34 CFR 674.2, 675.2, 676.2, 690.2, and 682.200(b).

Graduate student definition and mixed-degree programs

A graduate student is one who: is enrolled in a program above the bachelor’s level or a program leading to a first professional degree; has completed at least three years of full-time study, either before entrance into the program or as part of it; and is not receiving aid as an undergraduate for the same period of enrollment.

34 CFR 674.2, 675.2, and 682.200(b).

Some schools offer mixed-degree programs. For example, a student might earn a bachelor’s degree and a master’s degree in five years of coursework. The school determines at what point after three years’ worth of full-time study the student ceases to be an undergraduate and becomes a graduate student, which of course affects his dependency status and loan limits, among other things. This determination must be consistent for all students in a program.

STEP 2

Questions 32–34 and 76–78

Tax return filed

Income and assets citations

HEA Sec. 480(a), (b), (f), (g).

Students who fill out a paper FAFSA and answer “Yes” to this question will receive a worksheet with their SAR to determine whether the conviction affects their eligibility for federal student aid. If the date the student regains eligibility falls before July 1, 2007, the worksheet will instruct the student to change the response to a “1,” indicating full eligibility for the award year. If the date falls between July 1, 2007, and June 30, 2008, the student will not be eligible for part of the award year and will need to change the response to a “2.”

If the eligibility date falls after June 30, 2008, the student’s response will remain a “3.” The student will not be eligible for federal aid during the entire award year unless he completes a qualified drug rehabilitation program. See *Volume 1: Student Eligibility* for more on drug convictions and eligibility.

A student who leaves question 31 blank cannot be paid Title IV aid until he responds by submitting a corrected SAR or ISIR.

STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS

Purpose: Questions 32–47 ask for the student’s (and spouse’s) income and assets. Step Four collects similar information about parents’ income and assets, so the following discussion pertains to parents as well as the student and spouse. Income, assets, and living allowances are used to calculate the student’s portion of the EFC.

If the student or the student’s parent wasn’t married in 2006 but is married at the time the application is signed, the applicant also needs to provide income and asset information for the new spouse. If the student or the student’s parent was married in 2006 but is now separated or divorced, or the spouse has died at the time the application is signed, the student or parent doesn’t provide income and asset information for that spouse, even though the information may be on the 2006 tax forms.

The FAFSA asks for income and taxes paid for the “base year,” which for 2007–08 applicants is the 2006 tax year, so the questions refer to lines on 2006 IRS tax forms. Data from the completed tax year is used as a predictor of the family’s financial situation for the current year. If 2006 tax data is not available yet, best estimates can be used on the application, though the student may need to correct them later if they differ from the tax return.

The FAFSA also collects information for certain investments and other assets. Applicants only report the net worth of assets, instead of reporting the value and debt. They should report asset amounts **as of the date the application is signed**.

■ **Tax return filed (32–34, 76–78 for parents).** These questions ask if a 2006 tax return was completed, which return was or will be filed, and whether the student or parents were eligible to file a 1040A or 1040EZ. The CPS uses this information in part to

Income earned from work and the IRS 1040 form

The FAFSA instructs the applicant to sum lines 7, 12, and 18 of the 1040 form and box 14 of Schedule K-1 (Form 1065) as an option for determining the income earned from work. But when the values of lines 12 or 18 are negative, this will reduce the total and can wrongly affect the Social Security allowance. If values from lines 12 or 18 are negative, treat them as zero when determining the income earned from work.

identify if the student is eligible for the simplified needs test or the auto zero EFC (see margin note on page 19).

- **Adjusted gross income (AGI) and other tax data (35–39, 79–83 for parents).** Dependent students report these items for their parents. Each question gives the line reference to the 2006 IRS tax forms, so it will be easier for students to complete these questions if they’ve already completed their tax return. The student can also estimate answers, but if the estimated information is wrong, she might have to correct it when the tax return is filed. The worksheet on page 14 can help students estimate their tax information.

Students or parents who filed a joint return but are divorced, separated, or widowed when the application is signed won’t be able to copy the information from the tax forms. Instead, they must figure out how much of the income and taxes paid is attributable to them (not their spouses). For more on this calculation, see “Using a joint return to figure individual AGI and taxes paid” in Chapter 4.

If the student, spouse, or parents were not required by IRS rules to file a tax return, the student should still report any income earned from work in lines 38–39 (student and spouse) and/or lines 82–83 (parents). The W-2 form and other records should be used to determine these amounts. Income earned from work is normally used to calculate an allowance for the additional costs incurred for working families; however, if no tax return was filed, it will also be used in place of AGI. It is used as well to calculate the offset for the Social Security tax (FICA).

For a fiscal year tax return, as opposed to one for the calendar year, the applicant should report information from the fiscal year return that includes the greater number of months in 2006.

If the student or parents filed a tax return using something other than an IRS form, such as a foreign or Puerto Rican tax form, the student should report on the FAFSA the amounts (converted to U.S. dollars) from the lines of the non-IRS form that correspond most closely to those on the IRS forms.

Worksheets A, B, and C

Untaxed income items are grouped on the worksheets included with the FAFSA. The applicant doesn’t submit the worksheets but reports their totals in questions 40–42 (student/spouse) and 84–86 (parents). The EFC formula adds to income the totals from Worksheets A and B and subtracts the total from Worksheet C.

STEP 2

Questions 35–39 and 79–83 Income

Fiscal year return example

Owen’s parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2005 includes eight months in 2006. The return they’ll file for the fiscal year starting in September 2006 only includes four months of 2006. Therefore, they should use the information from the tax return for the fiscal year that started in September 2005.

Other tax forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax codes of the Commonwealth of Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms are. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the IRS line items for verification.

The earned income credit and tax filing

Students and parents of dependent students who are eligible for the EIC are encouraged to file a tax return and claim the credit.

AGI Worksheet for those who have not completed a tax return

Use this worksheet to estimate adjusted gross income (AGI) if you have not completed a tax return.

For question 35
Student/Spouse

For question 79
Parent(s)

Wages, salaries, tips, etc.	\$ _____ .00	\$ _____ .00
Interest income	+ _____ .00	+ _____ .00
Dividends	+ _____ .00	+ _____ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____ .00	+ _____ .00
Add all of the numbers in the column	= _____ .00	= _____ .00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh Plans, one half of self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)	— _____ .00	— _____ .00

TOTAL — Write this amount in question 35 or 79:

\$ _____ .00

\$ _____ .00

Zero income

Occasionally an applicant will report no income for the base year. This can occur when the family has tax write-offs that produce a negative AGI or when the applicant neglected to report untaxed assistance. Zero income is noted in our CPS edits and may increase the likelihood that the applicant will be selected for verification. If the CPS does not select the student for verification, you may still choose to ask her for further information about her means of support during the base year. Also, you may use professional judgment (PJ) to adjust the income line items to reflect income the family receives that doesn't appear on the tax return.

Any cash support for the student, other than support from a parent for a dependent student, counts as untaxed income and must be reported on Worksheet B. In-kind help (see pp. 17-18) from a friend or relative—for instance, using a room at an aunt's house and eating meals with her family—is not considered untaxed income, but you may use PJ to account for the value of that in-kind support (by adjusting the room and board component of the cost of attendance, for example).

STEP 2

Worksheets A & B

Untaxed income

- **Worksheet A (40 and 84)** asks for several types of untaxed income and benefits that are typically associated with the neediest households; this worksheet helps aid offices to identify applicants who might have high financial need.

Two of the items to be reported on this worksheet appear on the tax form, even though they are not taxed: the **earned income credit (EIC)** and the **additional child tax credit**. If parents file a joint tax return and qualify for the EIC but then separate or divorce before the student files the FAFSA, the parent with whom the student lived longer in the last 12 months would determine his portion of the EIC by using the tax table or proportional distribution calculations.

Some income that is not reported on the tax return should also be reported on Worksheet A:

- **Welfare benefits, including Temporary Assistance for Needy Families (TANF).** TANF is the name for the state-administered plans that replaced Aid to Families with Dependent Children (AFDC or ADC). Rent subsidies for low-income housing, however, are **not** counted on the FAFSA.
- **Untaxed Social Security benefits.** Worksheet A asks for “Social Security benefits received that were not taxed.” Tax filers can determine this amount from the IRS form 1040 by subtracting the taxable portion of Social Security benefits from the total amount. When a parent receives benefits on behalf of the student, they are counted in the parent’s column.
- **Worksheet B (41 and 85)** collects information about other untaxed income and benefits. Some types of income are reported on the tax form even though they aren’t taxed. Again, a student who hasn’t filed a return will have to estimate these amounts, and students or parents may need to separate information from a joint return.

Worksheet B items that are drawn from tax forms are:

- **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn’t be reported as an untaxed benefit.
- **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude from taxation payments to an IRA or Keogh, those payments are reported as untaxed income. These amounts appear on the tax return.

Box 14 items on the W-2

Schools are not required to review income listed in box 14 of the IRS’s W-2 form. There are a few reasons for this: several of the items that the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income or on Worksheet B, for instance); also, employers could include in box 14 certain nonelective pension plan contributions, and non-elective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

But if you are aware that a box 14 item belongs on Worksheet B—i.e., if it represents discretionary income—you should include it in the appropriate space on the worksheet. For example, clergy parsonage allowances often appear in box 14, and you would count that on Worksheet B.

STEP 2

Worksheet B

Untaxed income

Combat pay

For students or parents with combat pay, the full amount must always be counted as income earned from work. If the person files a tax return, any untaxed portion should also appear on Worksheet B. If he does not file a tax return, none of his combat pay should be on Worksheet B—it should only appear as income earned from work. This is because income earned from work is used in place of AGI when the student is not a tax filer, so putting combat pay on Worksheet B would yield a double counting of funds. See Dear Colleague Letter GEN-05-16.

Cash support (reported on Worksheet B)

Support includes money, gifts, and loans, plus housing, food, clothing, car payments or expenses, medical and dental care, and college costs paid for on the student's behalf.

- **Tax-exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on line 8b on both the 1040 and 1040A forms.
- **Foreign income exclusion.** If a U.S. tax filer earns foreign income, part of it might not be taxable, so the FAFSA instructs the applicant to include the untaxed amount (from line 45 of Form 2555 or line 18 of Form 2555EZ) on Worksheet B.
- **Untaxed IRA distributions and pension payments.** A tax filer determines how much of his IRA distribution or pension payment is taxable when he completes his tax return. The applicant reports the untaxed portion on Worksheet B but should not include rollovers (transfers of funds from one IRA to another). Worksheet B explains how to determine the untaxed amount from the tax return.
- **Credit for federal tax on special fuels—nonfarmers only.** Certain tax filers can claim a credit for excise taxes they paid on some kinds of fuels. IRS Form 4136 is used to claim this credit, and Worksheet B directs the applicant to copy information from that form.

Worksheet B income not reported on the tax return:

- **Child support received for all children.**
- **Housing, food, and other living allowances.** Some people, particularly clergy and military personnel, receive these allowances as compensation for their jobs. Money received to pay for rent should also be reported, as should the free use of a house or apartment (the rent or market value of a comparable house or apartment can be used). Similarly, if the student received free room or board in 2006 for a job that was not awarded as student financial aid (including resident advisor positions that provide free room and board as part of the student's non-need-based employment compensation), she must report the value of the room and board as untaxed income. Do not, however, include rent subsidies for low-income housing.
- **Veterans' noneducation benefits.** This includes disability, the death pension, Dependency & Indemnity Compensation (DIC), and VA educational work-study allowances.
- **Any other untaxed income not reported elsewhere.** This can include disability, worker's compensation, combat pay, interest income on education IRAs, untaxed portions of railroad retirement benefits, black lung benefits, refugee assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government.
- **Cash support.** The student reports any cash support he has received, except support from his parents if he is dependent.

The student also must report any money paid to someone else on his behalf. For example, if a friend or relative pays his electric bill or part of his rent, he must report the amount as untaxed income. If he is living with a friend who pays the rent and the student's name is on the lease, the rent paid on his behalf counts as cash support because he is responsible for payments that his friend is making. Note that the column for parents' information is marked out for this line item—only the student reports this information.

Tips on reporting benefits:

The applicant reports the actual amount of benefits received during the year in question, even if the amount is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Benefits the student or parent receives on behalf of anyone included in his FAFSA household size count as income to him unless the person (e.g., a grandmother) receives the benefits in her name. Such a person is not included in the household size if benefits in her name total more than half of her support.

Income and benefits NOT to be included on Worksheet B:

- **Student aid** is accounted for in packaging aid (see *Volume 3: Calculating Awards and Packaging*) and does not count as income or a benefit in the calculation of the EFC. Student aid includes tuition benefits a parent receives for a dependent (for example, from the parent's employer). Note that student aid that was included in the AGI is reported separately as an exclusion on Worksheet C so that it can be subtracted from income.
- **Payments and services received from states for foster care or adoption assistance**, under Part A or Part E of Title IV of the Social Security Act.
- **Per capita payments to Native Americans.** Money received in 2006 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless it exceeds \$2,000 per payment. Any amount over that is reported as untaxed income.
- **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.
- **Flexible spending arrangements.** These are employee benefit programs, sometimes called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.

STEP 2

Worksheet B

Untaxed income

Dependent benefits examples

Laurel's adopted son, Paul, receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. She has to report these benefits as her untaxed income when she completes her FAFSA, even though the benefits are for Paul.

Stanislaw's uncle Yvor lives with him and receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn't report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor's support, and because he expects to continue to provide more than half support during the award year, he includes Yvor as a dependent in his household size. However, starting the July after the current award year, Yvor expects to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won't be providing more than half of his uncle's support and therefore won't be able to include Yvor in his household size after this award year.

Independent student with parental support example

Doug is a graduate student, so he's independent even though he still lives with his parents and has no income of his own. Although the FAA at his school can't make him a dependent student, she decides to use professional judgment to add an amount to his untaxed income to account for the in-kind support his parents provide.

STEP 2

Worksheet C

Excluded income

Examples of in-kind income (not reported)

- Food Stamp Program
- Women, Infants, and Children Program (WIC)
- Food Distribution Program
- National School Lunch and School Breakfast programs
- Commodity Supplemental Food Program (CSFP)
- Special Milk Program for Children
- Daycare provided by the Social Services Block Grant Programs (if the recipient receives **reimbursement** for childcare expenses, that amount is reported as income)
- WIA (formerly JTPA) educational benefits
- Rollover Pensions
- Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act

Child support payments example

Steven and his wife each have a child from a previous relationship who doesn't live with them and for whom they pay child support. Because Steven provides over half of his daughter's support through his payments, he counts her in his household size. Therefore, he doesn't report the amount of child support he pays in Worksheet C on his FAFSA. Steven's wife isn't providing over half of her son's support, so he isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays in Worksheet C.

→ **In-kind support.** In-kind support is other than money, for example, friends or relatives giving the student food or allowing him to live with them rent-free. That support isn't included as untaxed income, though you may use professional judgment (e.g., by reducing the cost of attendance or increasing income) with students who receive such in-kind support. This is not the same as housing and other allowances received as compensation for a job, which, as stated earlier, must be reported. If the student is living with someone who is paying living expenses, it can be difficult to determine whether the support is cash support or in-kind support. The basic rule is: if someone pays a cost that the student is obligated to pay, the amount counts as cash support. See examples in the margin.

- **Worksheet C (42 and 86)** collects information on items that are included in taxable income on the tax return but are excluded from income when calculating the EFC. The applicant doesn't subtract these from the AGI reported on the form but lists them separately on Worksheet C. The total from the worksheet is then reported on the FAFSA. The CPS subtracts that total from the AGI. Having the AGI from the tax return listed on the application makes verification easier.

Worksheet C items that can be found on tax forms are:

- **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the FAFSA refers to the pertinent lines on the tax return.
- **Taxable earnings from need-based work programs.** These are earnings from any need-based work program including FWS and need-based employment portions of fellowships or assistantships. The student might have received W-2s for these earnings. Otherwise, she will need to use any other records she received showing how much she earned.
- **Student grant and scholarship aid.** A student reports on Worksheet C **only** the amount of grants and scholarships received that is included in taxable income. This includes grant and scholarship (not employment) portions of fellowships and assistantships. Be sure to include any AmeriCorps benefits (awards, living allowances, and interest accrual payments) except those for health care or child care. For grant and scholarship aid that is part of the taxable income, the tax filer usually writes the amount separately on the tax form next to the line where wages and other earnings are reported. If the information was reported this way, the student can copy that amount from the tax form.

Not from tax forms, but to be reported in Worksheet C:

- **Child support payments** made during 2006 because of divorce, separation, or legal requirement by the student, spouse, or

parent whose income is reported on the FAFSA are reported on Worksheet C. However, don't include child support paid for a child included in the household size reported on the FAFSA.

- **Assets (43–45, 87–89 for parents).** An asset is property that is owned by the family and has an exchange value. A student or parent does not report as assets possessions such as a car, a stereo, clothes, or furniture.

The FAFSA collects current (as of the day of signing the FAFSA) data about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; examples include college savings plans, Coverdell savings accounts, real estate, installment and land sale contracts (including mortgages held), trust funds, mutual funds, money market funds, UGMA and UTMA accounts, certificates of deposit, stocks, stock options, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

A family's **principal place of residence** is not reported as an asset, even if it is part of a family business. Neither is a family farm reported as an asset—only investment farms are (see the note in the margin).

The FAFSA asks for the **net worth** of investments, which is their total current market value minus their associated debts. If their net worth is negative, the student reports a zero.

Similarly for **businesses and investment farms**, the current net worth is reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or farm was used as collateral.

Family-owned and controlled small businesses that have 100 or fewer full-time or full-time equivalent employees do not count as an asset; this exclusion was one result of The Higher Education Reconciliation Act (HERA).

Excluded assets—not reported on the FAFSA:

- **Pensions and whole life insurance.** Pensions aren't counted as assets for application purposes. Of course, when the income from a pension is distributed to the beneficiary, the income must be reported. The cash value or built-up equity of a life insurance policy (often referred to as a whole-life policy) isn't reported as an asset.
- **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25

STEP 2

Questions 43–45 and 87–89 Assets

Simplified needs test

The law provides a "simplified EFC" calculation for a student who meets certain income and tax-filing requirements. If the applicant is eligible based on the information on the FAFSA, the CPS will automatically exclude assets from the EFC calculation. However, some states and schools require this information for their own aid programs.

Family farm

A farm (including equipment, livestock, etc.) isn't reported as an investment on the FAFSA if:

- it is the principal place of residence for the applicant and the applicant's family, and
- the applicant (or parents of a dependent applicant) materially participated in the farming operation

Rental properties

Rental properties are an asset. A unit within a family home that has its own entrance, kitchen, and bath (a rented bedroom would not count therefore) and that is rented to someone other than a family member, counts as an asset. To calculate its net value, multiply the net value of the entire structure by the fraction the rented space represents. Similarly, if a family owned a ten-unit apartment building and lived in one of the apartments, 9/10 or 90% of the net value of the building would be an asset.

At times a student or parent will claim rental property as a business. Generally, it must be reported as real estate instead. A rental property would have to be part of a formally recognized business to be reported as such, and it usually would provide additional services like regular cleaning, linen, or maid service.

STEP 2

Qualified tuition programs

UGMA and UTMA accounts

The Uniform Gifts and Uniform Transfers to Minors Acts (UGMA and UTMA) allow the establishment of an account for gifts of cash and financial assets for a minor without the expense of creating a trust. Because the minor is the owner of the account, it counts as his asset on the FAFSA, not the asset of the custodian, who is often the parent.

Qualified education benefits

The HERA grouped qualified tuition programs (QTPs, also known as section 529 plans because they are covered in section 529 of the IRS tax code) and Coverdell education savings accounts in the new category of qualified education benefits, which all have the same treatment: these savings vehicles are an asset of the owner (not the beneficiary because the owner can change the beneficiary at any time), but they are excluded as an asset when the owner is a dependent student.

States, their agencies, and some colleges sponsor plans known in the IRS tax code as qualified tuition programs. The IRS mentions two types of QTPs that are commonly called prepaid tuition plans and college savings plans. States may offer both plan types, but colleges may only sponsor prepaid tuition plans.

Prepaid tuition plans allow a person to buy tuition credits or certificates, which count as units of attendance. The number of units doesn't change even though tuition will likely increase before the beneficiary gets to use the tuition credits. Prior to the HERA, prepaid tuition plans were estimated financial assistance; they are now an asset of the plan owner, and their worth is the refund value of the credits or certificates.

College savings plans allow a benefactor to deposit money into an account that will be used for the beneficiary's college expenses. The buyer does not prepurchase tuition credits as with a prepaid tuition plan. Rather, this type of plan is essentially a savings account, and its value as an asset is the current balance of the account.

Coverdell education savings accounts, or ESAs, are another tax-advantaged savings vehicle for college education. They are treated the same as college savings plans: the current balance is an asset of the account owner.

As long as distributions from QTPs and ESAs do not exceed the qualified education expenses for which they are intended, they are tax free, so they will not appear in the next year's AGI. They should not be treated as untaxed income or as estimated financial assistance. For more information on these benefits, see the IRS's Publication 970, *Tax Benefits for Education*.

Reporting "take-back" mortgages

In a take-back mortgage, the seller of a house finances a portion of its cost for the buyer, who repays this additional mortgage to the seller. The seller reports the interest part of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if a student or his parents report such interest on the tax return, it likely indicates an asset that should be reported on the FAFSA: the value of the take-back mortgage. There would be no debt reported against this asset. For example, if a dependent student's parents sold their house for \$200,000 and financed a take-back mortgage of \$40,000 to the buyer, the parents should report \$40,000 as the net worth of the investment. The worth will decrease each year depending on how much of the principal the buyer paid back that year. This concept applies to other forms of seller financing of the sale of a home or other property.

Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application, generally even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on its use, then the student should report its present value as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

How the trust must be reported depends on whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of a divorce or separation where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes unless the terms of the trust specify some other method of division.

Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. If the interest accumulates and is not paid out, the recipient must report an asset value for the interest she will receive. The trust officer can usually calculate the value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay for the interest income.

Principal only

The person who will receive only the trust principal must report as an asset the present value of his right to that principal. For example, if a \$10,000 principal reverts to a dependent student's parents when the trust ends in 10 years and the student is receiving the interest, he would report the interest he received as income and report as a parental asset the present value of his parents' rights to the principal. The present value of the principal can be calculated by the trust officer; it's the amount that a third person would pay for the right to receive the principal 10 years from now—basically, the amount that one would have to deposit now to receive \$10,000 in 10 years.

Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until it ends, the beneficiary should report as an asset the present value of the interest and principal that she is expected to receive when the trust ends.

Ownership of an asset

In some cases the ownership of an asset is divided or contested, which can affect how the student reports the asset:

Part ownership of asset

If the parent or student has only part ownership of an asset, the student should report only the owned part. Generally the value of an asset and debts against it should be divided equally by the number of people who share ownership unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.

Contested ownership

Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

Lien against, and imminent foreclosure of, an asset

If there's a lien against the asset, the net value of the asset is determined by subtracting from its total value any associated debt as well as the amount of the lien. If foreclosure of an asset is imminent, the net value of the asset would still be reported until the party making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.

STEPS 2, 3

Questions 46–49

VA benefits and dependency status

Criteria for independence

For the 2007–08 year, a student is independent if he meets any of the following criteria from HEA Sec. 480(d), i.e., if he:

- was born before January 1, 1984
- will be a graduate or professional student
- is married as of the date he applies
- has dependents other than a spouse
- is an orphan
- is or was until 18 a ward/dependent of the court
- is a veteran of the U.S. Armed Forces or
- is currently serving on active duty for purposes other than training

U.S. Code 1401, et seq.), the Alaska Native Claims Settlement Act (43 U.S. Code 1601, et seq.), or the Maine Indian Claims Settlement Act (25 U.S. Code 1721, et seq.).

- **Student’s veterans education benefits (46 and 47).** Students must report the amount of monthly benefits (if any) and the number of months they expect to receive them between July 1, 2007 and June 30, 2008. Benefits include a range of assistance from the U.S. Department of Veterans Affairs (VA), such as the Montgomery GI Bill benefits. Veterans’ education benefits are not used in the EFC calculation; instead, they count as estimated financial assistance when packaging Campus-based aid or Stafford/PLUS loans. (See Chapter 6 in *Volume 3: Calculating Awards and Packaging* for exceptions and further details on packaging FSA funds with VA educational benefits.)

STEP THREE: DEPENDENCY STATUS

Purpose: The law governing the FSA programs is based on the premise that the family is the first source of the student’s support, and the law provides several criteria that decide if the student is considered independent of her parents for aid eligibility. Note that a student reaching the age of 18 or 21 or living apart from her parents does not affect her dependency status.

If the student is considered a dependent of his parents, information on the income and assets of the parents must be included on the FAFSA. The CPS will calculate a parental contribution and add it to the student’s contribution to derive an EFC.

In unusual cases an aid administrator can determine that a student who doesn’t meet any of the independence criteria should still be treated as an independent student. (See “Dependency overrides” later in this section.)

- **Graduate or professional study (49).** The FAFSA asks the student if she will be working on a master’s, doctorate, or graduate certificate program in the school year. A student who is a graduate or professional student is independent for purposes of Title IV aid.

Graduate and professional students aren’t eligible for Pell grants, so a student who incorrectly answers “Yes” to this question must submit a correction before he can get a Pell grant, even if he is independent for another reason.

Students should fill out the FAFSA based on their expected grade level for the award year. If a dependent student completes her undergraduate program during the year and begins graduate school, she can update the answer to the dependency question so that the CPS can reprocess her application, or the aid administrator at the graduate school can recalculate her EFC and use it to package her graduate aid.

STEP 3

Questions 50–55

Dependency status

- **Married (50).** This question must be answered according to the student’s marital status at the time the FAFSA is signed. If the student is engaged to be married, she must answer as unmarried unless she waits until after the marriage to complete the FAFSA. If she is married and planning to divorce, she must answer as married. Note that a student **cannot** update FAFSA information for changes in marital status after the application is signed.

If the student has a relationship that meets the criteria for common-law marriage in his state, the student is considered to be married. A married student who is separated (not divorced) is considered married for determining dependency status. A student who was independent only because he was married becomes dependent for the next award year if he divorces and cannot answer yes to any of the dependency questions.

- **Children and legal dependents (51–52).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who receive more than half their support from the student, and other persons (except a spouse) who live with and receive more than half their support from the student as of the FAFSA signing date and will continue to do so for the award year. The same criteria apply to household size.

For a student who applies after the award year has begun, in order to count a person not her child as a dependent, the future support for the award year plus that already given in that year must total more than 50% for the entire year. See the example in the margin.

- **Orphan or ward of the court (53).** The student is an **orphan** if both parents are dead and the student doesn’t have an adoptive parent. Such a student is considered an orphan even if she has a legal guardian.

A student qualifies as a **ward of the court** if the court has assumed custody of her. In some states the court may impose its authority over a juvenile who remains in the legal custody of her parents; such a student is not a ward of the court. Also, neither emancipation (when a child is released from control of a parent or a guardian) nor incarceration of a student qualify her as a ward of the court.

- **Member or veteran of the U.S. Armed Forces (54 and 55).** The HERA expanded the definition of independent students to include persons on active duty in the U.S. Armed Forces (the Army, Navy, Air Force, Marines, or Coast Guard) for other than training purposes.

Veterans are those who were in active service (which includes basic training) and were released under a condition other than

Legal dependent examples

Laurel is going to college and is her cousin Paul’s legal guardian. Paul receives Social Security benefits, but because he’s a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul’s support and count as income to Laurel. Because Paul lives with Laurel and will be supported by her (through the Social Security benefits) throughout the award year, Laurel answers “Yes” to the legal dependent question. If Paul didn’t live with Laurel, she would have to answer “No” to the question.

Alan pays \$4,000 to support his girlfriend, Cathy, who lives with him. She has earned income of \$3,000, and she receives \$200 a month (\$2,400 a year) from her parents. She uses all of this for her support. Alan cannot consider Cathy a dependent since the \$4,000 he provides is not more than half of her total support of \$9,400.

In April 2007 Anika applies for aid for 2006–07. One month prior to that her cousin Bettina came to live with her. Even though Anika provides all of her cousin’s support, the one month of support she has given plus the two months left in the award year would not amount to more than 50% for the entire year, so she can’t consider Bettina her dependent for 2006–07. If Bettina had moved in just before the midpoint of the year, Anika would have been able to count her as a dependent for 2006–07.

STEP 3

Dependency status and overrides

Early exit cadets

Students who attend a military academy or military academy preparatory school and who are discharged other than dishonorably prior to commission are veterans for FSA purposes but might not be veterans for VA purposes. These students will likely receive match results showing that they aren't veterans. Just like other students who receive these match results, if an early exit cadet meets one of the other criteria for independence, no resolution is required. But if he meets no other independence criteria, he must provide the school with documentation that shows he was a cadet of a military academy or its preparatory school.

Student living with relatives example

Malia's father is dead, and her mother can't support her, so she is living with her grandmother. Her mother doesn't pay any money for her support. Malia doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Malia will have to provide information about her mother on the form unless there are unusual circumstances that would warrant a dependency override. Either way, the school might use PJ to account for the grandmother's support.

Dependency overrides

HEA Sec. 480(d)(7). Also see Dear Colleague Letter GEN-03-07.

“dishonorable.” This includes those who fraudulently entered the service as long as their entire period of service was not voided. There is no minimum amount of time the student has to have served to be a veteran, but it does have to be active service. This is less stringent than the VA's definition of veteran for receiving certain VA benefits.

The application also tells students to answer “Yes” to the question about veteran status if they aren't yet a veteran but will be by June 30, 2008. Students who attended a **U.S. military academy** or its preparatory school (USMAPS or NAPS, not high school academies) for at least one day and were released under conditions other than “dishonorable” count as veterans for Title IV purposes. Students serving in ROTC or currently attending a U.S. military academy are not veterans.

Members of the **National Guard** or **Reserves** are only considered veterans if they were called up to active federal duty by presidential order for a purpose other than training. It does not matter how long the active duty lasted or if the student returned to reserve status afterward, but, as with the other qualifying veterans, the student must have had a character of service that was not “dishonorable.”

Dependency overrides

The Higher Education Act allows a financial aid administrator (FAA) to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the FAA determines that an override is appropriate, she must write a statement detailing the determination and must include the statement and supporting documentation in the student's file. **However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances meriting a dependency override:**

- 1) Parents refuse to contribute to the student's education;
- 2) Parents are unwilling to provide information on the FAFSA or for verification;
- 3) Parents do not claim the student as a dependent for income tax purposes;
- 4) Student demonstrates total self-sufficiency.

Unusual circumstances do include an abusive family environment or abandonment by parents and may cause any of the above conditions. In such cases a dependency override might be warranted. See Chapter 5 for guidance on other professional judgment (PJ) changes.

An aid administrator may override only from dependent to independent (though as noted earlier, if an independent student receives substantial support from others, a school may use PJ to adjust the COA or FAFSA data items such as untaxed income).

Also, overrides do not transfer from one school to another—they are valid only at the school that performs them. Nor do they carry

over from one year to the next; the FAA must reaffirm each year that the unusual circumstances persist and that an override is still justified.

Generally the documentation of unusual circumstances should come from a third party that knows the student’s situation (such as a teacher or member of the clergy), but in cases where this is not available, the school can accept a signed and dated statement from the student detailing the unusual circumstances.

To override the student’s dependent status on an initial application through FAA Access, the FAA should use the Dependency Override code of “1” (see the *EDE Technical Reference* for more information).

To authorize a dependency override on a paper FAFSA, the FAA marks the oval for an override, labeled “D/O,” in the “School Use Only” box, fills in the school’s federal school code, and signs. A separate letter attached to the application in lieu of making the override is **not** acceptable.

If the student has already applied, the administrator can use FAA Access to CPS Online to authorize or cancel an override; overrides cannot be done on the SAR.

FAFSA School Use Only Box

SCHOOL USE ONLY:	Federal School Code
D/O <input type="radio"/> ¹	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
FAA Signature	
<input type="text"/>	

STEP FOUR: PARENTS’ INFORMATION (DEPENDENT STUDENTS ONLY)

Purpose: Questions 56–75 collect information about the student’s parents and their household. Questions 76–89 collect tax and financial information for the parents, and because these questions are answered in the same way as for the student, they were discussed under Step 2.

- **Parents’ personal information (56–65).** The FAFSA asks for parents’ SSNs, last names, first initial, date of birth, and month and year they were married, separated, divorced, or widowed. This is to prepare for a possible match with the IRS on AGI, taxes paid, filing status, and number of exemptions claimed. If the SSN, last name, and birth date for at least one parent are not provided, or if neither parent’s SSN matches with the Social Security Administration, the application will be rejected. When the SSN doesn’t match with SSA, the wrong number must be corrected so that the application and SSA agree. For a name or birth date that doesn’t match, correct the application if it’s wrong or re-enter the information if it’s correct. If the parent

STEPS 3, 4

Questions 56–65

Dependency overrides and parents’ information

Overrides and professional judgment

The phrase “professional judgment” is commonly used for the discretion that FAAs apply to dependency overrides and to data adjustments in the application. It is important to note that the provisions for these two types of changes are in separate places in the HEA. The citation for dependency overrides is in Sec. 480(d)(7); the citation for data adjustments is in Sec. 479A and is copied in toto in a margin note in the last chapter of this guide.

STEP 3

Who is a parent or has dependents

Who counts as a parent?

If the applicant answers “No” to questions 48–55, then she is dependent and must report parental information. In most cases it’s clear who the parents are, but not always.

✓ **Adoptive parents and stepparents**

An adoptive parent is treated just like a biological parent. For reporting income and assets in Step 4, a stepparent is considered a parent if married to a biological or adoptive parent and if the student counts in their household size.

However, a stepparent who did not adopt the student cannot be the sole parent for determining dependency status. If the other parent dies, the student is still a dependent of the remaining biological parent, not the stepparent. If no biological parent remains, the student answers “Yes” to Question 53 and is independent.

✗ **Foster parents, legal guardians, and other relatives**

A foster parent or a legal guardian is not treated as a parent for FSA purposes. If the student’s parents are dead, he is independent. Otherwise, a dependent student must report information about his parents even if he has a legal guardian, unless the school has a documented reason to perform a dependency override.

If a student is living with her grandparents or other relatives, the same principle applies. Unless the relatives have adopted the student, their income should not be reported on the FAFSA as parental income. Any cash support from persons other than the student’s parents should be reported as untaxed income, as discussed in Step 2. The school may also consider other kinds of support as part of the student’s financial resources and use professional judgment to include the support under the item for student’s untaxed income (see Chapter 5 on professional judgment).

Other sources of support for children and other household members

If the student is receiving support to raise her child, is the child still considered a legal dependent? If one or both of the student’s parents are directly or indirectly providing more than 50% support in cash or other assistance to the child, then the student would answer “No” to the FAFSA question about legal dependents. “Indirect support” to the child includes support that a parent gives to the student on behalf of the child. If the student is living with a parent who is paying for most of the household expenses, the parent would usually be considered the primary source of support to the child, and the student would answer “No” to the question about legal dependents. However, there may be some cases where the student can demonstrate that she provides more than half of her child’s support even while living at home, in which case she would answer “Yes” to the question about legal dependents.

When the student receives money for the child from any source other than her parents, she may count it as part of her support to the child. Sources include child support and government programs, such as Temporary Assistance to Needy Families (TANF), that provide benefits for dependent children. (The Department does not follow the IRS guidelines, which state that such recipients cannot claim their children as legal dependents because the assistance program provides more than 50% of the children’s support.) Therefore, a student may be considered independent when the benefit she receives is the primary support for her child. For example, if a student who lives alone with her child receives cash from her boyfriend that amounts to more than 50% support for her child, then she would be able to count the child as a dependent and in her household size, and she would be independent. If the boyfriend is the father of the child and a student himself, then he would also be able to count the child as a dependent and in his household size, and he would be independent too.

STEP 3

Veteran match

Veteran match (for question 55)

If the student answers “Yes” to the question about veteran status, the CPS performs a match with the Department of Veterans Affairs (VA) records to confirm that status. The VA sends the result back, which appears as a match flag in the FAA Information section of the output document. For flags 2, 3, and 4, a comment and a C flag will appear on the SAR only if veteran status is the sole reason that the student would be independent. See Appendix B in *The ISIR Guide for 2007–08*.

Successful match (match flag 1)

There won’t be any comments on the output document if the VA confirms that the student is a veteran.

Not a veteran (match flag 2)

A student will receive this flag if the VA database indicates he is not a veteran. If the student answered “Yes” to one of the other dependency questions, he is independent based on that question and can receive student aid without resolving his veteran status.

If the student answered “No” to all the other dependency questions and he believes he is a qualifying veteran, he should provide the financial aid office at his school a copy of his DD214 (the Certificate of Release or Discharge from Active Duty, with “Character of Service” as anything but “dishonorable”). If it shows that he is a veteran, he can receive aid as an independent student. A dependency override is not necessary because the CPS accepts his “Yes” answer to the veteran question. If a national guardsman or a reservist who served on active duty (for other than training) did not receive a DD 214 but can obtain a letter from a superior officer that documents the call-up to active duty and that classifies the character of service as anything but “dishonorable,” the student will be considered a veteran for FSA purposes. If the student turns out not to be a veteran, he will need to change his answer to the question from “Yes” to “No” and provide parent information including a parent’s signature.

If the VA match problem is due to an error in the VA’s database, the student should contact the VA and correct the error. A subsequent transaction will then redo the match with the VA.

Not on database (match flag 3)

Much of the guidance above applies for students not on the VA database: if the student is independent for a reason other than being a veteran, she doesn’t need to resolve the problem before receiving student aid, although she should have the VA correct its database if it’s wrong. If she answered “No” to the other dependency questions, she must either correct any problem with the VA, provide documentation showing she is a veteran or will be one by June 30, 2008, or, if she is not a veteran and will not be one by that date, provide parent data and change her response to the question from “Yes” to “No.”

Active duty (match flag 4)

If the student is currently on active duty, he isn’t a veteran yet, but if his active duty will end by June 30, 2008, he counts as a veteran for dependency status. Because he should have answered “Yes” to the active duty question, he would be independent by that criterion, and he wouldn’t have to resolve this situation.

STEP 4

Questions 66–70

Parents' data

FSA and IRS household rules

The rules that decide whether someone is counted in the household for FSA purposes aren't identical to the IRS rules for determining dependents or household members.

Dependent student household size example

Lydia is a dependent student, and her parents are married. Her brother Ron is 26, but his parents still provide more than 50% of his support, so he is included in the household size. Her sister Elizabeth is attending college but is an independent student and isn't supported by their parents, so she isn't included in the household size. Her sister Susan is not attending college, but is working and supporting herself. However, if Susan were to apply for student aid, she would be considered a dependent student, so she is included. Therefore, the household size that Lydia reports for her parents is 5.

Example: surviving parent and stepparent

Meurig's parents divorced when he was seven; his mother later remarried, and Meurig lived with his mother and stepfather. His stepfather didn't adopt him. His mother died last year, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

doesn't have an SSN, enter 000-00-0000 to prevent or remove a reject code. (See also the SSN chapter in *Volume 1*.)

- **Household size (66).** The household size determines the standard living allowance that offsets the family income in the EFC calculation. The following persons may be included in the household size of a dependent student's parents:

- **The student and parents**, even if the student is not living with them. Exclude a parent who has died or is not living in the household because of separation or divorce.
- **The student's siblings and children**, if they will receive more than half their support from the student's parent(s) from July 1, 2007, through June 30, 2008. Siblings need not live in the home. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., they need not be students nor apply for aid).

For the purpose of including children in the household size, the "support test" is used rather than residency because there may be situations in which a parent supports a child who does not live with her, such as when the parent is divorced or separated. If the parent receives benefits (such as social security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child. An exception to this is foster care payments, which typically cover the costs of foster children, who for FSA purposes are not considered children of the foster parents and are not counted in the household size.

- **Other persons** who live with and receive more than half their support from the student's parent(s) and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 23.

- **Number in college (67).** The applicant should **always** be included in the number in college, but parents are not included. Others who count in the household size are in the number in college if they are or will be enrolled at least half time during the award year in an eligible degree or certificate program at a school eligible for any of the Title IV (FSA) programs. The definition of half-time enrollment for this question must meet the federal requirements, even if the school defines half time differently. (See *Volume 1: Student Eligibility* for enrollment status requirements.) Do not include students at a U.S. military academy because their entire education is paid for.
- **Parents' state of residence (68–70).** Parents who do not live in the U.S. should enter "FC" for Question 67.

Reporting information in cases of death, separation, divorce, and remarriage

If the parents of a student divorce or separate, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent.

Death of a parent

If one, but not both, of the student's parents has died, the student answers the parental questions about the surviving biological or adoptive parent and does not report any financial information for the deceased parent. If both her parents are dead when she fills out the FAFSA, she must answer "yes" to Question 53, making her independent. Remember that an adoptive parent counts as a parent, but a legal guardian doesn't. If the last surviving parent dies after the FAFSA has been filed, the student must update her dependency status and report income and assets as an independent student.

Stepparent

A stepparent is treated like a biological parent if the stepparent has legally adopted the student or if the stepparent is married, as of the date of application, to a student's biological or adoptive parent whose information will be reported on the FAFSA. There are no exceptions. A prenuptial agreement does not exempt the stepparent from providing information required of a parent on the FAFSA. The stepparent's income information for the entire base year, 2006, must be reported even if the parent and stepparent were not married until after 2006. See above for how to fill out the parent questions when the stepparent's spouse (the biological parent) dies; if the stepparent has not adopted the student, he would no longer provide parental information as before, but any financial support he gives to the student would be counted as untaxed income.

Divorce of the student's parents

If the student's parents are divorced, he should report the information of the parent with whom he lived longer during the twelve months prior to the date he completes the application, regardless of which parent claimed him as an exemption for tax purposes. If the student lived equally with each parent or didn't live with either one, then he should provide the information for the parent from whom he received more financial support or the one from whom he received more support the last calendar year for which it was given. Note that it is not typical that a student will live with or receive support from both parents exactly equally. Usually you can determine that the student lived with one of the parents more than half the year or that he received more than half support from one of the parents.

Separation of the student's parents or the student and spouse

A couple need not be legally separated to be considered separated—they may deem themselves informally separated when one of the partners has left the household for an indefinite period and the marriage is severed. While a married couple that lives together can't be informally separated, in some states they can be legally separated. If their state allows this, and if they are still living together and are legally separated, then that is their status on the FAFSA. For a dependent student, use the rules for divorce to determine which parent's information to report.

Common-law marriage

If a couple lives together and has not been formally married but meets the criteria in their state for a common-law marriage, they should be reported as married on the application. If the state doesn't consider their situation to be a common-law marriage, then they aren't married; a dependent student would follow the rules for divorce to determine which parent's information to report. Check with the appropriate state agency concerning the definition of a common-law marriage.

STEPS 4, 5

Questions 71–96

Parent and student household

Number in college

HEA Sec. 474(b)(3)

Death, separation, divorce

HEA Sec. 475(f)

Divorce example

Marta is 22 and doesn't meet any of the independence criteria. Her parents divorced recently, and she hasn't lived with them since she was 18. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them and they were still married. Because her father's income was larger and he contributed more money to the overall household expenses, Marta determines that the last time she received support, most of it was from her father. She provides his data on the FAFSA.

Independent student household size example

Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. Eddy's nephew Chavo lives with him and gets more than half of his support from Eddy (and will do so for the award year), so he can be counted in Eddy's household size, which is 2.

Having just turned 24, Chavo is also independent, and his household size is 1.

- **Receipt of means-tested federal benefits (71–75).** The HERA introduced this as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.
- **Tax forms filed by parents, income, and assets (76–89).** The criteria for reporting income, assets, and the tax forms filed are basically the same for parents as for the student, so refer to the discussion in Step Two for these questions.

STEP FIVE: FOR INDEPENDENT STUDENTS ONLY

Purpose: Questions 90–96 collect information about independent students. Only students who answered “Yes” to one or more questions in Step Three complete this step.

- **Student's household size (90).** The following persons are included in the household size of an independent student:
 - **The student and his or her spouse,** unless the spouse has died or is not living in the household due to separation or divorce.
 - **The student's children,** regardless of where they live, if they will receive more than half of their support from the student from July 1, 2007, through June 30, 2008. This includes the student's unborn children who will be born during the award year and will receive more than half their support from the student from birth to the end of the award year. Foster children do not count in household size.
 - **Other persons** who live with and receive more than half their support from the student and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 23.
- **Number in college (91).** The student should **always** be included in the number in college. Also included are those in the household size who are or will be enrolled at least half time during the award year in a degree or certificate program at a Title IV-eligible school and who can reasonably be expected to receive aid from the family for their education. This excludes students at a U.S. military academy because their entire education is paid for. The definition of half-time enrollment for this question must meet the federal requirements, even if the school defines half time differently.
- **Receipt of means-tested federal benefits (92–96).** The HERA introduced this as an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

STEP SIX: SCHOOL INFORMATION

Purpose: These items collect information about which colleges the student wants to receive his information. For a college to be able to receive his data, the student must list the college’s federal school code or enter its complete name, address, city, and state. School codes, which are not the same as the OPE ID, are not provided in the FAFSA; they are in a separate publication, the *Federal School Code List*, which ED sends to high schools, colleges, and public libraries each fall around the time the FAFSAs are distributed. The federal school codes are also on the Internet at www.fafsa.ed.gov.

For each school, the student is asked to indicate whether he expects to live on campus, off campus, or with his parents. While this information is not used to calculate the student’s EFC, it is useful to schools for determining the cost of attendance.

The student can list up to four schools on the paper FAFSA, six on the Web (at least one is required). If he wants his information to be available to more schools, he can use his SAR or Corrections on the Web to change the schools listed. The CPS will send data to no more than four (or six) schools at a time for one student. Chapter 5 describes how a student can add or change schools on the list.

STEP SEVEN: SIGNATURE REQUIREMENTS

Purpose: By signing the FAFSA, the applicant is assuming responsibility for the accuracy of the information reported.

- **Date and signature(s) (98–99).** In addition to certifying that the data on the FAFSA are correct, the student is also signing a Statement of Educational Purpose, which is required to receive FSA funds. Among other things, the student agrees to spend FSA funds only on educational expenses and affirms that he is not in default on a federal loan or does not owe a grant overpayment. If he is dependent, one parent whose information is reported on the FAFSA must also provide a signature.
- **Preparer’s ID and signature (100–102).** The law requires that if anyone other than a student, the student’s spouse, or the student’s parents prepares the application, then the preparer must include his name, his company’s name (if applicable) and address, and either his SSN or the company’s Employer Identification Number (EIN, as assigned by the IRS). With the paper FAFSA, the preparer must also sign the form.

High school counselors, aid administrators, and others who help students with their applications by actually filling out line items on the form or dictating responses to items on the form are considered preparers. Preparers must complete this section even if they are not paid for their services.

STEPS 6, 7

Questions 97–102

School information, date, and signatures

Copies of signed documents

While you will often receive documents with original or “wet” signatures from the student (e.g., a paper FAFSA that the student has worked on and signed while in your office), there might be an occasion where the student gives you a copy or sends you a fax of a signed document. Except for a copied FAFSA, other imaged versions of the original signed document are valid and may be kept in the student’s file.

Substitutes for a parent's signature

Although parent information must be provided for a dependent student, a high school counselor or a college aid administrator may sign the application in place of a parent if:

- the parents are not currently in the United States and cannot be contacted by normal means,
- the current address of the parents is not known, or
- the parents have been determined physically or mentally incapable of providing a signature.

The signer must provide her title in parentheses next to her signature and briefly state the reason (only one is needed) why she is signing for the parents. The signer assures a minimum level of credibility in the data submitted, however, she does not assume any responsibility or liability in this process. If the counselor or FAA finds any inaccuracies in the information reported, she should direct the student to send the SAR through the normal correction process or, if she is an FAA, she can submit corrections through FAA Access. Because this proxy signing isn't possible electronically, it must be done on a paper FAFSA or on the echo document used with FAA Access.

Signature Requirements: Application and Verification for all FSA programs

	<i>Application</i> (FAFSA, FAFSA on the Web, FAA Access to CPS Online)	<i>IRS Forms</i> 1040 or other form submitted for verification	<i>Verification Worksheet</i>
Student	Must sign statement that data are accurate and other conditions are met (on paper FAFSA, echo document, or signature page or by using PIN).	Tax return must be signed by student (or spouse), or the tax preparer must provide his name and SSN, EIN, or PTIN.	Must sign worksheet.
Parent(s) (if student is dependent)	One parent must sign statement that data are accurate (on paper FAFSA, echo document, or signature page or by using PIN).	Tax return must be signed by one parent, or the tax preparer must provide his name and SSN, EIN, or PTIN.	One parent must sign.
Aid Administrator	Must certify if overriding dependency status (can't be done on FAFSA on the Web).		

Signature Requirements for Changes *

	<i>Changes via SAR or Corrections on the Web</i>	<i>Changes submitted via FAA Access</i>	<i>Professional Judgment through FAA Access</i>
Student	Must sign corrections statement on the SAR; on the Web the PIN serves as the student's signature.		
Parent(s) (if student is dependent)	One parent must sign the corrections statement on the SAR. If parental data are changed on the Web, parent must sign with PIN or print and sign signature page.		
Aid Administrator		School must have signed documentation from student and parent.	Must certify for adjustments or dependency override.

*These signature requirements apply to any submission of changes to the Central Processing System, whether required by corrections to data match items) or at the discretion of the financial aid administrator (for campus-based aid and Stafford Lo

Signatures for electronic applications

FAA Access to CPS Online

If you enter a student's original application through FAA Access to CPS Online, you must obtain original or "wet" signatures on the printed signature page/FAFSA summary or on a completed paper FAFSA, and you must keep the signed document in the school files even if the student doesn't receive federal student aid or attend your school. You may electronically store the original document, but you may not accept faxed or copied signatures from the student for the FAFSA. (You have more latitude regarding verification documents and changes to the application; see Chapters 4 and 5.)

FAFSA on the Web

Students who have PINs can electronically sign their FAFSA on the Web. Parents who have a PIN can also electronically sign. Both parents and students will have to provide their name ID (first two letters of their last name), SSN, and date of birth along with the PIN. Parents also must provide their child's name ID, SSN, and DOB in order to match the parent's signature record with the student's FAFSA.

Alternately, students can print the signature page, sign it, and mail it to the processor. If the processor doesn't receive the signature page within 14 calendar days of receiving the application data, it will mail a "reject 16" SAR to the student ("no student signature on an electronic application"), which the student can sign and return. If the student chooses not to print and send a signature page, or if no printer was available, the processor won't wait 14 days to print a rejected SAR for the student, but will generate one within 72 hours of receiving the data.

If the student indicated on an electronic FAFSA that she would print, sign, and mail in a signature page but the processor has not received the signature page, the student can call FAFSA on the Web customer service and have her record released from the FAFSA hold file. Because no signature page has been received, the FAFSA processor will produce a rejected SAR and mail it to the student to sign and return. The processor will accept the first signature document it receives—either the signed signature page or the signed SAR.

Schools and states receive ISIRs for rejected records. A student's reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won't calculate an EFC for the student or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required "wet" signatures at the school, either on the SAR or a document that has the required certification statements (FAA Access allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

Renewal FAFSA on the Web

To access their Renewal FAFSA on the Web, students must provide their PIN along with other identifiers. In addition to allowing access to application data over the Internet, the PIN is a legal equivalent to a manual or "wet" signature for FSA purposes. For an independent student, no other signatures are needed, and the application will be processed within 72 hours.

Parents of dependent students can sign with their own PIN. Otherwise, the student can print a signature page for the parent. If the student indicates that no printer was available, the CPS will generate a "reject 15" (no parent signature) output document for the student within 72 hours. If the student indicated she would send in a signature page, the processor will wait up to 14 calendar days to receive the signed page. If it doesn't receive a signed signature page after 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it back to the address on the SAR. For reject 15 records, a student's SAR and ISIR will reflect the data provided on the application, but the processor won't calculate an EFC for the student until it receives the parent's electronic signature or the signed SAR or signature page.

Signature requirements for changes made after the FAFSA is filed will be discussed in Chapter 5.

Expected Family Contribution (EFC)

The EFC is a measure of how much the student and his or her family can be expected to contribute to the cost of the student's education for the year. The EFC is calculated according to a formula specified in the law. In this chapter, we describe the EFC formula in detail.

GENERAL INFORMATION

All the data the CPS uses to calculate the EFC come from the information the student provides on the FAFSA. The EFC formula uses many variables, including income, assets, the number of persons in the household, and the number attending college for the award year.

Every year the Department publishes updated tables used in the EFC calculation. The 2007–08 updates are in the May 31, 2006, *Federal Register*, which was posted on July 17. Also available at www.ifap.ed.gov is the *EFC Formula Guide*.

The law provides three different formulas to calculate the EFC: one for dependent students, one for independent students without dependents other than a spouse, and one for independent students with dependents other than a spouse. In addition there are three simplified versions of each formula with fewer data elements.

The Higher Education Reconciliation Act (HERA) modified the criteria for both the simplified formula and the automatic zero EFC by adding an alternative for the tax form requirement and removing dependent students as part of that requirement. These changes are reflected in the text below.

SIMPLIFIED FORMULA

The simplified formula is basically the same as the regular formula, except that asset information isn't considered in the calculation. A dependent student qualifies for the simplified calculation if:

- the parents' combined AGI (for taxfilers) or income earned from work (for nonfilers) was less than \$50,000,¹ and
- either the parents were not required to file an IRS Form 1040,² or anyone counted in their household size received a means-tested federal benefit during the base year.³

Basic EFC formulas

- Dependent students
- Independent students
- Independent students with dependents

Special calculations

- Simplified formula (no assets)
- Automatic zero EFC
- Other than 9-month enrollment

HEA Sec. 474, 475, 476, 477, 478, 479

¹ Although the IRS changed the income limit for filing a 1040A or 1040EZ form from \$50,000 to \$100,000, this has no relation to the income limit for qualifying for the simplified formula.

² See margin note #1 on the following page.

³ The means-tested federal benefit programs are:

- Supplemental Security Income (SSI)
- Food Stamps
- Free and Reduced Price School Lunches
- Temporary Assistance for Needy Families (TANF)
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Other tax forms

A foreign tax return counts as an IRS Form 1040 to determine if one qualifies for the simplified formula and the automatic zero EFC. A tax return for Puerto Rico, Guam, American Samoa, the Virgin Islands, Marshall Islands, the Federated States of Micronesia, or Palau counts as an IRS Form 1040A or 1040EZ for the purposes of qualifying for the simplified formula and the automatic zero EFC.

Assets not reported on FAFSA

If the student doesn't provide any asset data and qualifies for the simplified formula, her application will still be processed normally. She will only receive one EFC, which will be produced by the simplified formula. However, if the student doesn't qualify for the simplified formula, her application will be rejected and she will have to submit asset data before the CPS will calculate an EFC.

Automatic zero EFC

Sec. 479(c)

Receipt of means-tested federal benefits

A person need not have received the benefit for the entire base year; receiving it at any time in the year qualifies. Also, an FAA may use professional judgment (PJ) to count a benefit if a person did not receive it in the base year but is receiving it now.

¹ Persons not required to file the IRS Form 1040 comprise those who were eligible to file a 1040A or 1040EZ form and those who did not have to file a return at all. Someone who filed a Form 1040 solely to claim a tax credit is not disqualified from consideration for the simplified formula or the automatic zero EFC. See also the margin note on page 37.

² See the previous page for a list.

An independent student qualifies for the simplified calculation if

- the student's and spouse's combined AGI (taxfilers) or income earned from work (nonfilers) was less than \$50,000, and
- either the student and spouse were not required to file an IRS Form 1040,¹ or anyone counted in the household size received a means-tested federal benefit during the base year.²

The application asks for asset information from all students. If the student qualifies for the simplified formula and provides the asset information, the CPS will make two EFC calculations: one using the assets and one excluding them. The EFC from the simplified formula (which excludes assets) is called the primary EFC and is printed on the front of the student's SAR, while the EFC from the full calculation is called the secondary EFC and is printed in the FAA Information section. To determine the student's aid, the school must use the primary EFC, which will always be less than or equal to the secondary EFC. If it turns out that the student was not eligible for the simplified formula, the school must correct and submit the record and use the EFC reported on the resulting transaction.

AUTOMATIC ZERO EFC

The law also provides for an automatic zero EFC for some students. The HERA not only amended the tax form requirement but also changed the income maximum to \$20,000. The CPS will assign a zero EFC to a dependent student if:

- the parents' combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is \$20,000 or less, and
- either the parents were not required to file an IRS Form 1040,¹ or anyone counted in their household size received a means-tested federal benefit during the base year.²

An independent student with dependents other than a spouse automatically qualifies for a zero EFC if:

- the student's and spouse's combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is \$20,000 or less, and
- either the student and spouse were not required to file an IRS Form 1040,¹ or anyone counted in the household size received a means-tested federal benefit during the base year.²

Independent students with no dependents other than a spouse do not qualify for an automatic zero EFC.

ALTERNATE EFCs

The law specifies how the EFC of a dependent student must be modified if the student is going to enroll for other than a nine-month period. The EFC found in the upper-right-hand corner of the first page of the output document is based on a nine-month enrollment period and should always be used for awarding a Pell grant, even if the student is attending for a longer or shorter period. The second section of the “FAA Information” area contains a table of alternate primary and secondary EFCs for periods of one to twelve months. These are alternate EFCs that you must use to award aid (other than Pell grants) if the student is attending for other than nine months.

FORMULA A — DEPENDENT STUDENTS

The EFC for a dependent student is calculated using the FAFSA information for the student and his parents. The CPS calculates the parents’ contribution, the student’s contribution from income, and the student’s contribution from assets; the EFC is the sum of these three. The parents’ contribution includes a contribution from assets.

Under the simplified formula the parent’s contribution doesn’t include assets, nor is the student’s contribution from assets counted.

Worksheets and tables that can be used to calculate the EFC for a dependent student are at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren’t used are grayed out.

Parents’ contribution

There are three basic steps in calculating the parents’ contribution. First, the parents’ available income is determined. Then, the parents’ contribution from assets is calculated. Finally, the parents’ contribution is calculated using the available income, the contribution from assets, and the number in college.

▼ *Parents’ available income.* The parents’ available income is calculated by subtracting certain allowances from the parents’ total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been offset for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

The total income is the sum of the taxable and untaxed income, minus amounts reported in the income but excluded from the formula. If the parents are taxfilers, the parents’ AGI as reported on the FAFSA is the amount of the parents’ taxable income used in the calculation. If the parents are not taxfilers, the calculation uses the parents’ reported income earned from work. Note that “earned income credit” is included as part of total untaxed income and benefits only if the parents are taxfilers (the Department recommends that eligible persons

Formula for dependent students

- **Parents’ contribution**
Parents’ available income
Parents’ contribution
from assets
Number in college
- **Student’s contribution
from income**
- **Student’s contribution
from assets**

Tuition and fees and educator expense tax deductions

On December 20, 2006, the Tax Relief and Health Care Act extended two expired tax deductions, for tuition and fees and for educator expenses. Because it was too late to add these deductions to the tax forms for 2006, the IRS has provided a method for claiming the deductions using the 1040 form but not the 1040A. If a student (or parent) filed a 1040 return to claim these deductions but otherwise would have been eligible to file a 1040A return, he or she would still meet the tax return requirement in the simplified needs and automatic zero EFC tests, and he or she should answer “yes” to question 34 (or 78) on the FAFSA.

Negative AGI or zero?

The FAFSA instruction for parents’ AGI is to use the number that appears on a specific line of the tax return; this can be a negative number. The first line of the worksheet for EFC Formula A cites the FAFSA line number and instructs you to substitute a zero if the AGI is negative. Do not take this to mean that a negative AGI should be reported as a zero on the FAFSA. The CPS will change the value to zero, and it makes assumptions that you will not when completing an EFC worksheet by hand. When filling out the FAFSA, the applicant should follow the instruction given and use the AGI as it appears on the tax return.

file a tax return and receive the EIC). Total income can be a negative number.

The sum of the following allowances are used to reduce the parents' total income:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.
- **State and other tax allowance.** Use Table A1. This allowance is a percentage of parents' total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the parents' total income is below \$15,000 or is \$15,000 or more. The state used is the parents' state of legal residence reported on the FAFSA. If this item is blank or invalid, the student's reported state of legal residence is used. If both are blank or invalid, the state in the student's mailing address is used. If all three are blank or invalid, the rate shown in Table A1 for a blank or invalid state is used (3% for total income below \$15,000; 2% for total income of \$15,000 or more). If the allowance is a negative amount, it's set to zero.
- **Father's and mother's Social Security tax allowance.** The father's and mother's Social Security taxes are calculated separately by applying the rates shown in Table A2 to the father's income earned from work and the mother's income earned from work in 2006 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** Use Table A3. This allowance is for the basic living expenses of a family. It varies according to the number in the parents' household and the number in college in 2007–08, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").
- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. For two working parents, the allowance is 35% of the lesser of the father's income earned from work (question 82) or the mother's income earned from work (question 83), but may not exceed \$3,200. For one-parent families, the allowance is 35% of the parent's income earned from work, also not to exceed \$3,200.

If a student's parents are married and only one parent reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

▼ *Parents' contribution from assets.* In the full formula, the assets of parents of a dependent student are considered in order to fully measure the family's ability to help pay college costs. The formula evaluates the family's assets and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strength. In the simplified formula assets aren't counted.

First, the parents' **net worth** is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table A4 to calculate the amount to be used.

Second, the parents' **discretionary net worth** is calculated by subtracting the education savings and asset protection allowance (Table A5) from the parents' net worth. As with income, this is done to protect a portion of assets. The allowances for ages 40 through 65 approximate the present cost of an annuity which, when combined with Social Security benefits, would provide at age 65 a moderate level of living for a retired couple or single person. As shown in Table A5, the allowance increases with the age of the older parent (as reported on the FAFSA) to indicate the cost of purchasing such an annuity at a given age. Discretionary net worth may be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **parents' contribution from assets**, which represents the portion of parental assets considered available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

▼ *Calculation of parents' contribution.* This is the final step in determining the parents' contribution. The parents' available income and contribution from assets are added together to determine the parents' adjusted available income, which can be a negative number. The total parents' contribution from adjusted available income is calculated from the amounts and rates in Table A6 and is the total amount parents are expected to contribute toward all of their family's postsecondary educational costs. The rates in Table A6 increase from 22% to 47% as the adjusted available income increases. This is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases and the portion available for discretionary purposes increases. Therefore, a progressively larger amount of income may be contributed toward postsecondary educational costs.

The parents' contribution for the individual student is calculated by dividing the total parents' contribution from adjusted available income by the number in college in 2007–08, as reported on the FAFSA. Parents are not included in the number attending college.

Student's contribution from income

To determine the student's contribution from income, the student's available income (AI) is first calculated by subtracting total allowances from the student's total income. The AI is then assessed at a rate of 50% to obtain the student contribution from available income. If the student contribution from available income is less than zero, it's set to zero.

As with the parents' income information, the student's total income is calculated using information from the student's FAFSA. The student's total income is the sum of the student's taxable and untaxed income, minus amounts reported in the income but excluded from the formula (see Chapter 2 for more on these exclusions). If the student is a taxfiler, the student's AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student is not a taxfiler, the calculation uses the student's reported income earned from work. Total income may be a negative number.

The allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.
- **State and other tax allowance.** Use Table A7. This allowance is a percentage of the student's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the parents' state of legal residence is used. If all three items are blank or invalid, the rate for a blank or invalid state in Table A7 is used (3%). If the allowance is a negative amount, it's set to zero.
- **Social Security tax allowance.** The student's Social Security taxes are calculated by applying the rates shown in Table A2 to the student's income earned from work in 2006 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** The income protection allowance for a dependent student is \$3,000.
- **Parent's negative AAI.** To recognize that a student's income may be needed to help support the family, the EFC calculation allows a parent's negative adjusted available income (AAI) to reduce a dependent student's contribution from income. Because the student's contribution from income cannot be negative, this will not affect the student's contribution from assets.

Student's contribution from assets

The student's assets are treated the same way as the parents' assets with three differences: there is no adjustment to the net worth of a

business or farm, there is no education savings and asset protection allowance, and net worth is assessed at the rate of 20%. Remember that under the simplified formula there is no student contribution from assets.

The student's net worth is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Then, the student's net worth is multiplied by the conversion rate of 20% to obtain the student's contribution from assets, which represents the portion of the value of student's assets that may be considered available to help pay for the student's postsecondary education.

Formula for independent students without dependents other than a spouse

- **Contribution from available income**
- **Contribution from assets**

Alternate EFCs for other than nine-month enrollment

The standard parents' contribution is for a nine-month enrollment period. For a shorter period, the parents' contribution is prorated according to the number of months of enrollment. The student's contribution from available income is also prorated and then added to the student asset contribution, which is not prorated. For an enrollment of more than nine months, the parents' contribution is calculated by adjusting the standard nine-month formula on page 3 of Worksheet A of the EFC worksheets, and the student's contribution remains at the nine-month amount.

FORMULA B — INDEPENDENT STUDENT WITHOUT DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student without dependents other than a spouse is calculated using the FAFSA information for the student and spouse. The CPS calculates a contribution from available income and a contribution from assets. The sum of these two is divided by the number in college in 2007–08, as reported on the FAFSA. The result is the EFC for the 2007–08 award period. Under the simplified formula, the contribution from assets isn't used.

Worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse are at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Contribution from available income

To determine the student's contribution from available income, the student's available income is first calculated by subtracting total allowances from the student's total income. The allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number. The available income is then assessed at a rate of 50% to obtain the student's contribution from available income.

▼ *Total income.* The total income is the sum of the student's and her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 2 for more on these exclusions). If the student and spouse are taxfilers, their AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Untaxed income is included in the formula because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student or spouse are taxfilers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.
- **State and other tax allowance.** Use Table B1. This allowance is a percentage of the student and spouse's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (3%). If the allowance is a negative amount, it's set to zero.
- **Social Security tax allowance.** The student and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table B2 to the student's income earned from work in 2006 and the spouse's income earned from work in 2006 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** The income protection allowance for an unmarried student is \$6,050. For a married student, the income protection allowance is \$6,050 if the student's spouse is enrolled at least half time, and \$9,700 if the student's spouse isn't enrolled at least half time.
- **Employment expense allowance.** Families with two working spouses have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. If the student isn't married, the employment expense allowance is zero. If the student is married but only one person is working (either the student or the student's spouse), the allowance is zero. If both the student and his spouse are working, the allowance is 35% of the lesser of the student's income earned from work (question 38) or the

spouse's income earned from work (question 39), but may not exceed \$3,200.

Contribution from assets

For students who qualify for the simplified formula, there is no contribution from assets. In the full formula, the assets of an independent student with no dependents other than a spouse are considered in order to fully measure the family's ability to contribute toward postsecondary educational costs.

First, the **net worth** of the student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table B3 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table B4) from the net worth. The allowance increases with the age of the student as of December 31, 2007, which may be determined from the student's date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 20% to obtain the student and spouse's contribution from assets, which represents the portion of the value of the assets that is considered available to help pay for the student's college education. If the contribution from assets is less than zero, it's set to zero.

Alternate EFCs for other than nine-month enrollment

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.

FORMULA C — INDEPENDENT STUDENT WITH DEPENDENTS OTHER THAN A SPOUSE

The EFC for an independent student with dependents other than a spouse is calculated using the information for the student and spouse provided on the FAFSA. The formula is almost the same as the formula for the parents of a dependent student. There are three basic steps. First, the student's available income is determined. Then, the student's contribution from assets is calculated. Finally, the EFC is calculated using the available income, the contribution from assets, and the number in college.

Worksheets and tables that can be used to calculate the EFC for an independent student with dependents other than a spouse are given at the end of this chapter. For those items that are taken from the

Formula for independent student with dependents other than a spouse

- Available income
- Contribution from Assets
- Calculation of the student's EFC

FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

Available income

Available income is calculated by subtracting certain allowances from the student's total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

▼ *Student's total income.* The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see Chapter 2 for more information on these exclusions). If the student and spouse are taxfilers, AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student and spouse are taxfilers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.
- **State and other tax allowance.** Use Table C1. This allowance is a percentage of the total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the total income is below \$15,000 or is \$15,000 or more. The state to be used is the student's state of legal residence reported on the FAFSA. If this item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (3% for total income below \$15,000; 2% for total income of \$15,000 or more). If the allowance is a negative amount, it's set to zero.
- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table C2 to the student's income earned from work and the spouse's income earned from work in 2006 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** Use Table C3. This allowance provides for the basic living expenses of a family. It varies

according to the number in the student’s household and the number in college in 2007–08, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as “IPA”).

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. When both the student and spouse work, the allowance is 35% of the lesser of the student’s income earned from work (question 38) or the spouse’s income earned from work (question 39), but may not exceed \$3,200. If the student isn’t married, the allowance is 35% of the student’s income earned from work, or \$3,200, whichever is less. If a student is married and only the student *or* the spouse (but not both) reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

Contribution from assets

In the full formula, the assets of an independent student with dependents other than a spouse are considered in order to fully measure the family’s ability to contribute toward postsecondary educational costs. The formula determines a “contribution from assets,” an amount that is combined with available income to give an accurate picture of the family’s financial strengths. In the simplified formula, the assets aren’t counted at all.

First, the **net worth** of a student and spouse’s assets is calculated by adding assets reported on the FAFSA. The net worth of a business or farm is adjusted to protect a portion of these assets. Use Table C4 to calculate the amount to be used.

Second, the student and spouse’s **discretionary net worth** is calculated by subtracting the asset protection allowance (Table C5) from the net worth. The allowance increases with the age of the student as of December 31, 2007, which may be determined from the student’s date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by 7% to obtain the **contribution from assets**, which is the portion of the value of the student’s and spouse’s assets considered to be available to help pay for the student’s postsecondary education. If the contribution from assets is less than zero, it is set to zero.

Calculation of student's EFC

This is the final step in determining the EFC for the independent student with dependents other than a spouse. The available income and the contribution from assets are added together to obtain the adjusted available income. The adjusted available income can be a negative number. The total contribution from adjusted available income is calculated from using Table C6. This is the total amount the student's family is expected to contribute toward family postsecondary educational costs. The rates in Table C6 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. The larger the income, the easier it is for a family to contribute toward postsecondary educational costs with less effect on the maintenance of the family.

The EFC is calculated by dividing the total student's contribution from adjusted available income by the number in college in 2007–08, as reported on the FAFSA. The result is the EFC for the 2007–08 award period.

Alternate EFCs for other than nine-month enrollment

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.

2007-2008 EFC FORMULA A: DEPENDENT STUDENT

PARENTS' INCOME IN 2006	
1. Parents' Adjusted Gross Income (FAFSA/SAR #79) If negative, enter zero.	
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #82)	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #83) +	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #84)	
• Total from FAFSA Worksheet B (FAFSA/SAR #85) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #86)	-
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2006 U.S. income tax paid (FAFSA/SAR #80) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table A1) If negative, enter zero.	+
10. Father's/stepfather's Social Security tax allowance (Table A2)	+
11. Mother's/stepmother's Social Security tax allowance (Table A2)	+
12. Income protection allowance (Table A3)	+
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or \$3,200, whichever is less	
• One-parent families: 35% of earned income, or \$3,200, whichever is less	
• Two-parent families, one working parent: enter zero	+
14. TOTAL ALLOWANCES	=

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14)	-
15. AVAILABLE INCOME (AI) May be a negative number.	=

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #87)	
17. Net worth of investments** (FAFSA/SAR #88) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #89) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.)	+
20. Net worth (sum of lines 16, 17, and 19)	=
21. Education savings and asset protection allowance (Table A5)	-
22. Discretionary net worth (line 20 minus line 21)	=
23. Asset conversion rate	× .12
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	=

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24)	+
25. Adjusted Available Income (AAI) May be a negative number.	=
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2007-2008 (Exclude parents) (FAFSA/SAR #67)	÷
28. PARENTS' CONTRIBUTION (standard contribution for nine month enrollment)*** If negative, enter zero.	=

**Do not include the family's home.

***To calculate the parents' contribution for other than nine month enrollment, see page 11.

*STOP HERE if the following are true: line 3 is \$20,000 or less and either the parents are eligible to file a 2006 IRS Form 1040A or 1040EZ (they are not required to file a 2006 Form 1040), or they are not required to file any income tax return, or anyone included in the parents' household size (as defined on the FAFSA) received benefits during the base year from any of the designated means-tested Federal benefit programs. If these circumstances are true, the Expected Family Contribution is automatically zero.

continued on the next page

STUDENT'S INCOME IN 2006

29. Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.		
30. Income earned from work (FAFSA/SAR #38)		
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)		
32. Untaxed income and benefits: Total from FAFSA Worksheet A (FAFSA/SAR#40) _____ Total from FAFSA Worksheet B (FAFSA/SAR#41) + _____ Total untaxed income and benefits =		
33. Taxable and untaxed income (sum of line 31 and line 32)		
34. Total from FAFSA Worksheet C (FAFSA/SAR#42)	-	
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT INCOME

36. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.		
37. State and other tax allowance (Table A7) If negative, enter zero.	+	
38. Social Security tax allowance (Table A2)	+	
39. Income protection allowance	+	3,000
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+	
41. TOTAL ALLOWANCES	=	

STUDENT'S CONTRIBUTION FROM INCOME

Total income (from line 35)		
Total allowances (from line 41)	-	
42. Available income (AI)	=	
43. Assessment of AI	×	.50
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=	

STUDENT'S CONTRIBUTION FROM ASSETS

45. Cash, savings & checking (FAFSA/SAR #43)		
46. Net worth of investments* (FAFSA/SAR#44) If negative, enter zero.		
47. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	+	
48. Net worth (sum of lines 45 through 47)	=	
49. Assessment rate	×	.20
50. STUDENT'S CONTRIBUTION FROM ASSETS	=	

EXPECTED FAMILY CONTRIBUTION

PARENTS' CONTRIBUTION (from line 28)		
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+	
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+	
51. EXPECTED FAMILY CONTRIBUTION (standard contribution for nine month enrollment)** If negative, enter zero.	=	

*Do not include the student's home.

**To calculate the EFC for other than nine month enrollment,
see the next page.

Note: Use this additional page to prorate the EFC only if the student will be enrolled for other than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG or a National Smart Grant. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the nine month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Parents' Contribution for a Student Enrolled LESS than Nine Months		
A1. Parents' contribution (standard contribution for nine month enrollment, from line 28)		
A2. Divide by 9	÷	9
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	×	
A5. Parents' contribution for LESS than nine month enrollment	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than Nine Months		
B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	4,150
B3. Alternate parents' AAI for more than nine month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #67)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for nine month enrollment (from line 28)	-	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	12
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	×	
B12. Adjustment to parents' contribution for months that exceed nine (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for nine month enrollment (from line 28)	+	
B14. Parents' contribution for MORE than nine month enrollment	=	

Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS than Nine Months*		
C1. Student's contribution from AI (standard contribution for nine month enrollment, from line 44)		
C2. Divide by 9	÷	9
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	×	
C5. Student's contribution from AI for LESS than nine month enrollment	=	

*For students enrolled more than nine months, the standard contribution from AI is used (the amount from line 44).

Use next page to calculate total EFC for enrollment periods other than nine months

Calculation of Total Expected Family Contribution for Periods of Enrollment Other than Nine Months

Parents' Contribution—use ONE appropriate amount from previous page: • Enter amount from line A5 for enrollment periods less than nine months OR • Enter amount from line B14 for enrollment periods greater than nine months		
Student's Contribution from Available Income—use ONE appropriate amount from previous page: • Enter amount from line C5 for enrollment periods less than nine months OR • Enter amount from line 44 for enrollment periods greater than nine months	+	
Student's Contribution from Assets • Enter amount from line 50	+	
Expected Family Contribution for periods of enrollment other than nine months	=	

2007-2008 EFC FORMULA A: DEPENDENT STUDENT

PARENTS' INCOME IN 2006	
1. Parents' Adjusted Gross Income (FAFSA/SAR #79) If negative, enter zero.	
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #82)	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #83) +	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #84)	
• Total from FAFSA Worksheet B (FAFSA/SAR #85) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #86)	-
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2006 U.S. income tax paid (FAFSA/SAR #80) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table A1) If negative, enter zero.	+
10. Father's/stepfather's Social Security tax allowance (Table A2)	+
11. Mother's/stepmother's Social Security tax allowance (Table A2)	+
12. Income protection allowance (Table A3)	+
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or \$3,200, whichever is less	
• One-parent families: 35% of earned income, or \$3,200, whichever is less	
• Two-parent families, one working parent: enter zero	+
14. TOTAL ALLOWANCES	=

*STOP HERE if the following are true: line 3 is \$20,000 or less and either the parents are eligible to file a 2006 IRS Form 1040A or 1040EZ (they are not required to file a 2006 Form 1040), or they are not required to file any income tax return, or anyone included in the parents' household size (as defined on the FAFSA) received benefits during the base year from any of the designated means-tested Federal benefit programs. If these circumstances are true, the Expected Family Contribution is automatically zero.

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14)	-
15. AVAILABLE INCOME (AI) May be a negative number.	=

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #87)	
17. Net worth of investments** (FAFSA/SAR #88) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #89) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.)	+
20. Net worth (sum of lines 16, 17, and 19)	=
21. Education savings and asset protection allowance (Table A5)	-
22. Discretionary net worth (line 20 minus line 21)	=
23. Asset conversion rate	×
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	=

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24)	+
25. Adjusted Available Income (AAI) May be a negative number.	=
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2007-2008 (Exclude parents) (FAFSA/SAR #67)	÷
28. PARENTS' CONTRIBUTION (standard contribution for nine month enrollment)*** If negative, enter zero.	=

**Do not include the family's home.

***To calculate the parents' contribution for other than nine month enrollment, see page 15.

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

continued on the next page

STUDENT'S INCOME IN 2006

29. Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.		
30. Income earned from work (FAFSA/SAR #38)		
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)		
32. Untaxed income and benefits:		
Total from FAFSA Worksheet A (FAFSA/SAR#40)		
Total from FAFSA Worksheet B (FAFSA/SAR#41)	+	
Total untaxed income and benefits	=	
33. Taxable and untaxed income (sum of line 31 and line 32)		
34. Total from FAFSA Worksheet C (FAFSA/SAR#42)	-	
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=	

ALLOWANCES AGAINST STUDENT INCOME

36. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.		
37. State and other tax allowance (Table A7) If negative, enter zero.	+	
38. Social Security tax allowance (Table A2)	+	
39. Income protection allowance	+	3,000
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+	
41. TOTAL ALLOWANCES	=	

STUDENT'S CONTRIBUTION FROM INCOME

TOTAL INCOME (from line 35)		
TOTAL ALLOWANCES (from line 41)	-	
42. Available income (AI)	=	
43. Assessment of AI	×	.50
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=	

STUDENT'S CONTRIBUTION FROM ASSETS

45. Cash, savings & checking (FAFSA/SAR #43)	+	
46. Net worth of investments* (FAFSA/SAR#44) If negative, enter zero.		
47. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	+	
48. Net worth (sum of lines 45 through 47)	=	
49. Assessment rate	×	.20
50. STUDENT'S CONTRIBUTION FROM ASSETS	=	

EXPECTED FAMILY CONTRIBUTION

PARENTS' CONTRIBUTION (from line 28)		
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+	
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+	
51. EXPECTED FAMILY CONTRIBUTION standard contribution for nine month enrollment. If negative, enter zero.**	=	

*Do not include the student's home.

**To calculate the EFC for other than nine month enrollment,
see the next page.

**Note: Do not complete the shaded areas;
asset information is not required in the
simplified formula.**

Note: Use this additional page to prorate the EFC only if the student will be enrolled for other than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG or a National Smart Grant. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the nine month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Parents' Contribution for a Student Enrolled LESS than Nine Months

A1. Parents' contribution (standard contribution for nine month enrollment, from line 28)		
A2. Divide by 9	÷	9
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	×	
A5. Parents' contribution for LESS than nine month enrollment	=	

Calculation of Parents' Contribution for a Student Enrolled MORE than Nine Months

B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	4,150
B3. Alternate parents' AAI for more than nine month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #67)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for nine month enrollment (from line 28)	-	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	12
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	×	
B12. Adjustment to parents' contribution for months that exceed nine (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for nine month enrollment (from line 28)	+	
B14. Parents' contribution for MORE than nine month enrollment	=	

Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS than Nine Months*

C1. Student's contribution from AI (standard contribution for nine month enrollment, from line 44)		
C2. Divide by 9	÷	9
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	×	
C5. Student's contribution from AI for LESS than nine month enrollment	=	

*For students enrolled more than nine months, the standard contribution from AI is used (the amount from line 44).

Use next page to calculate total EFC for enrollment periods other than nine months

Calculation of Total Expected Family Contribution for Periods of Enrollment Other than Nine Months

<p>Parents' Contribution—use ONE appropriate amount from previous page:</p> <ul style="list-style-type: none"> • Enter amount from line A5 for enrollment periods less than nine months OR • Enter amount from line B14 for enrollment periods greater than nine months 	
<p>Student's Contribution from Available Income—use ONE appropriate amount from previous page:</p> <ul style="list-style-type: none"> • Enter amount from line C5 for enrollment periods less than nine months OR • Enter amount from line 44 for enrollment periods greater than nine months 	+
<p>Expected Family Contribution for periods of enrollment other than nine months</p>	=

Table A1: State and Other Tax Allowance

for EFC Formula Worksheet A (parents only)

STATE	PERCENT OF TOTAL INCOME		STATE	PERCENT OF TOTAL INCOME	
	\$0-\$14,999	\$15,000 or more		\$0-\$14,999	\$15,000 or more
Alabama	3%	2%	Missouri	5%	4%
Alaska	2%	1%	Montana	5%	4%
American Samoa	3%	2%	Nebraska	5%	4%
Arizona	4%	3%	Nevada	2%	1%
Arkansas	4%	3%	New Hampshire	4%	3%
California	7%	6%	New Jersey	8%	7%
Canada and Canadian			New Mexico	4%	3%
Provinces	3%	2%	New York	8%	7%
Colorado	4%	3%	North Carolina	6%	5%
Connecticut	7%	6%	North Dakota	2%	1%
Delaware	4%	3%	Northern Mariana		
District of Columbia	7%	6%	Islands	3%	2%
Federated States			Ohio	6%	5%
of Micronesia	3%	2%	Oklahoma	4%	3%
Florida	2%	1%	Oregon	8%	7%
Georgia	5%	4%	Palau	3%	2%
Guam	3%	2%	Pennsylvania	5%	4%
Hawaii	4%	3%	Puerto Rico	3%	2%
Idaho	5%	4%	Rhode Island	7%	6%
Illinois	5%	4%	South Carolina	5%	4%
Indiana	4%	3%	South Dakota	1%	0%
Iowa	5%	4%	Tennessee	1%	0%
Kansas	5%	4%	Texas	2%	1%
Kentucky	5%	4%	Utah	5%	4%
Louisiana	2%	1%	Vermont	6%	5%
Maine	6%	5%	Virgin Islands	3%	2%
Marshall Islands	3%	2%	Virginia	5%	4%
Maryland	7%	6%	Washington	2%	1%
Massachusetts	6%	5%	West Virginia	3%	2%
Mexico	3%	2%	Wisconsin	7%	6%
Michigan	5%	4%	Wyoming	1%	0%
Minnesota	6%	5%	Blank or Invalid		
Mississippi	3%	2%	State	3%	2%
			OTHER	3%	2%

Multiply Parents' Total Income (EFC Formula Worksheet A, line 7) by the appropriate rate from the table above to get the "State and Other Tax Allowance" (EFC Formula Worksheet A, line 9). Use the parents' State of Legal Residence (FAFSA/SAR #68). If this item is blank or invalid, use the student's State of Legal Residence (FAFSA/SAR #18). If both items are blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If all three items are blank or invalid, use the rate for a blank or invalid state above.

Table A2: Social Security Tax

Calculate separately the Social Security tax of father, mother, and student.

Income Earned from Work*	Social Security Tax
\$0 - \$94,200	7.65% of income
\$94,201 or greater	\$7,206.30 + 1.45% of amount over \$94,200

*Father's/stepfather's 2006 income earned from work is FAFSA/SAR #82.
 Mother's/stepmother's 2006 income earned from work is FAFSA/SAR #83.
 Student's 2006 income earned from work is FAFSA/SAR #38.
 Social Security tax will never be less than zero.

Table A3: Income Protection Allowance

Number in parents' household, including student (FAFSA/SAR #66)	Number of college students in household (FAFSA/SAR #67)				
	1	2	3	4	5
2	\$15,000	\$12,430	—	—	—
3	18,680	16,130	\$13,560	—	—
4	23,070	20,510	17,950	\$15,390	—
5	27,220	24,660	22,100	19,540	\$16,980
6	31,840	29,280	26,720	24,160	21,600

Note: For each additional family member, add \$3,590.
 For each additional college student (except parents), subtract \$2,550.

Table A4: Business/Farm Net Worth Adjustment

for EFC Formula Worksheet A (parents only)

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than \$1	\$0
\$1 to \$105,000	40% of net worth of business/farm
\$105,001 to \$320,000	\$ 42,000 + 50% of net worth over \$105,000
\$320,001 to \$535,000	\$149,500 + 60% of net worth over \$320,000
\$535,001 or more	\$278,500 + 100% of net worth over \$535,000

Table A5: Education Savings and Asset Protection Allowance

for EFC Formula Worksheet A (parents only)

<i>Age of older parent as of 12/31/2007*</i>	Allowance if there are two parents	Allowance if there is only one parent	<i>Age of older parent as of 12/31/2007*</i>	Allowance if there are two parents	Allowance if there is only one parent
25 or less ...	\$0	\$0	45	\$43,100	\$17,500
26	2,500	1,000	46	44,200	17,900
27	5,100	2,100	47	45,300	18,300
28	7,600	3,100	48	46,400	18,800
29	10,200	4,200	49	47,600	19,200
30	12,700	5,200	50	48,700	19,700
31	15,200	6,300	51	50,200	20,100
32	17,800	7,300	52	51,500	20,500
33	20,300	8,400	53	53,000	21,000
34	22,900	9,400	54	54,300	21,600
35	25,400	10,500	55	55,900	22,100
36	27,900	11,500	56	57,300	22,700
37	30,500	12,600	57	59,000	23,200
38	33,000	13,600	58	60,700	23,900
39	35,600	14,700	59	62,500	24,400
40	38,100	15,700	60	64,300	25,100
41	39,100	16,100	61	66,200	25,700
42	40,100	16,400	62	68,100	26,400
43	41,100	16,800	63	70,400	27,200
44	42,100	17,200	64	72,400	27,900
			65 or over ..	74,800	28,700

*Determine the age of the older parent listed in FAFSA/SAR #61 and #65 as of 12/31/07.
If no parent date of birth is provided, use age 45.

Table A6: Parents' Contribution from AAI

If parents' AAI is—	The parents' contribution from AAI is—
Less than -\$3,409	-\$750
-\$3,409 to \$13,400	22% of AAI
\$13,401 to \$16,800	\$2,948 + 25% of AAI over \$13,400
\$16,801 to \$20,200	\$3,798 + 29% of AAI over \$16,800
\$20,201 to \$23,700	\$4,784 + 34% of AAI over \$20,200
\$23,701 to \$27,100	\$5,974 + 40% of AAI over \$23,700
\$27,101 or more	\$7,334 + 47% of AAI over \$27,100

Table A7: State and Other Tax Allowance
for EFC Formula Worksheet A (student only)

Alabama	2%	Missouri	3%
Alaska	0%	Montana	3%
American Samoa	3%	Nebraska	3%
Arizona	2%	Nevada	1%
Arkansas	3%	New Hampshire	1%
California	4%	New Jersey	4%
Canada and Canadian		New Mexico	3%
Provinces	3%	New York	5%
Colorado	3%	North Carolina	4%
Connecticut	4%	North Dakota	1%
Delaware	3%	Northern Mariana Islands	3%
District of Columbia	6%	Ohio	4%
Federated States		Oklahoma	3%
of Micronesia	3%	Oregon	5%
Florida	0%	Palau	3%
Georgia	3%	Pennsylvania	3%
Guam	3%	Puerto Rico	3%
Hawaii	3%	Rhode Island	4%
Idaho	3%	South Carolina	3%
Illinois	2%	South Dakota	0%
Indiana	2%	Tennessee	0%
Iowa	3%	Texas	0%
Kansas	3%	Utah	3%
Kentucky	4%	Vermont	3%
Louisiana	2%	Virgin Islands	3%
Maine	3%	Virginia	3%
Marshall Islands	3%	Washington	0%
Maryland	5%	West Virginia	2%
Massachusetts	4%	Wisconsin	4%
Mexico	3%	Wyoming	0%
Michigan	3%	Blank or Invalid State	3%
Minnesota	4%	OTHER	3%
Mississippi	2%		

Multiply the student's total income (EFC Formula Worksheet A, line 35) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet A, line 37). Use the student's *state of legal residence* (FAFSA/SAR #18). If this item is blank or invalid, use the *state* in the student's mailing address (FAFSA/SAR #6). If both items are blank or invalid, use the parents' *state of legal residence* (FAFSA/SAR #68). If all three items are blank or invalid, use the rate for a blank or invalid state above.

2007-2008 EFC FORMULA B: INDEPENDENT STUDENT
Without Dependent(s) Other than a Spouse

STUDENT/SPOUSE INCOME IN 2006	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.	
2. a. Student's income earned from work (FAFSA/SAR#38)	
2. b. Spouse's income earned from work (FAFSA/SAR#39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR#40)	
• Total from FAFSA Worksheet B (FAFSA/SAR#41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42)	-
7. TOTAL INCOME (line 5 minus line 6) May be a negative number.	=

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table B1) If negative, enter zero.	+
10. Student's Social Security tax (Table B2)	+
11. Spouse's Social Security tax (Table B2)	+
12. Income protection allowance:	
• \$6,050 for unmarried or separated student;	
• \$6,050 for married student if spouse is enrolled at least 1/2 time;	
• \$9,700 for married student if spouse is not enrolled at least 1/2 time.	+
13. Employment expense allowance:	
• If student is not married or is separated, the allowance is zero.	
• If student is married but only one person is working (the student or spouse), the allowance is zero.	
• If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or \$3,200, whichever is less.	+
14. TOTAL ALLOWANCES	=

CONTRIBUTION FROM AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14)	-
15. AVAILABLE INCOME (AI)	=
16. Assessment rate	× .50
17. CONTRIBUTION FROM AI May be a negative number.	=

STUDENT/SPOUSE'S CONTRIBUTION FROM ASSETS	
18. Cash, savings & checking (FAFSA/SAR #43)	
19. Net worth of investments* (FAFSA/SAR#44) If negative, enter zero.	
20. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	
21. Adjusted net worth of business/farm (Calculate using Table B3.)	+
22. Net worth (sum of lines 18, 19, and 21)	=
23. Asset protection allowance (Table B4)	-
24. Discretionary net worth (line 22 minus line 23)	=
25. Asset conversion rate	× .20
26. CONTRIBUTION FROM ASSETS If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
CONTRIBUTION FROM AI (from line 17) May be a negative number.	
CONTRIBUTION FROM ASSETS (from line 26)	+
27. Contribution from AI and assets	=
28. Number in college in 2007-2008 (FAFSA/SAR#91)	÷
29. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.**	=

*Do not include the student's home.

**To calculate the EFC for less than nine month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 29 above).

Note: Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG or a National Smart Grant. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the nine month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine month enrollment, from line 29)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine month enrollment*	=	

*Substitute the student's EFC for less than nine month enrollment in place of the EFC for the standard nine month enrollment (EFC Formula Worksheet B, line 29).

2007-2008 EFC FORMULA **B: INDEPENDENT STUDENT**
Without Dependent(s) Other than a Spouse

STUDENT/SPOUSE INCOME IN 2006	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.	
2. a. Student's income earned from work (FAFSA/SAR#38)	
2. b. Spouse's income earned from work (FAFSA/SAR#39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR#40)	
• Total from FAFSA Worksheet B (FAFSA/SAR#41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42) -	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table B1) If negative, enter zero. +	
10. Student's Social Security tax (Table B2) +	
11. Spouse's Social Security tax (Table B2) +	
12. Income protection allowance:	
• \$6,050 for unmarried or separated student;	
• \$6,050 for married student if spouse is enrolled at least 1/2 time;	
• \$9,700 for married student if only the student is enrolled at least 1/2 time. +	
13. Employment expense allowance:	
• If student is not married or is separated, the allowance is zero.	
• If student is married but only one person is working (the student or spouse), the allowance is zero.	
• If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or \$3,200, whichever is less. +	
14. TOTAL ALLOWANCES =	

CONTRIBUTION FROM AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) -	
15. AVAILABLE INCOME (AI) =	
16. Assessment rate ×	.50
17. CONTRIBUTION FROM AI = May be a negative number.	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
18. Cash, savings & checking (FAFSA/SAR #43)	
19. Net worth of investments* (FAFSA/SAR#44) If negative, enter zero.	
20. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	
21. Adjusted net worth of business/farm (Calculate using Table B3.) +	
22. Net worth (sum of lines 18, 19, and 21) =	
23. Asset protection allowance (Table B4) -	
24. Discretionary net worth (line 22 minus line 23) =	
25. Asset conversion rate ×	.20
26. CONTRIBUTION FROM ASSETS = If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
CONTRIBUTION FROM AI (from line 17) May be a negative number.	
CONTRIBUTION FROM ASSETS (from line 26) +	
27. Contribution from AI and assets =	
28. Number in college in 2007-2008 (FAFSA/SAR#91) ÷	
29. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.** =	

*Do not include the student's home.

**To calculate the EFC for less than nine month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 29 above).

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

Note: Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG or a National Smart Grant. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the nine month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine month enrollment, from line 29)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine month enrollment*	=	

*Substitute the student's EFC for less than nine month enrollment in place of the EFC for the standard nine month enrollment (EFC Formula Worksheet B, line 29.)

Table B1: State and Other Tax Allowance

Alabama	2%	Missouri	3%
Alaska	0%	Montana	3%
American Samoa	3%	Nebraska	3%
Arizona	2%	Nevada	1%
Arkansas	3%	New Hampshire	1%
California	4%	New Jersey	4%
Canada and Canadian Provinces	3%	New Mexico	3%
Colorado	3%	New York	5%
Connecticut	4%	North Carolina	4%
Delaware	3%	North Dakota	1%
District of Columbia	6%	Northern Mariana Islands	3%
Federated States of Micronesia	3%	Ohio	4%
Florida	0%	Oklahoma	3%
Georgia	3%	Oregon	5%
Guam	3%	Palau	3%
Hawaii	3%	Pennsylvania	3%
Idaho	3%	Puerto Rico	3%
Illinois	2%	Rhode Island	4%
Indiana	2%	South Carolina	3%
Iowa	3%	South Dakota	0%
Kansas	3%	Tennessee	0%
Kentucky	4%	Texas	0%
Louisiana	2%	Utah	3%
Maine	3%	Vermont	3%
Marshall Islands	3%	Virgin Islands	3%
Maryland	5%	Virginia	3%
Massachusetts	4%	Washington	0%
Mexico	3%	West Virginia	2%
Michigan	3%	Wisconsin	4%
Minnesota	4%	Wyoming	0%
Mississippi	2%	Blank or Invalid State	3%
		OTHER	3%

Multiply the total income of student and spouse (EFC Formula Worksheet B, line 7) by the appropriate rate from the table above to get the “state and other tax allowance” (EFC Formula Worksheet B, line 9). Use the student’s State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student’s Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use rate for blank or invalid state above.

Table B2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work*	Social Security Tax
\$0 - \$94,200	7.65% of income
\$94,201 or greater	\$7,206.30 + 1.45% of amount over \$94,200

*Student's 2006 income earned from work is FAFSA/SAR #38.

Spouse's 2006 income earned from work is FAFSA/SAR #39.

Social Security tax will never be less than zero.

Table B3: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than \$1	\$0
\$1 to \$105,000	40% of net worth of business/farm
\$105,001 to \$320,000	\$ 42,000 + 50% of net worth over \$105,000
\$320,001 to \$535,000	\$149,500 + 60% of net worth over \$320,000
\$535,001 or more	\$278,500 + 100% of net worth over \$535,000

**Table B4
Asset Protection Allowance**

Age of student as of 12/31/07*	Allowance for—	
	Married Student	Unmarried Student
25 or less....	\$0	\$0
26	2,500	1,000
27	5,100	2,100
28	7,600	3,100
29	10,200	4,200
30	12,700	5,200
31	15,200	6,300
32	17,800	7,300
33	20,300	8,400
34	22,900	9,400
35	25,400	10,500
36	27,900	11,500
37	30,500	12,600
38	33,000	13,600
39	35,600	14,700
40	38,100	15,700
41	39,100	16,100
42	40,100	16,400
43	41,100	16,800
44	42,100	17,200
45	43,100	17,500
46	44,200	17,900
47	45,300	18,300
48	46,400	18,800
49	47,600	19,200
50	48,700	19,700
51	50,200	20,100
52	51,500	20,500
53	53,000	21,000
54	54,300	21,600
55	55,900	22,100
56	57,300	22,700
57	59,000	23,200
58	60,700	23,900
59	62,500	24,400
60	64,300	25,100
61	66,200	25,700
62	68,100	26,400
63	70,400	27,200
64	72,400	27,900
65 or over ..	74,800	28,700

*Determine student's age as of 12/31/07 from student's date of birth (FAFSA/SAR #9).

2007-2008 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other than a Spouse



STUDENT/SPOUSE INCOME IN 2006	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.	
2. a. Student's income earned from work (FAFSA/SAR#38)	
2. b. Spouse's income earned from work (FAFSA/SAR#39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR#40)	
• Total from FAFSA Worksheet B (FAFSA/SAR#41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42) -	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table C1) If negative, enter zero. +	
10. Student's Social Security tax (Table C2) +	
11. Spouse's Social Security tax (Table C2) +	
12. Income protection allowance (Table C3) +	
13. Employment expense allowance:	
• Student and spouse both working: 35% of the lesser of the earned incomes, or \$3,200, whichever is less	
• One-parent families: 35% of earned income, or \$3,200, whichever is less	
• Student or spouse working (not both): zero +	
14. TOTAL ALLOWANCES =	

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) -	
15. AVAILABLE INCOME (AI) May be a negative number. =	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #43)	
17. Net worth of investments** (FAFSA/SAR#44) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table C4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Asset protection allowance (Table C5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	.07
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24) +	
25. Adjusted Available Income (AAI) May be a negative number. =	
26. Total contribution from AAI (Calculate using Table C6.) If negative, enter zero.	
27. Number in college in 2007-2008 (FAFSA/SAR#91) ÷	
28. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.***	

**Do not include the student's home.

***To calculate the EFC for less than nine month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 28 above).

*STOP HERE if the following are true: line 3 is \$20,000 or less and either the student (and the student's spouse, if any) are eligible to file a 2006 IRS Form 1040A or 1040EZ (they are not required to file a 2006 Form 1040), or they are not required to file any income tax return, or anyone included in the student's household size (as defined on the FAFSA) received benefits during the base year from any of the designated means-tested Federal benefit programs. If these circumstances are true, the student's Expected Family Contribution is automatically zero.

Note: Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG or a National Smart Grant. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the nine month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine month enrollment, from line 28)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	×	
Expected Family Contribution for less than nine month enrollment*	=	

*Substitute the student's EFC for less than nine month enrollment in place of the EFC for the standard nine month enrollment (EFC Formula Worksheet C, line 28).

2007-2008 EFC FORMULA C: INDEPENDENT STUDENT
With Dependent(s) Other than a Spouse



STUDENT/SPOUSE INCOME IN 2006	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) If negative, enter zero.	
2. a. Student's income earned from work (FAFSA/SAR#38)	
2. b. Spouse's income earned from work (FAFSA/SAR#39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR#40)	
• Total from FAFSA Worksheet B (FAFSA/SAR#41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42) -	
7. TOTAL INCOME (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2006 U.S. income tax paid (FAFSA/SAR #36) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table C1) If negative, enter zero. +	
10. Student's Social Security tax (Table C2) +	
11. Spouse's Social Security tax (Table C2) +	
12. Income protection allowance (Table C3) +	
13. Employment expense allowance:	
• Student and spouse both working: 35% of the lesser of the earned incomes, or \$3,200, whichever is less	
• One-parent families: 35% of earned income, or \$3,200, whichever is less	
• Student or spouse working (not both): zero +	
14. TOTAL ALLOWANCES =	

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14) -	
15. AVAILABLE INCOME (AI) May be a negative number. =	

STUDENT/SPOUSE'S CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #43)	
17. Net worth of investments** (FAFSA/SAR#44) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table C4.) +	
20. Net worth (sum of lines 16, 17, and 19) =	
21. Asset protection allowance (Table C5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate ×	
24. CONTRIBUTION FROM ASSETS If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTIONS FROM ASSETS (from line 24) +	
25. Adjusted available income (AAI) May be a negative number. =	
26. Total contribution from AAI (Calculate using Table C6.) If negative, enter zero.	
27. Number in college in 2007-2008 (FAFSA/SAR#91) ÷	
28. EXPECTED FAMILY CONTRIBUTION for nine month enrollment. If negative, enter zero.***	

**Do not include the student's home.

***To calculate the EFC for less than nine month enrollment, see the next page. If the student is enrolled for more than nine months, use the nine-month EFC (line 28 above).

Note: Do not complete the shaded areas; asset information is not required in the simplified formula.

*STOP HERE if the following are true: line 3 is \$20,000 or less and either the student (and the student's spouse, if any) are eligible to file a 2006 IRS Form 1040A or 1040EZ (they are not required to file a 2006 Form 1040), or they are not required to file any income tax return, or anyone included in the student's household (as defined on the FAFSA) received benefits during the base year from any of the designated means-tested Federal benefit programs. If these circumstances are true, the student's Expected Family Contribution is automatically zero.

Note: Use this additional page to prorate the EFC only if the student will be enrolled for less than nine months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, a subsidized Federal Direct Stafford/Ford Loan, an ACG or a National Smart Grant. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the nine month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Expected Family Contribution for a Student Enrolled for Less than Nine Months		
Expected Family Contribution (standard contribution for nine month enrollment, from line 28)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months enrollment	×	
Expected Family Contribution for less than nine month enrollment*	=	

*Substitute the student's EFC for less than nine month enrollment in place of the EFC for the standard nine month enrollment (EFC Formula Worksheet C, line 28).

Table C1: State and Other Tax Allowance

STATE	PERCENT OF TOTAL INCOME		STATE	PERCENT OF TOTAL INCOME	
	\$0-\$14,999	\$15,000 or more		\$0-\$14,999	\$15,000 or more
Alabama	3%	2%	Missouri	5%	4%
Alaska	2%	1%	Montana	5%	4%
American Samoa	3%	2%	Nebraska	5%	4%
Arizona	4%	3%	Nevada	2%	1%
Arkansas	4%	3%	New Hampshire	4%	3%
California	7%	6%	New Jersey	8%	7%
Canada and Canadian			New Mexico	4%	3%
Provinces	3%	2%	New York	8%	7%
Colorado	4%	3%	North Carolina	6%	5%
Connecticut	7%	6%	North Dakota	2%	1%
Delaware	4%	3%	Northern Mariana		
District of Columbia	7%	6%	Islands	3%	2%
Federated States			Ohio	6%	5%
of Micronesia	3%	2%	Oklahoma	4%	3%
Florida	2%	1%	Oregon	8%	7%
Georgia	5%	4%	Palau	3%	2%
Guam	3%	2%	Pennsylvania	5%	4%
Hawaii	4%	3%	Puerto Rico	3%	2%
Idaho	5%	4%	Rhode Island	7%	6%
Illinois	5%	4%	South Carolina	5%	4%
Indiana	4%	3%	South Dakota	1%	0%
Iowa	5%	4%	Tennessee	1%	0%
Kansas	5%	4%	Texas	2%	1%
Kentucky	5%	4%	Utah	5%	4%
Louisiana	2%	1%	Vermont	6%	5%
Maine	6%	5%	Virgin Islands	3%	2%
Marshall Islands	3%	2%	Virginia	5%	4%
Maryland	7%	6%	Washington	2%	1%
Massachusetts	6%	5%	West Virginia	3%	2%
Mexico	3%	2%	Wisconsin	7%	6%
Michigan	5%	4%	Wyoming	1%	0%
Minnesota	6%	5%	Blank or Invalid		
Mississippi	3%	2%	State	3%	2%
			OTHER	3%	2%

Multiply the total income of student and spouse (EFC Formula Worksheet C, line 7) by the appropriate rate from the table above to get the “state and other tax allowance” (EFC Formula Worksheet C, line 9). Use the student’s State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student’s Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use the rate for blank or invalid state above.

Table C2: Social Security Tax

Calculate separately the Social Security tax of student and spouse.

Income Earned from Work*	Social Security Tax
\$0 - \$94,200	7.65% of income
\$94,201 or greater	\$7,206.30 + 1.45% of amount over \$94,200

*Student's 2006 income earned from work is FAFSA/SAR #38.
 Spouse's 2006 income earned from work is FAFSA/SAR #39.
 Social Security tax will never be less than zero.

Table C3: Income Protection Allowance

Number in student's household, including student (FAFSA/SAR #90)	Number of college students in household (FAFSA/SAR #91)				
	1	2	3	4	5
2	\$15,320	\$12,700	—	—	—
3	19,070	16,470	\$13,850	—	—
4	23,560	20,940	18,330	\$15,710	—
5	27,800	25,170	22,570	19,950	\$17,340
6	32,510	29,890	27,290	24,660	22,060

Note: For each additional family member, add \$3,670.
 For each additional college student, subtract \$2,610.

Table C4: Business/Farm Net Worth Adjustment

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than \$1	\$0
\$1 to \$105,000	40% of net worth of business/farm
\$105,001 to \$320,000	\$ 42,000 + 50% of net worth over \$105,000
\$320,001 to \$535,000	\$149,500 + 60% of net worth over \$320,000
\$535,001 or more	\$278,500 + 100% of net worth over \$535,000

Table C5: Asset Protection Allowance

Age of student as of 12/31/07*	Allowance for—		Age of student as of 12/31/07*	Allowance for—	
	Married Student	Unmarried Student		Married Student	Unmarried Student
25 or less..	\$0	\$0	45	\$43,100	\$17,500
26	2,500	1,000	46	44,200	17,900
27	5,100	2,100	47	45,300	18,300
28	7,600	3,100	48	46,400	18,800
29	10,200	4,200	49	47,600	19,200
30	12,700	5,200	50	48,700	19,700
31	15,200	6,300	51	50,200	20,100
32	17,800	7,300	52	51,500	20,500
33	20,300	8,400	53	53,000	21,000
34	22,900	9,400	54	54,300	21,600
35	25,400	10,500	55	55,900	22,100
36	27,900	11,500	56	57,300	22,700
37	30,500	12,600	57	59,000	23,200
38	33,000	13,600	58	60,700	23,900
39	35,600	14,700	59	62,500	24,400
40	38,100	15,700	60	64,300	25,100
41	39,100	16,100	61	66,200	25,700
42	40,100	16,400	62	68,100	26,400
43	41,100	16,800	63	70,400	27,200
44	42,100	17,200	64	72,400	27,900
			65 or over ..	74,800	28,700

*Determine student's age as of 12/31/07 from student's date of birth (FAFSA/SAR #9)

Table C6: Contribution from AAI

If student's AAI is—	The student's contribution from AAI is—
Less than -\$3,409	-\$750
-\$3,409 to \$13,400	22% of AAI
\$13,401 to \$16,800	\$2,948 + 25% of AAI over \$13,400
\$16,801 to \$20,200	\$3,798 + 29% of AAI over \$16,800
\$20,201 to \$23,700	\$4,784 + 34% of AAI over \$20,200
\$23,701 to \$27,100	\$5,974 + 40% of AAI over \$23,700
\$27,101 or more	\$7,334 + 47% of AAI over \$27,100

Notes

Because students sometimes make errors on their application, colleges have procedures for verifying the reported information. The regulations include this verification as part of the FSA program requirements. The Department only requires that a portion of the FAFSA filers at your school be verified, as selected by the Central Processing System. However, you also have the authority—and may be required—to verify additional students.

Verification concerns applicants for most FSA programs, but it isn't required if the student will only receive a parent or graduate PLUS loan or an unsubsidized Stafford loan, because these loans are not based on the EFC. However, a student can't avoid verification by choosing to borrow an unsubsidized loan instead of a subsidized loan. If he tries to do this, the school is to continue with verification.

REQUIRED POLICIES

Your school must have written policies and procedures on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- a method of notifying students of award changes due to verification,
- required correction procedures for students, and
- standard procedures for referring overpayment cases to the Department.

Additionally, the school must give each applicant selected for verification a written statement explaining the following:

- **Documents required for verification.**
- **Student responsibilities**—including correction procedures, the deadlines for completing any actions required, and the consequences of missing the deadlines.
- **Notification methods**—how your school will notify a student if her award changes as a result of verification, and the time frame for such notification.

Required Verification Items:

34 CFR 668.56

1. Household size
2. Number in college
3. Adjusted gross income (AGI)
4. U.S. taxes paid
5. Certain types of untaxed income and benefits:
 - Social Security benefits
 - Child support
 - IRA/Keogh deductions
 - Foreign income exclusion
 - Earned income credit
 - Interest on tax-free bonds
6. All other untaxed income included on the U.S. income tax return, excluding information on the schedules

Verification regulations

34 CFR 668, Subpart E

Required policies—34 CFR 668.53

Online verification assessment module

<http://ifap.ed.gov/qahome/qaassessments/fsaverification.html>

Quality Assurance Program

Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to FSA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including some verification requirements, though they are not exempt from resolving conflicting information. The QA Program provides QA schools with an alternative management approach to develop verification that fits their population. Currently, QA schools use the ISIR Analysis (IA) Tool to analyze the effectiveness of their institutional verification program. The tool shows which application elements changed when verified and reveals the impact that those changes have on the EFC. This tool is available to all schools on the main menu of FAA Access to CPS Online. See Volume 2: School Eligibility and Operations for more information.

APPLICATIONS TO BE VERIFIED

Applications are selected for verification either by the CPS or by the school. Under certain circumstances, a CPS-selected application may be excluded from required verification (see “30% Verification Option” and “Verification Exclusions” below).

Students’ output documents show if their application was chosen by the CPS: the verification flag, which is in the *Financial Aid Office Use Only* section with the match flag results, will have a value of “Y.” Also, next to the EFC will be an asterisk referring to a comment in the student section of page 1 that tells applicants they will be asked by their schools to provide copies of certain financial documents.

A school must verify any application information that it has reason to believe is incorrect [34 CFR 668.54(a)(3)] or discrepant [34 CFR 668.16(f)]. Students with these applications are considered to be selected for verification by the school even though it may not be verifying the same data as for CPS-selected applications.

The school may also select additional applications for verification beyond those required, and in these cases the school decides which items to verify: it can choose any that must be verified on CPS-selected applications, or it can choose different items.

Regardless of whether the CPS or the school selected the application for verification, all other verification requirements, such as deadlines and allowable tolerances and interim disbursement rules, apply equally to all students who are being verified.

If you want to learn more about verification results, you can use the ISIR Analysis Tool, which provides a variety of reports and analyses using current Web technology. The reports it generates can help you identify potentially faulty applications that discretionary verification or the CPS edits might be missing. They can also help you develop discretionary verification edits that focus on student changes that affect the EFC and Pell eligibility. See “Program Integrity” in the *School Eligibility and Operations* volume.

30% Verification option

34 CFR 668.54(a)(2)

30% Verification option

A school must verify all applications the CPS selects for verification, up to 30% of the school’s total number of federal aid applicants. The school may choose to verify more than 30%, and if the CPS selects less than that, the school isn’t required to reach 30%; it is not a quota. Applications a school selects and those with conflicting information don’t count toward the 30% level.

Schools have the flexibility to define “applicant.” For example, it can be anyone who applies to the school (i.e., they need not be enrolled), anyone who is enrolled, or, even more narrowly, anyone enrolled who is also eligible to receive an aid award. Whatever definition your school uses, the students you count toward the 30% limit must meet that definition.

30% Verification Examples

Bennet College has 1,000 applicants for federal student aid. The CPS selected 475 of the applications for verification. Bennet also selected 100 other applications based on its own criteria. To meet the 30% level, Bennet needs to verify at least 300 applications from the 475 the CPS selected; the 100 Bennet selected don't count toward the 30% requirement.

Brust Conservatory has 1,000 applicants for federal student aid, and the CPS selected 289 of the applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants, but it does not have to select 11 more applications to reach 30%.

Benoit Institute has 1,000 applicants for federal student aid, of which the CPS selected 300 for verification. Also, the school identified 40 additional applications as having conflicting information that Benoit must resolve. However, because the resolution of conflicting information is separate from CPS-selected verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more than 30% of the total applicants for federal student aid.

The verification tracking flag on the ISIR uses a four-digit number to prioritize applicants—the higher the number, the greater the potential for significant error. If you use the 30% option, this field will help you rank and choose applications for verification that potentially have the most significant mistakes.

Verification exclusions

A selected application may be exempt from some or all of the verification requirements due to unusual circumstances. Except in the case of the student's death, however, none of these exemptions excuse the school from the requirement to resolve conflicting information.

→ **Incarceration.** A selected application does not have to be verified if the student is in jail or prison at the time of verification.

→ **Recent immigrant.** A selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 2007 or 2008.

→ **Spouse unavailable.** A school isn't required to verify spousal information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.
- The spouse is residing in a country other than the United States and can't be contacted by normal means.
- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

You should document the basis for the exclusion. Because this exemption only applies to the spouse's data, the application must still be verified according to all other requirements.

Verification exclusions

34 CFR 668.54(b)

In addition to unsubsidized Stafford Loans and PLUS Loans, verification is not required—

- for Stafford Loans (subsidized or unsubsidized) received for study at eligible foreign schools.
- for the Leveraging Educational Assistance Partnership (LEAP) and SLEAP (Special LEAP) Programs.
- for the Robert C. Byrd Honors Scholarship Program.

Also note that schools participating in the Quality Assurance Program can develop verification procedures different than those specified in the FSA regulations.

Immigrant example

Hector arrives in the United States in February 2007 and begins attending Guerrero University in September 2007. His 2007–08 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2007 calendar year.

Spouse unavailable example

Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

→ *Parents unavailable.* You don't have to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated. (If both parents are dead, the student is an orphan and thus is an independent student. If the parents die after the student has applied, the student must update his or her dependency status, as discussed in Chapter 5.)
- The parents are residing in a country other than the United States and can't be contacted by normal means.
- The parents can't be located because their address is unknown, and the student can't obtain it.

→ *Death of the student.* If you make an interim disbursement during verification and the student dies before it is completed, you don't have to continue verification to justify the first disbursement. You can't make any additional disbursements, except for FWS funds already earned, to any of the student's beneficiaries. You cannot originate a Direct loan, certify a FFEL, or deliver proceeds from either one for the student's beneficiaries. For more information see Chapter 2 of Volume 5.

→ *Applicant verified by another school.* You don't have to verify the selected application of a student who completed verification for the current award year at another school before transferring. However, to document a student's eligibility for this exclusion, you must get a letter from the school that completed the verification. The letter must include:

- a statement that the student's application data have been verified,
- the transaction number of the verified application, **and**
- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 89).

→ *Pacific Island resident.* You don't have to verify the selected application of a student who is either

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands, or
- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

To qualify for this exclusion, a dependent student's parents must also meet the same criteria. As documentation, you should note the permanent mailing address in the student's file.

→*Not an aid recipient.* You don't have to verify a student who won't receive FSA for reasons other than his failure to complete verification. This category includes students ineligible for aid from the FSA programs and those who withdraw without receiving aid.

REQUIRED VERIFICATION ITEMS

If the CPS selects an application for verification, you must verify five major data elements:

- household size,
- number enrolled in college,
- adjusted gross income (AGI),
- U.S. income tax paid, and
- certain untaxed income and benefits.

In addition to verifying these required items for CPS-selected students, you can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies. You may decide which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General documentation requirements and the verification worksheets

The following sections describe the documentation that a student is required to provide for each data item. To help you collect most of the necessary documentation, this chapter includes the 2007–08 verification worksheets developed by the Department. You may reproduce as many as you need, and master copies are also available on the IFAP website at www.ifap.ed.gov. When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents, you will usually have enough information to complete verification.

However, you're not required to use the verification worksheets. Your school may use its own worksheet or none at all. You may require other documentation in addition to or instead of a completed verification worksheet. The chart on the next page shows other forms of acceptable documentation for each required verification item.

If you require students to complete verification worksheets, you must provide the appropriate (dependent or independent) worksheets to the selected students. You should remind your students that they must submit the completed worksheet and copies of the relevant income tax returns or alternative documents to your financial aid office, not to the Department of Education.

Required verification items

34 CFR 668.56(a)

Timing of signature

Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification—they can't be collected after the verification deadline for that award year.

Verification following disasters

Dear Colleague Letter GEN-04-04 gives general guidance for when federally-declared disasters affect the awarding of aid. The DCL states that the Secretary will not enforce the verification requirements during the award year for applicants whose records were lost or destroyed because of a disaster. The school must document when it does not perform verification for this reason and use status code "S" when reporting the disbursement of Pell grants to affected students.

HEROES Act modifications

The Higher Education Relief Opportunities for Students (HEROES) Act provides for the modification and waiving of some statutory and regulatory provisions related to students who receive financial aid and who are on active duty during a war or other military operation or who reside or are employed in a declared disaster area. These adjustments apply to return of funds and signature requirements for verification and application, among other things. These waivers and modifications were extended, so they now expire on September 30, 2007. For all the details on the Act and a list of the eligible students, see pages 69312–69318 of the Federal Register dated December 12, 2003. The extension appeared in the October 20, 2005, Federal Register on page 61037.

Household size documentation and exceptions

Student assistance general provisions
34 CFR 668.57(b)
34 CFR 668.56(a)(3), (b), (c)

When you receive the student’s submission, you should make sure that the worksheet is signed, that all required sections are completed, and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies (such as photocopies, faxes, digital images) of worksheets, tax returns, or other documents are acceptable. Unless specifically noted in this chapter, a signature on a copy is as valid as an original signature (i.e., a handwritten or “wet” signature). After checking the documentation against the student’s application data, you may either disburse the student’s award or make the necessary corrections and updates. (See “After documentation is complete,” page 88.)

Household size

Steps 4 and 5 in Chapter 2 discuss household size. If the student completed the Department’s verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and, for dependent students, at least one of the parents) listing the names of the household members, their ages, and their relationship to the student.

You don’t have to verify household size if any of the following apply:

- it’s the same as reported and verified in the previous award year.
- you receive the student’s ISIR or SAR within 90 days after the date the application was signed.
- for a dependent student, the household size reported for married parents is three—or two if the parent is single, divorced, separated, or widowed.
- the household size reported for a married independent student is two—or one if the student is single, divorced, separated, or widowed.

Number in college—documentation and exceptions

Student assistance general provisions
34 CFR 668.57(c)
34 CFR 668.56(a)(4), (b), (d)





Number enrolled in college

If the student completes the Department’s verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and at least one of the student’s parents, for dependent students). The statement can be combined with the statement verifying household size and should include the names and ages of those enrolled and the names of the schools they plan to attend. If you have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and schools listed. (If other students in the family haven’t enrolled yet, documentation from the other schools may not be available.)

You don’t have to verify the number enrolled in college if any of the following conditions apply:

- the reported number enrolled is one (the student only).

Acceptable Documentation

	<i>Verification Worksheet & Tax Return(s)</i>	<i>Other Documentation in lieu of Worksheet or Tax Return (see the text for details)</i>
<i>Household Size</i>		Signed statement
<i>Number Enrolled</i>		Signed statement or institutional certification
<i>AGI & Taxes Paid</i>		IRS tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or a signed statement
<i>Untaxed Income & Benefits</i>		Signed statement or official agency documentation

- you receive the student’s ISIR or SAR within 90 days after the date the application was signed.
- the family members the student lists are enrolled at least half time at your school, and you have confirmed their enrollment through your school’s own records.

Adjusted gross income (AGI) and U.S. income tax paid

You can usually verify AGI and U.S. income tax paid by getting a copy of the signed U.S. income tax return. The tax documents needed for verification may depend on the filing method—electronic or paper. Documents must have the signatures (or preparer’s stamp or other official validation) and data required for verification. If all necessary data are not present, the student must provide additional documentation as described in this section.

To verify AGI and taxes paid, you must first identify everyone whose financial data was reported on the FAFSA and which tax returns, if any, they filed. You must check the tax returns for anyone whose financial data were reported on the FAFSA: the student and his spouse or parents if applicable. They should have reported on the FAFSA either what tax return they filed or that they were not required to file a return. The type of form reported on the FAFSA should match what the student and parents actually filed.

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see “Using a joint return to figure individual

AGI and income tax documentation

34 CFR 668.57(a)

FAFSA tax return questions

For students, the tax return questions are 32-34 on the FAFSA. For parents, the tax return questions are 70-72.

Tax documents: special situations and alternatives

There are certain situations, such as when the student filed a tax return electronically or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

Electronic filing (e-file)

The IRS e-file program comprises two electronic filing methods. The taxfiler can go to an e-file provider who will send the return to the IRS, or he can use taxfiling software on a home computer for submission to the IRS. The filer should always receive a paper copy of the return in some format. Software used on a home computer may allow the taxfiler to print out a standard 1040, 1040A, or 1040EZ form that contains the information that was filed electronically. The e-file provider might print out a copy of the return using its own format. Any of these paper copies of the return are acceptable documentation for verification as long as they are signed by at least one of the taxfilers. (When an electronic tax return is filed, the filer also submits IRS Form 8453, which doesn't have enough information and can't be used for verification.)

Returns in the e-file provider's format might not contain every line item, showing instead only the data the taxfiler provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means no taxable interest income was reported.

Non-filers

An AGI figure won't be available for someone who isn't required to file a tax return. A non-filer would instead report on the FAFSA income earned from work, which includes any income reported on the individual's W-2 forms plus any other earnings from work not reported on those forms. Even if no taxes were paid on this income earned from work, it should not be reported as untaxed income on the FAFSA.

A properly completed federal verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each non-filer a signed statement certifying his or her non-filer status and listing the sources and amounts of income.

Financial aid professionals are not expected to have special knowledge or expertise regarding the U.S. tax code. If someone whose data were required on the FAFSA submits a signed statement claiming non-filer status and you have reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more on conflicting information, see Chapter 5.) For example, in such a case, you might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the claim to nonfiler status. Conflicting information must be resolved before you can disburse federal student aid.

Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax returns should have been filed and must be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school shall accept as alternative documentation copies of the W-2 forms, and, as proof that the IRS has granted a filing extension, either a copy of IRS Form 4868—Application for Automatic Extension of Time to File U.S. Individual Income Tax Return (automatically grants the taxpayer a six-month extension beyond the April 15 deadline) or a copy of the IRS approval of an extension beyond the automatic six-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When you receive the completed tax returns, you may use them to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the deadline for verification is ineligible for FSA funds and is required to repay any aid disbursed. Regardless of whether the student

repays the aid, your school is liable for any interim disbursement it made (see Interim Disbursements on page 88).

Fiscal year tax returns

For a fiscal year return, as opposed to one for the calendar year, the student should report the AGI and U.S. income tax paid from the return that includes the greater number of months in the base year (see Chapter 2 for an example). Accordingly, you should use the tax return from that fiscal year for verification purposes.

Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

Foreign income

As noted in Step 2 in Chapter 2, information from non-IRS tax returns would be reported on the FAFSA, with the value of the foreign income and taxes reported in U.S. dollars, using the exchange rate at the time of application. For verification purposes, these returns would be considered equivalent to an IRS Form 1040. If the student (or the student's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

If a tax return isn't available

If a copy of the tax return is not available, the student must instead submit a copy of any IRS form that lists tax information and provides the information needed for verification. The form must be signed by the student unless the IRS sent the form directly to the school.

A common form is the tax transcript. A student can order one by calling the IRS at 1-800-829-1040 and following the directions below or by completing and mailing Form 4506-T, Request for Transcript of Tax Return. If the transcript does not have as much financial information as the tax return, the student may have to provide additional documents to complete verification.

If the IRS can't provide a copy of the return or any form with tax account information, you must get a copy of the W-2 unless the filer is self-employed or a W-2 is otherwise unavailable; in those cases you can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

Obtaining a tax transcript or a copy of a return

If a person wants a copy of a return, she must complete and mail a Form 4506; if she wants a tax transcript, she can either submit a Form 4506-T or she can call 1-800-829-1040 and use the automated system to request one. The steps in the automated system are generally: choose the option for "personal tax account," enter the SSN or EIN, choose "transcripts," enter the numbers of one's street address, and enter the year of the return requested.

Citations: 34 CFR 668.57(a)(4)(i)
34 CFR 668.57(a)(2)
34 CFR 668.57(a)(4)(ii), (a)(5)

AGI and taxes paid,” page 86). If the figures don’t match, a correction may be needed, as discussed later in this chapter. For more information on how specific types and special categories of income should be reported on the FAFSA, see Chapter 2.

The chart on page 85 shows the tax form line numbers for the most commonly reported items. This chart is a reference only; it is not a list of all the items the school must check on a tax return.

For verification purposes, you can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. You can accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer’s signature. And you can also accept an electronic copy of the return that has been electronically signed by the person to whom the document belongs, provided your school’s process for accepting an electronic signature complies with the E-Sign Act. But a signature on Form 8879, the IRS e-file Signature Authorization, is not an acceptable substitute for a signature on the tax return.

Instead of a return the filer has signed, you may accept a paper return on which the tax preparer has stamped, typed, signed, or printed her name (not the name of her company) and her SSN, EIN (Employer Identification Number), or PTIN (Preparer Tax Identification Number). You may also accept a copy of an IRS form with tax information that the IRS mailed directly to your school (otherwise at least one of the filers must sign the form). Documents from electronic returns must be signed by the filer as explained on page 82. In some cases you can waive the requirement for spouse information and signatures (see “Verification exclusions,” page 77).

Untaxed income and benefits

The term “untaxed income” means any income excluded from federal income taxation under the IRS code. For an application selected for verification, you must verify up to six specific types of untaxed income and benefits:

- Social Security benefits,
- child support,
- IRA/Keogh deductions,
- foreign income exclusion,
- earned income credit, and
- interest on tax-free bonds.

In addition to these types of untaxed income and benefits, you must verify all other untaxed income reported on the U.S. individual

income tax return (excluding schedules). Chapter 2 discusses the untaxed income and benefits that must be reported on the FAFSA.

Except for Social Security benefits and child support, the required items can be verified using the tax return or alternative tax documents. Non-filers should submit a signed statement confirming that they did not file a tax return and listing the amount and specific sources of untaxed income and benefits by name.

You're not required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis of a financial need assessment. Also, "in-kind" income (see Chapter 2) is not reported on the FAFSA and does not have to be verified.

✓ *Verifying untaxed Social Security benefits*

You're not required to verify Social Security benefits **unless** you have reason to believe that benefits were not reported or were reported incorrectly. If you believe verification is necessary, you can accept the following:

- documentation from the Social Security Administration showing the total amount of benefits received by the student, the student's spouse, or a dependent student's parents, or
- a statement signed by the student (and spouse or parent) certifying that the amount of Social Security benefits reported on the application is correct.

✓ *Verifying child support received*

You must verify child support if the student, student's spouse, or student's parents report receiving it, or if you have reason to believe it was received. Child support doesn't have to be verified if the amount reported is the same amount that was verified in the previous year.

Tip for verifying Social Security benefits

Be sure the student reports the total amount (not the monthly amount) of benefits received in the base year—including Supplemental Security Income and benefits received on behalf of dependent children. Also, be sure the benefits were not included in the AGI. Lastly, if you chose to collect a Social Security statement and it shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

34 CFR 668.57(d)(2)

Line items from 2006 tax return

	1040	1040A	1040EZ
AGI	37	21	4
Income Tax Paid	57	35	11
Deductible IRA/SEP	28 plus 32	17	
Earned Income Credit	66a	40a	8a
Tax-Exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	11a minus 11b and 12a minus 12b	

Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary to determine the individual's income and taxes paid using the joint return and the relevant IRS W-2 forms. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Add the income amounts from the individual's W-2 forms to any other income that can be extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer certifying that the data from the joint return were accurately assessed is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

- Tax table (preferred method). Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)
- Proportional distribution. Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage.

Example 1: Calculating individual AGI from joint return example

Eddy's application is selected for verification. He and his wife filed a joint return for 2006 and have since separated. The AGI on Eddy's FAFSA matches the AGI of \$38,000 on the 2006 tax return, which means it's wrong because it includes his wife's income.

Eddy's W-2 shows that his income for 2006 was \$14,900, and the tax return shows \$200 in interest. Because it was interest on a joint savings account, the aid administrator adds \$100 of it to Eddy's income and submits \$15,000 as the corrected income via FAA Access.

Example 2: Calculating individual taxes paid from a joint return

The aid administrator determines that Eddy's part of the \$38,000 AGI he and his wife reported is \$15,000. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children and will claim them as her dependents when she files her tax return for 2007. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling \$6,100. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is \$7,000 (instead of the \$9,500 for married filers). Eddy's income of \$15,000 minus the \$6,100 for exemptions and the \$7,000 standard deduction results in \$1,900 in taxable income.

The aid administrator uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of \$1,900, the amount of tax paid from the tax schedule would be \$191.

To use the proportional distribution method instead, the aid administrator figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (15,000 divided by 38,000 is .3947). The aid administrator then multiplies the income tax paid as reported on the tax return (\$1,323 for this example) by this percentage. Therefore, Eddy's income tax paid would be \$516 (.39 x \$1,323).

A completed verification worksheet is sufficient to verify child support received. If you don't use the verification worksheet, you must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If you have reason to doubt the statement provided, you should request at least one of the following items:

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- a signed statement from the parent who provided the support showing the amount of child support provided, or
- copies of the canceled checks or money order receipts.

✓ *Verifying deductions for IRA and Keogh plans*

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 28 and 32 of IRS Form 1040 or line 17 of IRS Form 1040A.

✓ *Verifying interest on tax-free bonds*

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

✓ *Verifying foreign income excluded from U.S. taxation*

Excluded foreign income can be verified by using IRS Forms 2555 (line 43) or 2555EZ (line 18). Note that this consists of both the income exclusion and the housing exclusion.

✓ *Verifying earned income credit (EIC)*

The EIC must be reported on the FAFSA and verified, which can be done using line 66a of the 1040, line 41a of the 1040A, or line 8a of the 1040EZ.

COMPLETING THE PROCESS

Unless receiving only PLUS funds or an unsubsidized Stafford loan, a student selected for verification must complete it. You have the authority—and in some instances are required—to withhold disbursement of any FSA funds until she does. Adopting this policy substantially reduces the incidence of overpayments. You can, however, make an interim disbursement before verification is finished. Remember that verification requirements apply to CPS- and school-selected students.

Interim disbursements

You can make an interim disbursement of some Title IV funds before verification is complete **if you have no reason to believe the application information is inaccurate**. The limitations for each program are given below. Your school is liable for an

Child support documentation

34 CFR 668.57(d)(3)

Untaxed income and benefits documentation

34 CFR 668.57(d)

Disbursing unsubsidized and PLUS loans without verification

As already mentioned, verification isn't required for unsubsidized and PLUS loans. Therefore, schools can originate, certify, and disburse unsubsidized and PLUS loans regardless of a student's verification status.

Interim disbursements

34 CFR 668.58

interim disbursement if verification shows the student received an overpayment or if he fails to complete verification.

- ***Pell Grant, Perkins, and FSEOG.*** You can make one disbursement from each of these programs for the student’s first payment period. If you make an interim Pell disbursement, you report the payment with a “W” verification status code. See “Verification status codes” later in this chapter.
- ***Federal Work-Study.*** You can employ a student under FWS for up to 60 *consecutive* days after he enrolls (or in summer employment for up to 60 days). After 60 days, if verification has not been completed, you can’t continue to employ the student under FWS. If you later discover that the student has been overawarded, you should attempt to adjust the student’s other aid. Otherwise, you must reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can’t be required to repay FWS wages earned. (See *Volume 6: Campus-Based Programs.*)
- ***Stafford Loans.*** You can certify a FFEL Stafford loan application or originate a Direct Stafford loan for a student who hasn’t completed verification, but you can’t disburse the loan. See *Volume 4: Processing Aid and Managing FSA Funds* regarding loan disbursements and limits on how long your school can hold loan money before disbursing it or returning it to the lender.

Selection after disbursement

A student’s application might be selected for verification after corrections are submitted and after the student has already been paid based on the previous unselected CPS transaction. (There is a change flag on the ISIR to call attention to this situation.) You must verify his application before making further disbursements. If verification does not justify aid already disbursed, then the student is responsible for repaying all aid for which he is not eligible, though he may keep any Stafford loan money he received and FWS wages he earned. See below for what happens if he fails to complete verification.

After documentation is complete

When you’ve obtained all necessary verification documents from the student, you should compare them to the SAR or ISIR you are reviewing for payment. If all the student’s information is correct and there are no outstanding issues or conflicting information, you may award and disburse aid for which the student is eligible.

If verification reveals errors or inconsistencies, the student may have to make corrections or update information (see Chapter 5).

Verification tolerance

Verification can sometimes uncover minor errors that won’t significantly affect the student’s eligibility, so the regulations provide a tolerance for verification changes.

Example: selection after disbursement

Owen is attending Guerrero University. His application isn’t selected for verification, and he receives aid in the fall. In December, Owen submits a correction on his SAR that causes the ensuing transaction to be selected for verification. The aid administrator at Guerrero tells Owen he needs to submit verification documents if he wants his aid for the spring and if he wants to keep the Pell funds he received for fall, but Owen doesn’t turn in the documents. Owen doesn’t have to repay the Stafford loan he got in the fall, but he does have to return the Pell grant, and Guerrero must cancel his aid package for the spring.

This tolerance is \$400: if the total difference between the incorrect and correct values for certain items is more than \$400, the information must be corrected. To calculate the difference, first add the original (incorrect) AGI and untaxed income amounts. From that sum subtract the original U.S. income tax paid to get the uncorrected total. Do the same for the correct values: add the correct AGI and untaxed income and subtract the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is \$400 or less, the errors are within tolerance; you may award the student aid without submitting a correction or recalculating the EFC. Using the tolerance is optional—you can always have the student submit corrections for reprocessing.

Note that there is no tolerance for errors in nondollar items. If the original application has an error in any nondollar item, such as household size, the student or school must correct it.

Deadlines and failure to submit documentation

A Pell applicant selected for verification must complete the process by the deadline published in the *Federal Register*. As of this writing the notice for 2007–08 has not been published, but the deadline is expected to be September 24, 2008, or 120 days after the last day of the student’s enrollment, whichever is earlier. Campus-based and Stafford loan applicants must complete verification by the same deadline or by an earlier one established by your aid office.

Verification is complete when your school has all the requested documentation. Also, for Pell grants, the student must have corrected any errors or shown that the information is correct, and your school must have his valid correct ISIR or SAR. For Campus-based and Stafford loan funds, you must have an ISIR or SAR with an official EFC that shows the application data were processed through the CPS at least once while the student was enrolled.

If a student fails to provide the required documentation by the deadline:

- Do not disburse additional Pell, FSEOG, or Perkins loan funds to the student.
- Do not continue the student’s employment in an FWS job.
- Do not disburse Stafford loan funds to the student or certify (FFEL) or originate (DL) a Stafford loan application.
- Return to the lender (FFEL) or the Department (DL) any undelivered or undisbursed Stafford loan money.
- If the student already received Pell, FSEOG, or Perkins money in a disbursement prior to being selected for verification, then he must return that money. If he received it as an interim disbursement that you gave while waiting to complete verification, your school is responsible for returning the money to the programs.

Items that must be updated

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see Chapter 5).

Tolerance example

Emma originally reported on her FAFSA an AGI of \$2,500, \$500 in untaxed income, and \$250 U.S. income tax paid. Verification shows that her AGI was actually \$2,800, and she paid \$281 in U.S. income tax.

Original: \$2,500 (AGI) + \$500 (untaxed income) – \$250 (taxes paid) = \$2,750

Corrected: \$2,800 (AGI) + \$500 (untaxed income) – \$281 (taxes paid) = \$3,019

Net Difference: \$269 (\$3,019 – \$2,750)

Because the net difference is within tolerance, the school can award Emma’s aid based on what she originally reported without requiring corrections or recalculation of the EFC.

Failure to submit documentation

Pell Grants—34 CFR 668.60(c)
C-B/Stafford—34 CFR 668.60(b)

Late disbursements

34 CFR 668.164(g)

Late disbursements

Generally a student ceases to be eligible for aid once he has finished the term and is no longer enrolled. However, he may submit verification documentation and receive a late disbursement after that time if the Department processed a SAR or ISIR with an official EFC while he was still enrolled. Also, if there was a change in his EFC due to verification completed after he was enrolled, any Pell grant awarded would be based on the higher EFC. For information regarding *post-withdrawal* disbursements, see Volume 5 of the Handbook.

Verification status codes

When you disburse a Pell grant, you must report through Common Origination and Disbursement (COD) the student's verification status even if he wasn't selected for verification.

V - You have verified the student. This includes students selected by the CPS and those your school chose to verify based on its own criteria.

W - The student was selected for verification by the CPS or your school, and you chose to pay a first disbursement of Pell without documentation. This code must be updated once verification is complete, or COD will reduce the Pell grant to zero.

S - The CPS selected the student for verification, but you did not verify him because you already reached the 30% verification threshold or because your school participates in the Quality Assurance Program and the student's application did not meet your school's verification criteria.

Blank - Report a blank if you have not performed verification because neither the CPS nor your school selected the student.



2007-2008 Verification Worksheet

Federal Student Aid Programs

Dependent

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 2006 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Complete and sign the worksheet—you and at least one parent.
4. Submit the completed worksheet, tax forms, and any other documents your school requests to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You may need to make corrections electronically or by using your SAR.

Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).

A. Student Information

Last name	First name	M.I.	Social Security Number
Address (include apt. no.)			Date of birth
City	State	ZIP code	Phone number (include area code)

B. Family Information

List the people in your parents' household, include:

- yourself and your parent(s) (including stepparent) even if you don't live with your parents, and
- your parents' other children, even if they don't live with your parent(s), if (a) your parents will provide more than half of their support from July 1, 2007 through June 30, 2008, or (b) the children would be required to provide parental information when applying for Federal Student Aid, and
- other people if they now live with your parents, and your parents provide more than half of their support and will continue to provide more than half of their support from July 1, 2007 through June 30, 2008.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half time between July 1, 2007 and June 30, 2008, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Missy Jones (example)	18	Sister	Central University
		Self	

C. Student's Tax Forms and Income Information (all applicants)**Dependent**

1. Check only one box below. Tax returns include the 2006 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or request an Internal Revenue Service form that lists tax account information.

- Check here if you are attaching a signed copy of your tax return.
- Check here if a signed tax return will be submitted to the school by _____ (date).
- Check here if you will not file and are not required to file a 2006 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A&B of the Free Application for Federal Student Aid (FAFSA))

Sources of Untaxed Income	2006 Amount	Sources of Untaxed Income	2006 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If you did not file and are not required to file a 2006 Federal income tax return, list below your employer(s) and any income received in 2006 (use the W-2 form or other earnings statements if available).

Sources	2006 Amount
	\$
	\$
	\$

D. Parent(s)' Tax Forms and Income Information

1. Check only one box below. Tax returns include the 2006 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If your parent(s) did not keep a copy of their tax return, request a copy from the tax preparer or request an Internal Revenue Service form that lists tax account information.

- Check here if you are attaching a signed copy of your parents' tax return(s).
- Check here if a signed tax return(s) will be submitted to the school by _____ (date).
- Check here if your parent(s) will not file and are not required to file a 2006 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A & B of the FAFSA.)

Sources of Untaxed Income	2006 Amount	Sources of Untaxed Income	2006 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If your parent(s) did not file and are not required to file a 2006 Federal income tax return, list below your parent(s)' employer(s) and any income they received in 2006 (use the W-2 form or other earnings statements if available).

Sources	2006 Amount
	\$
	\$
	\$

E. Sign this Worksheet

By signing this worksheet, we certify that all the information reported on it is complete and correct. At least one parent must sign.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

Student _____ Date _____

Parent _____ Date _____

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Make sure that tax forms are signed.



2007-2008 Verification Worksheet

Federal Student Aid Programs

FORM APPROVED
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 2006 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your (and your spouse's) financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Complete and sign the worksheet.
4. Submit the completed worksheet, tax forms, and any other documents your school requests to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You may need to make corrections electronically or by using your SAR. *Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).*

A. Student Information

Last name	First name	M.I.	Social Security Number
Address (include apt. no.)			Date of birth
City	State	ZIP code	Phone number (include area code)

B. Family Information

List the people in your household, include:

- yourself, and your spouse if you have one, and
- your children, if you will provide more than half of their support from July 1, 2007 through June 30, 2008, and
- other people if they now live with you, and you provide more than half of their support and will continue to provide more than half of their support from July 1, 2007 through June 30, 2008.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half time between July 1, 2007 and June 30, 2008, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones (example)	24	Wife	City University
		Self	

C. Student's Tax Forms and Income Information (all applicants)

Independent

1. Check only one of the boxes below. Tax returns include the 2006 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or request an Internal Revenue Service form that lists tax account information.

- Check here if you are attaching a signed copy of your tax return.
- Check here if a signed tax return will be submitted to the school by _____ (date).
- Check here if you will not file and are not required to file a 2006 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Worksheets A & B of the Free Application for Federal Student Aid-FAFSA)

Sources of Untaxed Income	2006 Amount	Sources of Untaxed Income	2006 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If you did not file and are not required to file a 2006 Federal income tax return, list below your employer(s) and any income received in 2006 (use the W-2 form or other earnings statements if available).

Sources	2006 Amount
	\$
	\$
	\$

D. Spouse's Tax Forms and Income Information (if student is married)

1. Check only one box below. Tax returns include the 2006 IRS Form 1040, 1040A, 1040EZ, a tax return from Puerto Rico or a foreign income tax return. If your spouse did not keep a copy of the tax return, request a copy from the tax preparer request an Internal Revenue Service form that lists tax account information.

- Check here you are attaching a signed copy of your spouse's tax return.
- Check here and attach spouse's signed tax return if your spouse filed a separate return.
- Check here if a signed spouse's tax return will be submitted to the school by _____ (date).
- Check here if your spouse will not file and is not required to file a 2006 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Worksheets A & B of the FAFSA)

Sources of Untaxed Income	2006 Amount	Sources of Untaxed Income	2006 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If your spouse did not file and is not required to file a 2006 Federal income tax return, list below your spouse's employer(s) and any income received in 2006 (use the W-2 form or other earnings statements if available).

Sources	2006 Amount
	\$
	\$
	\$

E. Sign this Worksheet

By signing this worksheet, I (we) certify that all the information reported on it is complete and correct. If married, spouse's signature is optional.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

Student Date

Spouse Date

Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.

Corrections, Updates, and Adjustments

There are situations where the original application information may need to be changed: when errors need to be corrected; when dependency status, household size, or number in college must be updated; and when an aid administrator makes an adjustment based on professional judgment. This chapter discusses how to make these changes to application information.

Students and schools can *correct* items that were incorrectly reported on the original FAFSA submission, but because the FAFSA is considered to be a “snapshot” of the family’s financial situation as of the date the application was submitted, only a few answers from the FAFSA can be *updated* to reflect changes after the FAFSA was signed. Also, as an aid administrator you have the discretion to use your professional judgment to *adjust* the student’s reported information to account for special circumstances.

CORRECTING ERRORS

Errors can occur if the student submits the wrong information or if the information she provided was not scanned or entered correctly. In general, your school must have correct data before it can pay the student, which in some cases means that you or the student must submit corrections for reprocessing. However, there are other cases where you can pay the student without waiting for corrections to be reprocessed—for instance, if the aid amount doesn’t change or, for the Campus-based and Stafford/PLUS programs, if you base the award on your recalculation of the EFC. For students selected for verification, there are additional situations where corrections aren’t required (see Chapter 4 of this publication).

Even if the EFC or award amount doesn’t appear to change, corrections must be submitted to the CPS (or otherwise resolve the discrepancy) if the Social Security number is wrong or if there were problems with other application questions that are subject to data matches, such as the citizenship questions.

Options if error doesn’t affect eligibility

If there would be no change to the **Pell Grant**, the student doesn’t have to submit corrections for reprocessing unless something such as a data match item must be changed. When submitting payment information in such a case, you must be sure to use the verified transaction. The rule is similar for the **Campus-based** and **Stafford loan programs**—you can award aid based on the original data if your recalculation of the EFC shows the correction would not change the student’s

TYPES OF CHANGES

Corrections

→ Application errors

Updates

→ Changes to dependency status, household size, or number in college under certain conditions

Professional judgment¹

→ Override dependency status

→ Adjust data elements

¹Aid administrators only

Regulations on corrections and updating

Corrections for Pell Grants

34 CFR 690.14

Verification and updating, interim disbursements, options for payment, etc.
668.55, 668.58-61

Correction if misreported as graduate

Any student who reports on the FAFSA that she is a graduate student can't receive Pell funds. Therefore, a student who incorrectly reported that she is a graduate student must correct that information, even if there are no errors that affect the EFC.

Examples—errors not affecting EFC

Stanislaw reported \$1,000 for cash, savings, and checking accounts, and also reported \$1,000 for the net worth of investments. He reported no other assets. He actually should have reported \$2,500 for the net worth of investments. However, because his asset protection allowance is \$4,700, making the correction won't change his EFC at all. Therefore, he can receive aid from any of the programs without submitting a correction, based on the data he originally reported.

Eric reported an AGI of \$20,000 but forgot to report untaxed income of \$120. Eric's EFC was 846. The FAA at Frisson College determines that making the correction would change Eric's EFC to 874. For an EFC of 846, the scheduled award is \$2,900, as it is for an EFC of 874, so the college can pay Eric's Pell without requiring him to make a correction. When Frisson submits the origination record for Eric, it uses the original EFC of 846. (The college will need to either use its recalculated EFC or submit a correction for aid from the campus-based, Direct Loan, or FFEL programs; see "Options if correction decreases eligibility.")

Correction increases eligibility, Pell grants

34 CFR 668.59(b)(2)(iii)(A)

Verification completed within 120-day period for Pell

34 CFR 668.60(c)(1)

award amount. Of course, for any program you can still require corrections to be submitted for reprocessing.

Options if correction increases eligibility

For Pell Grants, if the scheduled award would increase and if the student completes verification and submits no corrections, you may use the original EFC and grant amount. Otherwise, you must pay the student the increased amount by submitting the corrections to the CPS for reprocessing. If the student was selected for verification, you can make a first payment based on the original EFC and adjust the second payment upon receipt of the reprocessed ISIR/SAR, or you can wait until you receive the new EFC before you pay the student. If the student wasn't selected for verification, you must wait until you receive the reprocessed EFC before making a payment.

There's an important limitation when a student completes verification while no longer enrolled but within the subsequent 120-day period allowed for verification. In such cases you **must always use the higher EFC**, even if it was the original and incorrect EFC (refer to the regulation cited in the margin).

For the Campus-based and Stafford loan programs, if your recalculation shows that the student's eligibility will increase, you can either pay the student based on your recalculation or you or the student can submit a correction and use the new EFC from the CPS. Remember that your school will be liable for any overpayment if your recalculation is incorrect.

Options if correction decreases eligibility

If the student would be eligible for less aid based on the correct information, you can't use the incorrect EFC to award FSA aid.

For Pell Grants, if the scheduled award would decrease, the data must be corrected and submitted to the CPS. You can't make any Pell payments to the student until you receive the new output document.

For the Campus-based and Stafford loan programs, when your recalculation of the EFC shows that the corrections would decrease the student's aid, you can either pay the student based on your recalculation or require the student to submit a correction and use the new EFC from the CPS.

UPDATING

Generally, information that's correct as of the date the application was signed can't be changed. The student can't update income or assets that changed after she signed her FAFSA. For example, if her family sold some stock after she signed a FAFSA and spent the money on a nonreported asset such as a car, she can't update her information to show a change in the family's assets. However, three items—household size, number in college, and dependency status—must be updated in certain circumstances.

Dependency status

A student must update his dependency status any time during the award year unless it changed because his marital status changed. This update is required whether or not he was selected for verification. For the Pell Grant Program, the updated information must be submitted to the CPS for reprocessing. For the Campus-based and Stafford/PLUS loan programs, you can recalculate the student's EFC based on the updated dependency status and use that recalculated EFC. Remember that your school will be liable for any overpayment due to recalculation errors.

Once you've originated or certified a Stafford loan, the DL origination record or FFEL certification record can't be changed to reflect a change in dependency status. However, you can use the updated status and recalculated EFC to originate or certify additional loans if the student qualifies.

Household size and number in college

Unlike dependency status, household size or number in college **cannot** be updated unless the student is selected for verification. If he is selected, these items **must** be updated to be correct at the time of verification unless they changed due to a change in the student's marital status, in which case updating is not permitted.

For Pell Grants, the student doesn't have to submit updated information for reprocessing if the scheduled award will increase or remain the same; you can disburse Pell funds using the original EFC. But in order for the student to get the increased grant amount, the updated information must be submitted to the processor. You can make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed output document, or you can wait until you receive the new EFC before paying the student. If the award will decrease, the updated information must be submitted to the processor. You can't make any payments until you have the new output document with the updated information.

For the Campus-based and Stafford/PLUS programs, you can require the student to submit the updated information for the CPS to recalculate the EFC, or you can recalculate the student's EFC yourself. Remember that your school will be liable for any overpayment due to recalculation errors.

Effect on previous disbursements

If you paid a student based on information that is updated later, you must use the revised EFC to determine the correct award and adjust future disbursements or require a repayment by the student if necessary.

HOW TO SUBMIT CORRECTIONS AND UPDATES

Corrections and updates can be submitted by the student on the SAR or the Web or by the school using FAA Access to CPS Online.

Example: correction increases eligibility

Chris's EFC is 616. He correctly reported his household size of three but incorrectly reported the number in college as one. The FAA at Benoit Institute determines that correcting the number in college to two would change Chris's EFC to 534. This would increase his Pell award by \$100. Benoit can disburse Pell to Chris on the lower scheduled award but not on the higher award unless he sends in a correction and receives a new output document. Benoit could use the recalculated EFC for awarding under the Campus-based, Direct Loan, or FFEL programs without any corrections being submitted.

Example: correction decreases eligibility

On the application, Chavo reported his \$6,000 in income as taxes paid instead of income earned from work. Making the correction will increase Chavo's EFC, so his eligibility will be reduced. Because Chavo will still qualify for a Pell, the FAA at Sarven Technical Institute sends the correction to the CPS for recalculation. Chavo can't receive any Pell payments until Sarven receives the corrected ISIR. However, Sarven could recalculate his EFC and disburse campus-based aid, Direct Loans, or FFELs to Chavo before it receives the corrected data from the CPS.

Parent remarriage after applying

While the applicant does not update household size or number in college because of a change in his marital status, if he is a dependent student and his parent remarries between application and verification, he must update household size to include the new stepparent. However, the student would not count the new stepparent's income and assets. The school could use professional judgment to include the stepparent's income or to otherwise account for the change.

HEA Sec. 475(f)(3)
34 CFR 668.55(b)

Making corrections and updates

Corrections on the Web

www.fafsa.ed.gov

FAA Access to CPS Online

[www.fafsa.ed.gov/FOTWWebApp/](http://www.fafsa.ed.gov/FOTWWebApp/faq/faq.jsp)

[faq/faq.jsp](http://www.fafsa.ed.gov/FOTWWebApp/faq/faq.jsp)

by the school aid office

Student aid report

paper corrections sent by mail

By phone

Change schools listed or student address (DRN required)

Federal Student Aid Information Center (FSAIC)

1-800-4-FED-AID (1-800-433-3243)

Using “Corrections on the Web” (COTW)

Any student who has a PIN—regardless of how he originally applied—may correct any of his own data, except SSN, by using Corrections on the Web, which is one of the features of the FAFSA on the Web site at www.fafsa.ed.gov. If dependent students need to change parental data, a parent must either sign electronically with her own PIN or print out and sign a signature page.

Submitting changes via FAA Access to CPS Online

Your school can submit corrections and updates electronically through FAA Access to CPS Online even if the original application wasn't submitted with that method. If your school isn't listed on the transaction you want to correct, the student will have to give you the DRN printed on the SAR or SAR Acknowledgement so that you can add your school in the next available institution field and then get electronic access to the resulting corrected transaction. If all the fields are filled, the student will have to tell you which school to replace with yours.

If you send a correction or update for a student using FAA Access, you must first have signed documentation from the student and parent. This can be signatures on Part 2 of the SAR, a signed copy of the correction or update, or a signed verification document. Unlike those for the original application, these do not have to be wet signatures. See Chapter 2 for more on signature requirements.

The CPS will process the change, send an ISIR to the school, and send the student a one-page SAR acknowledgement or, if the CPS has her e-mail address, an e-mail with a link to her SAR information on the Web.

Using the Student Aid Report (SAR) to make corrections

Students who received a paper SAR may make corrections or updates on it, then sign and return it to the FAFSA processor at the address given at the end of the SAR (of course, students with PINs can instead use COTW). One parent must also sign if the student is dependent, unless the only corrections are to the institution or housing codes, the address, or telephone number.

If the student applied electronically through a school or received an e-mail link to SAR information on the Web but would like to make corrections with a paper SAR, she can have one mailed to her by calling the FSAIC at 1-800-433-3243 and providing her name, SSN, and date of birth.

Adding schools and changing a student's address

As with other changes, a student can add schools or change her address, e-mail address, or telephone number on the Web or on a paper SAR. But she can also update these items over the phone by calling 1-800-4-FED-AID and providing her DRN. You can submit those changes for her through FAA Access, though, as noted before, if your school was not listed on the student's application, you will need her DRN to add your school.

As of the 2006–07 year, students can no longer add schools by sending a written request to the FAFSA processor.

The FAFSA has limited space for a student to list schools that will receive the application data: four schools can appear on the paper application, six with either FAFSA on the Web or FAA Access. If the student wants information sent to more schools, he can use any of the methods listed above to replace some or all of the original schools. However, the CPS will send data only to six (four on paper) schools at a time for one student. For example, if the student originally listed six schools on the application and then used Corrections on the Web to replace two of the schools originally listed with two new schools, the two schools that were replaced would not receive an ISIR from this correction or any subsequent corrections on which they did not appear.

PROFESSIONAL JUDGMENT

An aid administrator may use professional judgment (PJ), on a case-by-case basis only, to alter the data used to calculate the EFC. The alteration is valid only at the school making it. You submit a PJ change electronically, via FAA Access to CPS Online or third-party software, and you may do it without a signature from the student or parent.

The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate him—not to conditions that exist for a whole class of students. You can also use professional judgment to adjust the student's cost of attendance. You must resolve any inconsistent or conflicting information shown on the output document *before* making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department.

The statute states that nothing within it shall be construed as limiting the authority of aid administrators to make data adjustments for some situations. However, the most recent Reauthorization (1998) gave some examples of special circumstances, such as elementary or secondary school tuition, medical or dental expenses not covered by insurance, unusually high child care costs, recent unemployment of a family member, or other changes in the family's income or assets. Use of professional judgment is neither limited to nor required for the situations mentioned.

Another situation where you might want to use professional judgment involves Roth IRAs. When someone converts a regular IRA into a Roth IRA by transferring funds, the amount converted has to be reported as taxable income on the tax return. So the income reported on the FAFSA will be higher than without the Roth conversion, even though the family doesn't actually have additional income or assets available. You can use professional judgment to reduce the income and taxes paid to the amount that would have been reported if there was no Roth conversion if you think the adjustment is warranted for a student. As with the specific special circumstances listed in the law, you're not required to make an adjustment in this situation.

Corrections by phone limited to processor errors

As we've discussed, a student with a DRN can change his address and school listings by calling the Federal Student Aid Information Center.

Most other corrections can't be made over the phone—they have to be done on the SAR or through COTW or FAA Access. There is only one exception, and that's when the information the student submitted on a paper FAFSA or SAR was not scanned or input correctly.

If a student contacts the FSAIC and an operator can verify by viewing the image file of the document that an answer to an item was not correctly recorded by the FAFSA processor, the operator can correct that error.

The correction will be transmitted to the CPS, a corrected ISIR will be available to the student's schools within 72 hours, and he will receive a corrected SAR in the mail within 10 days. The student doesn't have to sign for this correction because he has already signed the original paper document that has the correct information.

Refusing or reducing a loan

Remember that the discretion of FAAs extends to refusing or reducing FFEL or DL funds as long as the reason is documented and given in written form to the student and is not due to discrimination against the student on the basis of race, national origin, religion, sex, marital status, age, or disability. HEA Sec. 479A(c)

Professional judgment

HEA Sec. 479A(a) IN GENERAL—Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical or dental expenses not covered by insurance, unusually high childcare costs, recent unemployment of a family member, the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 487, or other changes in a family's income, a family's assets or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information.

The law doesn't allow you to modify either the formula or the tables used in the EFC calculation; you can only change the cost of attendance or the values of specific data elements used in the EFC calculation. In addition, you can't adjust data elements or the cost of attendance solely because you believe the tables and formula are not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances. For example, if a family member is ill, you might modify the AGI to allow for lower earnings in the coming year or might adjust assets to indicate that family savings will be spent on medical expenses.

Professional judgment can't be used to waive general student eligibility requirements or to circumvent the intent of the law or regulations. For instance, you cannot use professional judgment to change FSEOG selection criteria. Nor can you include post-enrollment activity expenses in the student's COA. (For example, professional licensing exam fees are not allowable costs.)

Occasionally aid administrators have made decisions contrary to the professional judgment provision's intent. These "unreasonable" judgments have included, for example, the reduction of EFCs based on recurring costs such as vacation expenses, tithing expenses, and standard living expenses (related to utilities, credit card expenses, childrens' allowances, and the like). Aid administrators must make "reasonable" decisions that support the intent of the provision. Your school is held accountable for all professional judgment decisions and for fully documenting each decision.

In making adjustments for unusual expenses, an aid administrator should keep in mind that an income protection allowance (IPA) is already included in the EFC calculation to account for modest living expenses. You should consider whether the expense is already taken into account through the income protection allowance before making an adjustment. It is reasonable to assume that approximately 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA"). See Chapter 3 for tables listing income protection allowances.

If you use professional judgment to adjust a data element, you must use the resulting EFC consistently for all FSA funds awarded to that student. For example, if for awarding the student's Pell grant you adjust a data element that affects the EFC, that new EFC must also be used to determine the student's eligibility for aid from the Campus-based and Stafford loan programs.

CONFLICTING INFORMATION

In addition to reviewing application and data match information from the CPS, a school must have an adequate internal system to identify conflicting information—regardless of the source and regardless of whether the student is selected for verification—that would affect a student’s eligibility, such as information from the admissions office as to whether the student has a high school diploma or information from other offices regarding academic progress and enrollment status. The school must resolve all such conflicting information, except when the student dies during the award year.

If your school has conflicting information concerning a student’s eligibility or you have any reason to believe a student’s application information is incorrect, you **must** resolve the discrepancies before disbursing FSA funds. If you discover discrepancies *after* disbursing FSA funds, you must still reconcile the conflicting information and take appropriate action under the specific program requirements.

Subsequent ISIRs

You are required to review all subsequent transactions for a student for the entire processing year, even if you have already verified an earlier transaction. First determine if the EFC or the “C” flag has changed or if there are new comments or NSLDS information that impacts eligibility for aid. Also check any updates or corrections. If the EFC has not changed and there are no changes in the “C” flag or NSLDS information, generally no action is required. If the EFC does change but it either doesn’t affect the amount and type of aid received or the data elements that changed were already verified, no action is required. But if the EFC changes and the pertinent data elements were not verified, then you must investigate. Of course, any time the “C” flag changes or NSLDS data have been modified, you must resolve any conflicts.

Discrepant tax data

We have already stated that financial aid administrators do not need to be tax experts, yet there are some issues that even a layperson with basic tax law information can evaluate. Because conflicting data often involve such information, FAAs must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. You are obligated to know: (1) whether a person was required to file a tax return, (2) what the correct filing status for a person should be, and (3) that an individual cannot be claimed as an exemption by more than one person.

Publication 17 of the IRS, *Your Federal Income Tax*, is a useful resource for aid administrators. You can view it on the Web at www.irs.gov or you can call the IRS at 1-800-829-3676 to order a copy. It addresses pertinent tax issues on these pages: the filing requirements—i.e., who is required to file a return—are on pages 5–8; the instructions on which form a person should file are on pages 8 and 9; and the filing status requirements are on pages 20–24.

Adjustment example

Kitty’s mother had income earned from work of \$25,000 in 2006 but is no longer employed. After receiving documentation confirming this, the FAA at Bennet College decides to adjust the AGI reported for Kitty’s parents to take into account their reduced income. The FAA also reduces the income earned from work for Kitty’s mother to zero.

IPA percentage example

In 2006 Allen had \$2,250 in medical expenses that weren’t covered by insurance. He’s married and has two children, and he’s the only member of his household in college, so his IPA is \$23,560. Because Allen’s expenses are less than the amount for medical expenses already included in the IPA (11% of \$23,560 is \$2,592), the aid administrator at Sarven Technical Institute does not make an adjustment to Allen’s FAFSA information.

Online review of PJ practices

<http://ifap.ed.gov/qadocs/FSAVeriModule/activity5verif.doc>

Requirement to identify and resolve discrepant information

34 CFR 668.16(f)

Requirement to verify questionable data

34 CFR 668.54(a)(3)

“If an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate, it shall require the applicant to verify the information that it has reason to believe is inaccurate.”

IRS Publication 17

The IRS's Publication 17 is a large document, but so that you won't be daunted by its size, we have included the page numbers you might need to refer to.

For example, an FAA noticing that a dependent student's married parents have each filed as "head of household" (which offers a greater tax deduction than filing as single or married) must question whether that is the correct filing status. Publication 17 explains on pages 22–24 the criteria a person must meet to file as head of household. Resolution of the conflict may be a reasonable explanation of why there appears to be a conflict but is none, or the parents may refile and submit a copy of the amended return.

Online review of conflicting information policies

<http://ifap.ed.gov/qadocs/FSAVeriModule/activity4verif.doc>

Resolution of conflicting information

You may not disburse aid until you have resolved conflicting information, which you must do for any student as long as he is at your school. Even if the conflict concerns a previous award year, you must still investigate it. You have resolved the matter when you have determined which data are correct; this might simply be confirming that an earlier determination was the right one. Of course, you must document your findings in the student's file and explain why, not simply assert that, your decision is justified.

REFERRAL OF FRAUD CASES

If you suspect that a student, employee, or other individual has misreported information or altered documentation to fraudulently obtain federal funds, you should report your suspicions and provide any evidence to the Office of Inspector General. See also Volume 2.

OIG referrals

34 CFR 668.16(g)

OIG Address and Phone Numbers

<i>Regional Offices</i>	<i>Telephone No.</i>	<i>National Hotline</i>
Boston, MA	(617) 223-9301	Inspector General's Hotline Office of Inspector General U.S. Department of Education 400 Maryland Avenue, SW Washington, DC 20202-1510 1-800-MIS-USED E-mail: oig.hotline@ed.gov Web: http://www.ed.gov/about/offices/list/oig/hotline.html
New York, NY	(646) 428-3861	
Philadelphia, PA	(215) 656-6900	
Atlanta, GA	(404) 562-6460	
Chicago, IL	(312) 353-7891	
Dallas, TX	(214) 661-9530	
Kansas City, MO	(816) 268-0530	
Long Beach, CA	(562) 980-4141	
San Juan, PR	(787) 766-6278	
Washington, DC	(202) 245-6911	

Introduction



This volume of the Federal Student Aid Handbook discusses the eligibility requirements for students and parent borrowers and your responsibilities to ensure that recipients qualify for their aid awards.

SOURCES OF INFORMATION

There are many factors that you must consider when reviewing a student's application for aid from the FSA programs, such as whether the student is a U.S. citizen or permanent resident, whether the student is making satisfactory academic progress, and whether the student has a defaulted FSA loan. To answer these questions you receive information about the student from several different sources, including the Department of Education's Central Processing System (CPS) for financial aid applications and the National Student Loan Data System (NSLDS).

Throughout the year the Department provides updates to schools in the form of Dear Partner/Colleague Letters. These letters and other information, such as Federal Register notices and announcements containing system updates and technical guidance, are available on the *Information for Financial Aid Professionals* (IFAP) website (www.ifap.ed.gov).

Schools using software from the Department also receive other materials that explain how the software operates, such as technical references, which are available on the FSA Download website (see the margin). The FSA Handbook doesn't cover the operation of specific pieces of software. Schools using third-party software should consult the vendor's reference materials for technical guidance.

RECENT CHANGES

The biggest change to this volume for 2007–08 is the addition of a new Chapter 6, *ACG and National SMART Grant Eligibility* (the former Chapter 6 became Chapter 7). Two new Title IV grants, the Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (National SMART) Grant, were created as a result of the Higher Education Reconciliation Act of 2005 (HERA), Pub. L. 109-171, enacted on February 8, 2006. Some of the other changes listed below relate to the HERA and some do not.

Program and systems information online

www.fsadownload.ed.gov

Software:

- Direct Loan Tools
- EDconnect
- EDEExpress for Windows
- SSCR for Windows

Technical References and User Guides for:

- CPS (ISIR, Summary of Changes, Renewal FAFSA Process Guides, etc.)
- COD
- Electronic Data Exchange
- EDEExpress Packaging

www.ifap.ed.gov

- Federal Registers
- Electronic Announcements
- Dear Partner/Colleague Letters
- FSA Assessment modules:
Student Eligibility—
www.ifap.ed.gov/qahome/qaassessments/studentelig.html

Satisfactory Academic Progress—
www.ifap.ed.gov/qahome/qaassessments/sap.html

On page 4 we noted two things about remedial coursework (if it is to be paid for with Title IV funds): that it cannot be below the educational level that would allow the student to pursue her program after one year of the coursework and that it cannot use direct assessment of student learning in lieu of credit or clock hours. On the same page we transferred some text from Volume 2 pertaining to ESL classes.

We noted on the top of page 5 that the same restriction above regarding remedial coursework and direct assessment also applies to teacher certification coursework. We added a phrase to the bullet at the bottom of page 5 about the acceptability of foreign high school diplomas, and we amended the sidebar note regarding valid diplomas to indicate that state departments of education do not have oversight of all high schools.

There is a new ability-to-benefit test entry on page 9: the ESL Placement Test. Also, the CELSA passing scores were raised from 90 to 97.

As well as adding the new grants mentioned previously, the HERA brought changes to the drug conviction eligibility criterion and to the treatment of telecommunications courses, which are explained on pages 12 and 15 respectively.

Chapter 2 has a few updates. Victims of human trafficking and their close relatives have been added as a category of eligible noncitizens; see the pertinent text on pages 21, 23, and 24. The G-845 form has replaced the G-845S; the differences between the two are reflected in the instructions on using the form found on pages 27–33. In the margin of page 27 we noted that the USCIS is gradually reducing the number of its field offices that are processing the G-845 form, and we give instructions on determining the field office that you will send the form to. We also noted in the margin of that page that the purpose of the G-845 is to determine the student's immigration status; you must use that information along with the guidance in Chapter 2 to determine if a student is eligible for Title IV aid.

On page 71 we specified the loan limits for preparatory coursework because they did not increase as did the other loan limits, and we added a margin note on taking preparatory coursework at a different school from the one offering the program the student is preparing for.

On page 75 there is a new sidebar note stating that the requirement that a student must meet the general eligibility criteria applies to all the component funds of the LEAP Program.

If you have any comments regarding the FSA Handbook, please contact Research and Publications via e-mail at fsaschoolspubs@ed.gov.

School-Determined Requirements

In this chapter, we discuss student eligibility requirements that don't require information from the Department's systems. The school determines on its own whether the student meets these eligibility requirements. In some cases the financial aid office will need to get information from other school offices, such as the admissions office or the registrar, or from other organizations, such as high schools or testing agencies.

REGULAR STUDENT IN AN ELIGIBLE PROGRAM

A person must be enrolled as a *regular student* in an eligible program in order to receive FSA funds (some exceptions are discussed later). A regular student is someone who is enrolled or accepted for enrollment in an eligible institution for the purpose of obtaining a degree or certificate offered by the school. The definition of an eligible program is discussed in detail in the *School Eligibility and Operations* volume of the Handbook.

A school must document a student's enrollment in an eligible program at the time of admission, and it must have a system to notify the financial aid office if the student leaves the program. It must also document that an aid recipient is a regular student.

▼ *Conditional acceptance.* Some schools admit students under a conditional or provisional acceptance. For example, a student might be conditionally accepted until he provides further documentation, such as academic transcripts or test scores, or demonstrates an ability to succeed in the program (by receiving acceptable grades in program coursework). Typically the school will limit the student's enrollment, in terms of number of courses or enrollment status, until the student meets the necessary conditions.

Students admitted as conditional are regular students only if the school officially accepts them into the eligible degree program. The Department does not define official acceptance or admission. If the student is merely allowed to take some courses before being officially admitted to the program, she is not considered to be a regular student and is not eligible until she is officially admitted.

▼ *Continuing education.* Regular students may receive aid for classes they take in a school's continuing education department as long as the classes apply to their degree or certificate program.

Remedial coursework

Remedial coursework prepares a student for study at the postsecondary level (compare with preparatory coursework, which

Basic student eligibility issues:

- must be enrolled as a regular student in an eligible program
 - cannot also be enrolled in elementary or secondary school
 - must have a high school diploma or equivalent, pass an approved ability-to-benefit test, or have been home-schooled
 - must make satisfactory progress
 - must meet enrollment status requirements
 - must have resolved any drug conviction issue
- 34 CFR 668.32
See Volume 2 for more on what is an eligible program.

Regular student citations and example

HEA Sec. 484(a)(1), (b)(3), (4);
34 CFR 668.32(a)(1)

Lem Community College allows anyone with a high school diploma or the equivalent to enroll in any course. Many of LCC's students do not intend to receive a degree or certificate. LCC requires students who want to receive a degree or certificate to complete a form stating which degree or certificate they are studying for and to meet regularly with an academic advisor. LCC considers them to be regular students, while others in the same classes are not regular students.

Conditional acceptance examples

1. Guerrero University allows students to take graduate courses before they have taken the GRE, but it limits them to no more than three courses and does not admit them into its graduate programs until they have submitted acceptable GRE scores. They aren't regular students, and since the school hasn't admitted them, they aren't eligible for Title IV aid.
2. When Park University accepts students into its graduate programs, it requires that the students receive no grade lower than a "B" in the first three courses. During this time the school considers students to be admitted into the program, so they are eligible for FSA. If, however, students receive a grade lower than a B in any of the first three classes, their admittance will be withdrawn and they then will be ineligible for Title IV aid.

Continuing education examples

1. Park University has a continuing education department that offers many on-line (telecommunications) courses that students in other departments of the school may take and that apply to the degree or certificate program the students are enrolled in. These are regular students who are eligible for FSA funds.
2. Guerrero University has a continuing education department that offers many courses. Some students enroll in these courses without being admitted to the university. They are not regular students and are not eligible for FSA funds.

Remedial coursework

34 CFR 668.20

Teacher certification coursework

34 CFR 668.32(a)(1)(iii)

prepares a student for a given program), and a student enrolled solely in a remedial program is not considered to be in an eligible program. If acceptance into an eligible program is contingent on completing remedial work, a student cannot be considered enrolled in that program until she completes the remedial work.

However, if the student is admitted into an eligible program and takes remedial coursework within that program, he can be considered a regular student, even if he is taking all remedial courses before taking any regular courses. You may count up to one academic year's worth of these courses in his enrollment status for federal aid. For the purpose of this limit, that is 30 semester or trimester hours, 45 quarter hours, or 900 clock hours. If the remedial classes are noncredit or reduced-credit, you must determine how many credit hours they are worth to count in the student's enrollment (see "Enrollment Status" on page 11).

A remedial course cannot be below the educational level needed for a student to successfully pursue her program after one year in that course. Also, remedial courses must be at least at the high-school level, as determined by the state legal authority, your school's accrediting agency, or the state agency recognized for approving public postsecondary vocational education. If that agency determines that a remedial class is at the elementary level, the school must abide by that determination, and the class cannot be included for Title IV aid. Nor can Title IV aid be used for a remedial course that uses direct assessment of student learning instead of credit or clock hours.

You can't use noncredit remedial hours to determine a student's enrollment status if the course is part of a program that leads to a high school diploma or its recognized equivalent. A student is never permitted to receive funds for GED training or for coursework prior to the completion of high school, even if the GED or high school training is offered at postsecondary schools or is required for the postsecondary program.

Similar to other remedial coursework, a student may receive FSA funds for ESL courses that are part of a larger eligible program. There are differences though: ESL courses don't count against the one-year limitation on remedial coursework mentioned above, and they need not be at the secondary school level.

If your school permits a student to enroll in ESL or other remedial courses that don't apply to his degree or certificate, be aware that awarding FSA loans over a series of semesters for such work can exhaust his eligibility for FSA loans before he completes his program.

Preparatory coursework

A student not enrolled in a degree or certificate program is eligible for Stafford and PLUS loans for up to one year if she is taking coursework necessary for enrollment in an eligible program. See the discussion under Stafford and PLUS loans on page 71.

Teacher certification coursework

A student may receive Federal Work-Study and Stafford, Perkins, and PLUS loans if he is enrolled at least half time in required teacher certification coursework, even though it does not lead to a degree or certificate awarded by the school. To qualify, the coursework must be required for elementary or secondary teacher certification or recertification in the state where the student plans to teach and must be offered in credit or clock hours (courses using direct assessment in lieu of credit or clock hours are not eligible). Optional courses that the student elects to take for professional recognition or advancement, and courses recommended by your school but not required for certification, do not qualify. You should document that the courses are required by the state for teacher certification.

For Stafford loans, such students may borrow at the fifth-year undergraduate loan level, and the loan limit is not prorated if the coursework lasts less than an academic year. For Perkins loans, a school establishes in its policy whether a student enrolled in a teacher certification program is an undergraduate or graduate student. That will then determine which Perkins loan limits apply; refer to *Volume 3: Calculating Awards and Packaging*.

A student with a bachelor's degree who is enrolled in a postbaccalaureate teacher certification program can also receive a Pell grant in certain limited situations. See page 70.

ELEMENTARY OR SECONDARY ENROLLMENT

A student enrolled in elementary or secondary school is not eligible for aid from the FSA programs, even if she is simultaneously enrolled in an eligible postsecondary program. A student is considered to be enrolled in a secondary school if she is pursuing a high school diploma. A student who has completed the diploma requirements but has not yet received a diploma is still considered to be enrolled in secondary school if she is taking postsecondary coursework for which the high school gives credit. A student who has completed but not received a diploma is also considered to be enrolled in secondary school if the high school granting the diploma still considers the student to be enrolled at that high school.

An adult pursuing a GED (not a high school diploma) is not considered to be enrolled in secondary school. However, as stated earlier, a student can't get aid for GED training, though he can receive aid for other college courses if he meets ability-to-benefit, homeschool, or high school equivalent requirements. An adult can take a course offered by a high school, such as a driver's education course, without being considered enrolled there.

ACADEMIC QUALIFICATIONS

To receive FSA funds, a student must be qualified to study at the postsecondary level. A student qualifies if she:

Elementary/secondary enrollment

HEA Sec. 484(a)(1), 34 CFR 668.32(b)

Secondary school enrollment examples

Lida is a junior in high school and enrolls in an electronics technician program at Lem Community College (she is above the age of compulsory school attendance for her state and so can be admitted as a regular student at LCC). The coursework is offered evenings and weekends, so she can still attend her high school classes. The electronics technician program is an eligible postsecondary program, and Lida will receive a certificate from Lem when she completes the program. However, she is not eligible for aid because she is still enrolled in high school.

Owen, a regular student at Guerrero University, decides to take a driver's education course at the local high school during the summer. This does not mean he is enrolled in secondary school.

What's a valid high school diploma?

As we note at the top of p. 6, students self-certify that they have a high school diploma, so a copy of one is not required for the financial aid office. But with the appearance of high school "diploma mills," you might have concerns about the validity of a diploma from a particular school. One resource to check is the department of education for the state in which the school is located. If the department has jurisdiction over the high school, they can tell you if a diploma from the school (which does not have to be accredited) is recognized by their state.

Academic qualifications

HEA Sec. 484(d), 34 CFR 668.32(e)

Recognized equivalent of a high school diploma

34 CFR 600.2

*Exception: passing an ability-to-benefit test or having one of the diploma equivalents is not sufficient for establishing eligibility for an academic competitiveness grant. See Chapter 6.

Diploma equivalent example

Kitty enrolls in the bachelor's degree program at Brandt College. She didn't graduate from high school and doesn't have a GED. Brandt looks at her high school records to see if she excelled academically in high school. Because she had a C average, she doesn't meet Brandt's standard for admitting students who excel academically and therefore doesn't have the equivalent of a high school diploma. If she were enrolled in a two-year program that counted as two years of her bachelor's degree, she'd have the equivalent of a high school diploma when she completed that program and would be eligible for FSA for the last two years of her degree program. However, since Kitty never went to college before, she'll need to pass an approved ability-to-benefit test if she wants to receive FSA.

Home-schooled students

HEA Sec. 484(d)(3),
34 CFR 668.32(e)(4)

- has a high school diploma (this can be from a foreign school if it is equivalent to a U.S. high school diploma);
- has the recognized equivalent* of a high school diploma, such as a general education development or GED certificate;
- has completed home schooling at the secondary level; or
- has passed a Department-approved ability-to-benefit test*.

A student may self-certify that he has received a high school diploma or GED or that he has completed secondary school through home schooling as defined by state law. If a student indicates on the FAFSA that he has a diploma or GED, your school isn't required to ask for a copy, but if your school requires one for admission, then you must rely on that copy of the diploma or GED and not on the student's certification alone. Because the current FAFSA doesn't contain a self-certification for homeschoolers, such students may certify their homeschooling in writing, for example, on an admissions application, in a letter to your school, or in some other appropriate record.

Equivalents to a high school diploma

The Department recognizes several equivalents to a high school diploma:

- A GED;
- A certificate demonstrating that the student has passed a state-authorized examination that the state recognizes as the equivalent of a high school diploma;
- An academic transcript of a student who has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree; or
- For a student who enrolls before completing high school, a high school transcript indicating the student has excelled in high school. The student must no longer be enrolled in high school, must satisfy your school's written policy for admitting such students, and must be starting a program that leads at least to an associate's degree or its equivalent.

Homeschooling

Though homeschooled students are not considered to have a high school diploma or equivalent, they are eligible to receive FSA funds if their secondary school education was in a homeschool that state law treats as a home or private school. Some states issue a secondary school completion credential to homeschoolers. If this is the case in the state where the student was homeschooled, she must obtain this credential in order to be eligible for FSA funds. She can include in her homeschooling self-certification (see above) that she received this state credential.

Some students finish homeschooling at an age younger than the age of compulsory school attendance for their state or your school's state. Another part of the federal law defines an eligible *institution* as one that admits as regular students only persons who have a high school diploma or equivalent or are beyond the compulsory attendance age for the school's state. The Department considers a homeschooled student to be beyond the age of compulsory attendance if your school's state would not require the student to further attend secondary school or continue to be homeschooled. See also *Volume 2: School Eligibility and Operations*.

Ability-To-Benefit (ATB) test

If the student does not have a high school diploma or equivalent and did not complete secondary school in a homeschool setting, she can still qualify for aid by passing a Department-approved "ability-to-benefit" test. You don't have to use the same test for all students; you can pick the one most suitable for each student. At the time of publishing, the May 19, 2006 *Federal Register* contained the most recent list of approved tests.

▼ *Arranging for ATB tests.* The regulations also specify testing procedures that your school must follow. You must make arrangements with one or more test administrators, who must be certified by the test publisher. You should contact the test publisher to locate a certified test administrator. Certified test administrators may include high school guidance counselors, test and measurement experts, human resource development professionals, qualified professional educators, or regional Armed Forces Command staff who are experts in education, training, and human resource development.

▼ *Ensuring independent testing.* To be independently administered, a test must be given by an individual or by an organization with no current or prior financial or ownership interest in the school, its affiliates, or its parent corporation other than the interest generated through its agreement to administer the approved test. The test can't be given by a current or former employee, consultant or student of the school, owner, member of the board of directors, or person with a financial interest in the school or by a relative of any of these individuals. In addition, the test administrator cannot score the test but must submit it to the publisher for scoring.

A test is also independently administered if it is given at an assessment center. An assessment center must be located at an eligible degree-granting school or public vocational institution, and must be responsible for evaluating students for multiple purposes, such as course placement. It must not have administering ATB tests as its primary purpose. The assessment center must be staffed by professionally trained personnel and be independent of the admissions and financial aid processes. An assessment center may score students' tests unless its agreement with the test publisher prohibits it.

To be acceptable for FSA purposes, an approved test must be independently administered in accordance with the procedures

ATB tests

34 CFR Part 668 Subpart J
(Sections 141–156)

Factors for Test Selection

When selecting a test, the school should consider the following:

- **Relevance of the test to the educational program.** Are the skills and abilities assessed important for successful completion of the program of study?
- **Level of difficulty of the test.** Is the overall level of difficulty appropriate to the population of prospective students being assessed and to the coursework required in the program?
- **Native language.** If the student's program will be taught in a language other than English, the student should be permitted to take the test in the language of the program. See 34 CFR 668.149 and 153.
- **Tests for students with physical disabilities.** Students with physical disabilities should receive appropriate assistance in test taking, in accordance with the guidelines developed by the American Educational Research Association, the American Psychological Association, and the National Council of Measurement in Education.

Test approval

The Department evaluates submitted tests according to guidelines published in regulations. To apply for approval, the test publisher must submit its test and documentation specified in the regulations. After reviewing the application, the Department will notify the test publisher of approval or disapproval. If a test is approved, the Department will publish in the Federal Register the name of the test and the test publisher and the passing score required for students taking the test.

The Department will also review all state tests or assessments that are submitted for approval. If a state test meets the criteria for approval, both public and private schools in that state may use the test. At this time, no such tests have been submitted for approval.

Testing ESL and disabled students

34 CFR 668.153

Satisfactory Academic Progress

HEA Sec. 484(c),
34 CFR 668.16(e)
34 CFR 668.32(f)
34 CFR 668.34

specified by the test publisher—such as time limits for completion, rules on how often and within what time frame the test may be readministered, whether the test may be given verbally, and so forth. If a test comprises multiple parts, all **relevant** parts, as listed in the approval notice, must be administered in order for the test to be valid. The approval notice published by the Department will show either the approved score for each subpart or an approved composite score.

▼ *Testing non-native English speakers.* Students who are enrolled solely in an ESL program, or who are enrolled in a program that is taught in English and that has an ESL component in which they are also enrolled, can take the CELSA test (see the January 12, 2001 *Federal Register* for more on CELSA) or the ESL Placement Test that was added to the ATB test list in the May 19, 2006 *Federal Register*. If the student is enrolled in a program that is taught in English without an ESL component or the student does not enroll in the ESL component if offered, the student must take an ATB test in English.

As an alternative, you may determine whether these students have the ability to benefit from your program by using the guidelines in the December 30, 1992 *Federal Register* and by using tests approved as of May 19, 2006.

▼ *Testing disabled students.* For students with disabilities, the Department adopted the use of the currently approved ability-to-benefit tests and passing scores (see the May 5, 1999 *Federal Register*) as long as those tests are given in a manner consistent with requirements of Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act. These requirements include giving the test in a manner that is accessible to disabled students and offering additional services such as a longer exam time for students with learning disabilities and Braille or large-print exams for visually impaired students. If your school can't give any of the approved ability-to-benefit tests in an accessible manner, it must use an alternate test as explained in the regulations (34 CFR 668.149).

▼ *Counting previous test results.* A student who has taken an approved, independently administered test must have the test publisher or the assessment center submit the official score to the school to demonstrate the student's ability to benefit. If you accept the results of a previously administered test, you must obtain documentation (usually through the previous school) that the test and its administration met federal requirements. Test scores are valid for ATB purposes indefinitely.

SATISFACTORY ACADEMIC PROGRESS (SAP)

To be eligible for FSA funds, a student must make satisfactory academic progress. Minimally you must check that progress at intervals of one year or half the length of the program, whichever is less. Your school must establish and publish its SAP policy, which explains when you check SAP as well as other details. See Chapter 10 in *Volume 2: School Eligibility and Operations* for complete guidance.

Approved Ability-to-Benefit Tests | Publishers

ASSET Program Basic Skills Tests (Reading Writing and Numerical)—Forms B2, C2, D2, and E2 <i>Passing Score:</i> Reading (35), Writing (35), and Numerical (33)	ACT, Inc, 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone (319) 337-1030, Fax (319) 337-1790
Career Programs Assessment (CPAT) Basic Skills Subtests (Language Usage, Reading and Numerical)—Forms B and C <i>Passing Score:</i> Language Usage (42), Reading (43), and Numerical (41)	ACT, Inc, 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone (319) 337-1030, Fax (319) 337-1790
Combined English Language Skills Assessment (CELSA): Forms 1 and 2 <i>Passing Score:</i> CELSA Form 1 (97) and CELSA Form 2 (97)	Association of Classroom Teacher Testers (ACTT), 1187 Coast Village Road, Suite 1 #378, Montecito, California 93108-2794, Contact: Pablo Buckelew, Telephone (805) 965-5704, Fax (805) 965-5807
COMPASS Subtests: Preadgebra/Numerical Skills Placement, Reading Placement, and Writing Placement <i>Passing Score:</i> Preadgebra/Numerical (25), Reading (62), and Writing (32)	ACT, Inc, 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone (319) 337-1030, Fax (319) 337-1790
Computerized Placement Tests (CPTs)/Accuplacer (Reading Comprehension, Sentence Skills, and Arithmetic) <i>Passing Score:</i> Reading Comprehension (55), Sentence Skills (60), and Arithmetic (34)	The College Board, 45 Columbus Avenue, New York, New York 10023-6992, Contact: Technical Support, Telephone (800) 486-8497
Descriptive Tests of Language Skills (DTLS) (Reading Comprehension, Sentence Structure and Conventions of Written English)—Forms M+K-3KDT and M+K-3LDT; and Descriptive Tests of Mathematical Skills (DTMS) (Arithmetic)—Forms M+K-3KDT and M+K-3LDT <i>Passing Score:</i> Reading Comprehension (108), Sentence Structure (9), Conventions of Written English (309), and Arithmetic (506)	The College Board, 45 Columbus Avenue, New York, New York 10023-6992, Contact: Technical Support, Telephone (800) 486-8497
ESL Placement Test (COMPASS/ESL) <i>Passing Score:</i> Grammar/Usage (64), Reading (70), and Listening (70)	ACT, Inc, 500 ACT Drive, Iowa City, Iowa 52243-0168, Contact: Dr. John Roth, Telephone (319) 337-1030, Fax (319) 337-1790
Wonderlic Basic Skills Test (WBST)—Verbal Forms VS-1 & VS-2, Quantitative Forms QS-1 & QS-2 <i>Passing Score:</i> Verbal (200) and Quantitative (210)	Wonderlic Personnel Test, Inc, 1795 N Butterfield Rd, Libertyville, IL 60048, Contact: Mr. David Teuber, Telephone (877) 605-9499, Fax (847) 680-9492
WorkKeys Program—Reading for Information Forms A01AA, A02AA, C01AA, and D10AA; Applied Mathematics Forms A01BB, A02BB, C01BB, and D01BB <i>Passing Score:</i> Reading for Information—Forms A01AA (76), A02AA (75), C01AA (77), and D10AA (77); Applied Mathematics—Forms A01BB (73), A02BB (74), C01BB (73), and D01BB (73)	ACT, Inc, WorkKeys Development, Professional Development Services, 101 ACT Drive, P.O. Box 168, Iowa City, Iowa 52243-0168, Contact: Dr. A. Candace Noble, Telephone (319) 337-1296, Fax (319) 337-1229

The discussion below will only address the qualitative and quantitative standards that a student must meet in order to be eligible for aid.

Qualitative standards

The law specifies that by the end of the second academic year (regardless of how many credits the student has accrued), the student must have a C average or its equivalent or have an academic standing consistent with the requirement for graduation from the program. If your school does not use letter grades, it should define the equivalent of a C average.

Having an academic standing consistent with the graduation requirement could mean you use an escalating grade point standard instead of a fixed one. For example, a school using a 4-point scale can require students to have a 2.0 average by graduation but allow their average to be lower earlier in their academic career. If your policy permits such a progression and a student falls below a C average, you must be able to document that her average is consistent with the academic standard required for graduation.

Example: satisfactory academic progress appeal

Steven is attending Brust Conservatory, and at the end of his second year, Brust determines that he isn't making satisfactory progress. He files an appeal in the fall, after he realizes he won't receive aid for the fall term. Brust finally approves his appeal in January, after the fall term is over. Therefore, Steven can't receive Pell or campus-based funds for the fall term but can receive aid for the winter term. Steven can receive a Direct loan or FFEL for the entire academic year because that is his period of enrollment.

Quantitative standards

To accurately measure a student's progress in a program, more than a qualitative standard is needed. A student who is maintaining a high GPA by withdrawing from every course he attempts after the first year would meet a qualitative standard but wouldn't be progressing towards graduation. Therefore, the SAP policy must also include a quantitative measure to determine the number or percentage of courses, credit hours, or clock hours completed.

To quantify academic progress your school must set a maximum time frame in which a student is expected to finish a program. If your SAP review makes it clear that a student cannot mathematically finish the program within this period, she becomes ineligible for aid (though she may request an appeal; see Volume 2). For an undergraduate program the time frame cannot exceed 150% of the published length of the program measured in academic years or terms, credit hours attempted, or clock hours completed, as determined by your school. For instance, if the published length of an academic program is 120 credit hours, the maximum period must not exceed 180 (120×1.5) attempted credit hours.

Losing and regaining eligibility

A student who loses FSA eligibility because she is not meeting your school's satisfactory academic progress standards will regain eligibility when you determine that she is again meeting the standards. She may also regain eligibility by successfully appealing a determination that she wasn't making satisfactory progress. You must document each case.

Full-time student definition

34 CFR 668.2

Half-time enrollment

HEA Sec. 428(b)(1)(A),
34 CFR 668.32(a)(2), 674.2(b), 682.200,
and 690.2(c)

A student may be paid Pell and Campus-based funds for the payment period in which she resumes satisfactory academic progress. For Stafford and PLUS loans, she regains eligibility for the entire period of enrollment in which she again meets SAP standards unless school policy provides for reinstatement of eligibility at a later point.

ENROLLMENT STATUS

A student must be enrolled full time to receive an Academic Competitiveness Grant (ACG) or National Science and Mathematics Access to Retain Talent (SMART) Grant and at least half time to receive assistance from the Stafford and PLUS loan programs. The Pell and Campus-based programs (except for Perkins in the case of a student enrolled in a program for a teaching credential) don't require half-time enrollment, but the student's enrollment status does affect the amount of Pell a student receives. (Volume 3 explains how enrollment status affects a student's Pell award.)

To be enrolled half time, a student must be taking at least half of the course load of a full-time student. Your school defines a full-time workload, but it must meet the minimum standards in the FSA regulations. The definition of full time used for FSA purposes (below) can differ from the definition used for other purposes at your school, such as the definition used by the registrar's office.

Your definition of a full-time workload for a program must be used for all students in that program and must be the same for all FSA-related purposes, including loan deferments. You can't accommodate a student with a learning disability or other handicap by allowing her a full-time enrollment status lower than the minimum standard.

▼ *Minimum standards for full-time enrollment.* You may include any combination of courses, work, research, or special studies in your school's definition of workload. The regulations specify a minimum standard for undergraduate students but not for graduate students. For undergraduates, full-time status must be at least:

- 12 semester hours or 12 quarter hours per academic term in an educational program using a semester, trimester, or quarter system;
- 24 semester hours or 36 quarter hours per academic year for an educational program using credit hours but not using a semester, trimester, or quarter system, or the prorated equivalent for a program of less than one academic year;
- 24 clock hours per week for an educational program using clock hours;
- a series of courses or seminars equaling 12 semester or quarter hours over a maximum of 18 weeks; or
- the work portion of a cooperative education program in which the amount of work performed is equivalent to the academic workload of a full-time student.

Your school must have a written policy stating what enrollment status the work portion of a co-op program is equivalent to. If it equals a full-time academic load, the co-op student is considered full time regardless of how many credits are earned for the co-op work.

Pell and half-time enrollment

For the purpose of the Pell Grant Program, a school may choose to define half time as half of the minimum full-time standard established in the regulations even if this is less than half the full-time standard established by the school. For example, if a school sets 14 semester hours as full time, it could use 6 semester hours (one half of the regulatory full-time minimum of 12) as half time instead of 7.

Counting non-credit or reduced-credit remedial work

A student can receive aid for a limited amount of remedial coursework that is included as part of a regular program. As long as the student qualifies for aid for remedial courses, you must include the remedial courses in the student's enrollment status.

Some schools give no credit or reduced credit for remedial classes. To determine enrollment status, credit hours for the remedial class should be the same as for the comparable full-credit class. If you're using credit hours, you can compare the number of classroom and homework hours of study that the remedial course requires with the hours required for similar courses offered for full credit. Clock-hour schools should use the number of classroom hours attended in the remedial program.

34 CFR 668.20

Drug convictions

HEA Section 484(r)
34 CFR 668.40

A student taking only correspondence courses is never considered to be enrolled more than half time. See *Volume 3* for more on Pell and enrollment status and correspondence courses.

If a student is enrolled in courses that do not count toward his degree, they cannot be used to determine enrollment status unless they are noncredit or remedial courses as described in the sidebar. This means you cannot award the student aid for classes that do not count toward his degree or certificate.

STUDENTS CONVICTED OF POSSESSION OR SALE OF DRUGS

A federal or state drug conviction can disqualify a student for FSA funds. The student self-certifies in applying for aid that he is eligible; you're not required to confirm this unless you have conflicting information.

The Higher Education Reconciliation Act (HERA) modified this criterion so that convictions only count if they were for an offense that occurred during a period of enrollment for which the student was receiving Title IV aid. Students who became ineligible due to offenses that did NOT occur during such a period are now eligible. Also, a conviction that was reversed, set aside, or removed from the student's record does not count, nor does one received when she was a juvenile, unless she was tried as an adult.

The chart below illustrates the period of ineligibility for FSA funds, depending on whether the conviction was for sale or possession and whether the student had previous offenses. (A conviction for sale of drugs includes convictions for conspiring to sell drugs.)

Drug abuse hold

The Anti-Drug Abuse Act of 1988 includes provisions that authorize federal and state judges to deny certain federal benefits, including student aid, to persons convicted of drug trafficking or possession. The CPS maintains a hold file of those who have received such a judgment, and it checks applicants against that file to determine if they should be denied aid. This is separate from the check for a drug conviction via question 31; confirmation of a student in the drug abuse hold file will produce a rejected application and a separate comment from those associated with responses to question 31. See the ISIR Guide for more information.

	Possession of illegal drugs	Sale of illegal drugs
1st offense	1 year from date of conviction	2 years from date of conviction
2nd offense	2 years from date of conviction	Indefinite period
3+ offenses	Indefinite period	

If the student was convicted of both possessing and selling illegal drugs, and the periods of ineligibility are different, the student will be ineligible for the longer period.

A student regains eligibility the day after the period of ineligibility ends or when he successfully completes a qualified drug rehabilitation program. Further drug convictions will make him ineligible again.

Students denied eligibility for an indefinite period can regain it only after successfully completing a rehabilitation program as described below or if a conviction is reversed, set aside, or removed from the student's record so that fewer than two convictions for sale or

three convictions for possession remain on the record. In such cases, the nature and dates of the remaining convictions will determine when the student regains eligibility. It is the student's responsibility to certify to you that she has successfully completed the rehabilitation program; as with the conviction question on the FAFSA, you are not required to confirm the reported information unless you have conflicting information.

When a student regains eligibility during the award year, you may award Pell and Campus-based aid for the current payment period and Direct and FFEL loans for the period of enrollment.

Standards for a qualified drug rehabilitation program

A qualified drug rehabilitation program must include at least two unannounced drug tests and must satisfy at least one of the following requirements:

- Be qualified to receive funds directly or indirectly from a federal, state, or local government program.
- Be qualified to receive payment directly or indirectly from a federally or state-licensed insurance company.
- Be administered or recognized by a federal, state, or local government agency or court.
- Be administered or recognized by a federally or state-licensed hospital, health clinic, or medical doctor.

If you are counseling a student who will need to enter such a program, be sure to advise the student of these requirements. If a student certifies that he has successfully completed a drug rehabilitation program, but you have reason to believe that the program does not meet the requirements, you must find out if it does before paying the student any FSA funds.

INCARCERATED STUDENTS

A student is considered to be incarcerated if she is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm, or similar correctional institution (whether it is operated by the government or a contractor). A student is not considered to be incarcerated if she is in a half-way house or home detention or is sentenced to serve only weekends.

Incarcerated students are not eligible for FSA loans but are eligible for FSEOGs and FWS. They are also eligible for Pell grants if not incarcerated in a federal or state penal institution (see Chapter 6 for more information).

You may accept the student's written self-certification that he is no longer incarcerated.

Incarcerated students

HEA Sec. 401(b)(8)
HEA Sec. 484(b)(5)
34 CFR 668.32(c)(2)

Conflicting information

34 CFR 668.16(b)(3) and (f)

Gaining eligibility examples

Allen enrolls in a one-year certificate program at Sarven Technical Institute. Sarven won't officially admit Allen before he provides an academic transcript from his previous school, but it lets him start classes in the fall. Sarven receives Allen's transcript after he's attended for a month and officially admits him. He's still in his first payment period when admitted, so he can receive Pell and campus-based funds for his entire period of enrollment. The school can also use the program length of one year as the period of enrollment for which Allen can receive a loan.

Chavo is finishing his senior year in high school; his classes end June 4. He decides to start classes in the winter at Sarven Technical Institute on January 11. The second payment period begins on May 17. Chavo isn't eligible for aid when he first starts classes at Sarven. However, when he becomes eligible after June 4, Sarven can disburse Pell and campus-based funds to Chavo retroactively for the current payment period that started on May 17 (but not for the payment period that started in January) and a Stafford loan for the current period of enrollment, which does include the payment period that began in January.

Losing eligibility example

George is a student at Guerrero University. At the end of September, after the start of the fall term, he is convicted in a state court for possession of drugs. It is his first offense, and he isn't incarcerated, but he is ineligible for aid. Guerrero gave George his first Direct subsidized loan disbursement at the beginning of the semester in September and was going to disburse a Perkins loan to him in October. Now Guerrero can't disburse the Perkins loan. George doesn't have to pay back the first disbursement of his Direct loan, but he can't receive any more Title IV aid until one year elapses or he successfully completes a qualified drug rehabilitation program.

CONFLICTING INFORMATION

In addition to reviewing data provided by the Department's application system and NSLDS (as discussed in the rest of this volume), your school must have an internal system to share information relevant to the student's eligibility, such as his academic standing. The FSA program regulations require a school to develop an adequate system to ensure the consistency of any data related to a student's application for federal student aid regardless of the source of that data. Your school is responsible for reconciling all inconsistencies that it receives with one exception: if the student dies during the award year, you aren't required to resolve conflicting information.

If your school has conflicting information for a student or you have any reason to believe his application information is incorrect, you **must** resolve such discrepancies before disbursing FSA funds. If you discover a discrepancy after disbursing FSA funds, you must reconcile the conflicting information and require the student to repay any aid for which he wasn't eligible, unless he is no longer enrolled for the award year and will not re-enroll. Refer to the *Application and Verification Guide* and the *School Eligibility and Operations* volume for more information.

CHANGE IN STATUS

The student's eligibility status can change during the award year, which almost always affects whether the student can be paid. The special rules for changes in satisfactory academic progress status were discussed earlier in the SAP section.

Gaining eligibility

A student who *applies for aid* by filling out a FAFSA is eligible for aid for the entire award year. A student who *gains eligibility* is one who was previously ineligible for some reason. In general, when a student gains eligibility, she may receive Pell, ACG, National SMART, and Campus-based funds for the entire payment period and Stafford and PLUS loans for the period of enrollment in which she became eligible.

The student is eligible for Pell, ACG, National SMART, and Campus-based aid for the entire award year—not just the payment period—in which he becomes eligible by meeting the requirements for citizenship, valid Social Security Number (SSN), or Selective Service registration.

Losing eligibility

A student cannot receive any federal student aid after losing eligibility for it, unless he qualifies for a late disbursement.

Eligibility Requirements for Specific Educational Programs

See *Volume 2: School Eligibility and Operations* for more information on the topics below. Note that a school may not refuse to provide FSA funds to a student because he is enrolled in correspondence or telecommunications courses unless the courses are not part of an eligible program.

Correspondence courses

A correspondence or “home study” course is one for which the school provides instructional materials and exams for students who don’t physically attend classes at the school and who are studying independently. When a student completes a portion of the materials, he takes the related exam and returns it to the school for grading. If the course uses video cassettes or discs, it is a correspondence course unless the school provides the same instruction to students who physically attend the school that year. Because of the HERA, telecommunications courses are no longer considered correspondence courses.

A student enrolled in a correspondence course can only receive FSA funds if the course is part of a program that leads to an associate’s, bachelor’s, or graduate degree; if the program leads to a certificate, the student is not eligible for aid for that course. There are also restrictions regarding cost of attendance for correspondence courses; see Volume 3.

HEA Sec. 484(k), 34 CFR 600.2, 34 CFR 668.38

Telecommunications courses

These are courses offered principally through television, audio, or computer transmission through open broadcast, closed circuit, cable, microwave, or satellite; audio conferencing; computer conferencing; or video cassettes or discs. The purpose is to deliver instruction to students separated from the instructor and to support regular and substantive interaction between them. The term does not include a course delivered using video cassettes or discs unless it is delivered to students physically attending classes at a school providing the course during the same award year. If a course does not qualify as a telecommunications course, it is considered to be a correspondence course.

The HERA relaxed the stipulations for receiving Title IV aid for telecommunications courses: the courses must belong to an eligible program, and the school must have the capability to effectively deliver distance education programs as determined by an accrediting agency that is recognized by the Department and that has the evaluation of distance education programs within the scope of its recognition. Short-term certificate programs of less than one year offered via telecommunications are now eligible for Title IV aid, and they are not considered correspondence programs.

HEA Sec. 484(l), 34 CFR 600.2, 34 CFR 668.38

Students studying abroad

A student in a study-abroad program is eligible for aid if the program is approved for academic credit toward her degree by the eligible home school at which she is enrolled as a regular student. The home school must have a written agreement with the foreign school (or with another U.S. school that contracts with the foreign school) or a single written arrangement with a study-abroad organization to represent an agreement between the home school and the foreign school.

HEA Sec. 484(o), 34 CFR 668.39

Notes

A student has to be a citizen or eligible noncitizen to receive FSA. In this chapter we describe how the student's FAFSA information is matched with citizenship records. We also describe immigration documents that you may have to collect to make sure that the student meets this requirement.

ELIGIBLE CATEGORIES

A student must be a citizen or eligible noncitizen to receive aid from the FSA programs. The general requirement for eligible noncitizens is that they be in the U.S. for other than a temporary purpose with the intention of becoming a citizen or lawful permanent resident, as evidenced by the United States Citizenship and Immigration Services (USCIS) in the Department of Homeland Security (DHS). The USCIS was briefly known as the Bureau of Citizenship and Immigration Services or BCIS, and before that it was the Immigration and Naturalization Service or INS. We use DHS throughout this chapter, and we also refer to USCIS since it is the actual agency that handles immigration matters and whose field offices you and your students might have to contact. The eligible statuses are:

- A U.S. citizen or national;
- A U.S. permanent resident;
- Citizens of the Freely Associated States: the Federated States of Micronesia and the Republics of Palau and the Marshall Islands;
- Other eligible noncitizens.

The Department of Education performs matches against the application to verify the student's citizenship status. In addition, there are procedures that you must follow to confirm a noncitizen's status through the DHS and SSA if the CPS matches don't confirm that status. A student's citizenship status only needs to be checked once during the award year; if the status is eligible at that time, it remains so for the rest of the award year.

Students who are eligible because they are citizens of certain Pacific Islands can only receive aid from some of the FSA programs (see "Citizens of the Freely Associated States" on p. 34). Students in the other categories may receive any federal student aid an eligible school

Citizenship issues

- U.S. citizens matched with Social Security Administration (SSA) database
- U.S. permanent residents matched against DHS records
- If the match fails after primary verification and automated secondary confirmation, the school must collect documentation and conduct manual secondary confirmation

Citizenship

HEA Sec. 484(a)(5),
34 CFR 668.32(d),
34 CFR 668.33,
and Subpart I of Part 668.

Documenting citizenship

34 CFR 668.33(c)

Data doesn't match example

Allen put in an incorrect number for his SSN when he completed his FAFSA. The number he used isn't in the SSA database. Therefore, his application fails both the SSN match and the SSA citizenship match. Allen will need to fix the problem before he can receive aid. Because the SSN is incorrect, Sarven Technical Institute asks Allen to complete a new FAFSA instead of making a correction (see Chapter 4 for more on fixing SSN problems).

in the United States offers. If they're attending foreign schools that participate in the FFEL Program, they may receive Stafford loans.

If a parent wants to take out a PLUS loan for a dependent undergraduate student, both the parent and the student must be U.S. citizens or nationals or eligible noncitizens.

U.S. CITIZEN OR NATIONAL

A person is a United States citizen by birth or by naturalization. Persons (except for the children of foreign diplomatic staff) born in the 50 states, the District of Columbia, and, in most cases, Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands are U.S. citizens, as are most persons born abroad to parents (or a parent) who are citizens. All U.S. citizens are considered to be U.S. nationals, but not all nationals are citizens: natives of American Samoa and Swain's Island are not U.S. citizens but are nationals and therefore may receive FSA funds (except ACG/National SMART grants).

Citizenship match with Social Security Administration (SSA)

All applications are automatically matched with Social Security records to verify name, date of birth, U.S. citizenship status, the social security number, and possible date of death (see Chapter 4). The result of this match is reported under SSA of the match flags on the ISIR and "SSA Citizenship Code" on the SAR.

If the student leaves the citizenship question on the FAFSA blank, the CPS will still attempt the citizenship match with the SSA. If there is a complete match with the student's Social Security number, name, date of birth, and U.S. citizenship, the CPS will determine the student to be a citizen. The CPS will reject the application for insufficient information if one or more of the items are not provided.

Note that U.S. citizens born abroad might fail the citizenship check with the SSA, unless they have updated their citizenship information (see "Updating status for citizens born abroad," page 20).

▼ *Successful match.* The SAR and ISIR won't have a comment if the match is successful, but a match flag will indicate that the student's status was confirmed.

▼ *Data doesn't match.* If the student's SSN, name, or date of birth, doesn't match Social Security records, the citizenship status can't be confirmed. A comment to this effect will be printed on the output document. The student should make the necessary corrections to the SSN, name, or date of birth (see Chapter 4 for a discussion of SSN match problems). When the corrections are sent to the CPS, the CPS performs the match again, and you must check the new results to see if the match confirmed the student's citizenship status.

If you have resolved the student's SSN problem but the match still doesn't confirm her citizenship, she can instead provide documentation of citizenship (see "Other documentation," page 19).

▼ *Citizenship not confirmed.* If the Social Security match doesn't confirm that the student is a citizen, the SAR and ISIR will include a comment explaining that the student either needs to provide documents proving citizenship or make a correction to show that she is an eligible noncitizen.

If the student is a citizen, he must give you documentation of his citizenship status. If it verifies that he is a citizen, you can disburse aid to him. Unlike the case of eligible noncitizens, you don't submit the documents to the DHS or any other agency for verification, but you do need to keep a copy in the student's file. The student should also contact the Social Security Administration to have it update its database—something all naturalized citizens should do—but he doesn't have to do this to receive aid. See “Other documentation” below.

If the student is an eligible noncitizen, she must submit a correction, which must include the Alien Registration Number or A-Number. When the correction is sent in, the CPS will attempt a match with DHS records to confirm the student's status.

Other documentation

If a student must prove his status as a citizen or national, you decide what documents are acceptable. The Department doesn't specify them, but here are documents you might choose to use:

- A copy of the student's birth certificate showing that she was born in the United States, which includes Puerto Rico (on or after January 13, 1941), Guam, the U.S. Virgin Islands (on or after January 17, 1917), American Samoa, Swain's Island, or the Northern Mariana Islands, unless the person was born to foreign diplomats residing in the U.S.
- A U.S. passport, current or expired, except limited passports (which are typically issued for short periods such as a year and which don't receive as much scrutiny as a regular passport when applying). In the case of nationals who are not citizens, the passport will be stamped “Noncitizen National.”
- A copy of Form FS-240 (Consular Report of Birth Abroad), FS-545 (Certificate of birth issued by a foreign service post), or DS-1350 (Certification of Report of Birth). These are State Department documents.
- A Certificate of Citizenship (N-560 or N-561), issued by USCIS to individuals who derive U.S. citizenship through a parent.
- A Certificate of Naturalization (N-550 or N-570), issued by USCIS through a federal or state court, or through administrative naturalization after December 1990 to those who are individually naturalized.

Older versions of the Certificate of Citizenship and of the Certificate of Naturalization instruct the holder not to photocopy them. The

Example: citizenship not confirmed

Chavo is a U.S. citizen, but SSA doesn't confirm his citizenship status. Sarven Technical Institute asks him to submit documentation of his status. Chavo first submits a Social Security card, but Sarven explains that the card doesn't document his status because noncitizens can have Social Security cards. Chavo then brings in his U.S. passport. Sarven makes a copy of the passport for its files, and tells Chavo his citizenship has been documented. Sarven also advises Chavo to have the SSA correct its database, so that he won't have this problem again.

Social Security card and driver's license

A Social Security card or driver's license isn't acceptable for documenting citizenship or national status, since noncitizens and nonnationals can also have these forms of identification.

USCIS has advised the Department that these documents (and others) may be photocopied if done for lawful purposes (such as documenting eligibility for FSA funds).

Updating status for citizens born abroad

Students born abroad to U.S. citizens are also U.S. citizens, and their status is usually noted in the SSA’s database when they receive an SSN. But rarely a student’s citizenship might not be correct, and such a student (for example, one born on a military base abroad) will fail the citizenship match even if he has a Social Security number. He can contact the SSA to have its database corrected.

Such students can document citizenship by providing a “Consular Report of Birth Abroad” (Form FS-240, which is *proof* of U.S. citizenship) or a “Certification of Report of Birth” (Form DS-1350, which is *evidence* of U.S. citizenship and equivalent to a birth certificate). If the birth of the student was registered with the American consulate or embassy in a foreign country before he turned 18, he can receive a copy of one of these by sending a written, notarized request to the State Department at

Passport Services
Vital Records Section
1111 19th Street, NW, Suite 510
Washington, DC 20522-1705
(202) 955-0307

The student should provide his name given at birth, the date and location of birth, the parents’ names, available passport information, a return address, and a daytime phone number. The signature and a copy of valid photo identification of the requester must be included. For form FS-240 the student also has to include the original form (to exchange it) or a signed, notarized affidavit that the original was destroyed or lost. The FS-240 is \$30, and the DS-1350 is \$30 plus \$20 for each additional copy. This should be sent as a check or money order (no cash or foreign checks) payable to The Department of State. It will take four to eight weeks to receive the form.

If the student is over 18 and the birth wasn’t registered, she can file a self-petition for a “Certificate of Citizenship” to any local USCIS office (Form N-600). Proof of the parents’ U.S. citizenship at the time of the student’s birth must be provided.

U.S. PERMANENT RESIDENTS AND OTHER ELIGIBLE NONCITIZENS

A lawful permanent resident (LPR) is a noncitizen who is legally permitted to live and work in the United States permanently. Other eligible noncitizens:

- **Refugees** are given indefinite employment authorization. Their status continues unless revoked by DHS or until lawful permanent resident status is granted, which refugees may apply for after one year.

- **Victims of human trafficking** have the same eligibility for federal benefits as refugees, though the Department of Health and Human Services (HHS), rather than the DHS, is responsible for certifying this status. Also, the spouse, child, or parent of such a victim may be eligible for Title IV aid. See DCL GEN-06-09.
- **Persons granted asylum** in the United States are also authorized for indefinite employment, and they can apply for permanent residence after one year. Asylee status continues unless revoked by DHS or until permanent resident status is granted.
- **Conditional entrants** are refugees who entered the United States under the seventh preference category of P.L. 89-236 or whose status was adjusted to lawful permanent resident alien under that category. Note that the DHS stopped using this category on March 31, 1980.
- **Persons paroled into the U.S. for at least one year** must provide evidence (such as having filed a valid permanent resident application) from the DHS that they are in the U.S. for other than a temporary purpose and intend to become a citizen or permanent resident.
- **Cuban-Haitian entrants** as defined by Section 501(e) of the Refugee Education Assistance Act (REAA) of 1980.

Some **non-eligible statuses** are:

- **Family unity status.** Such individuals have been granted relief from deportation under the Family Unity Program. Previously they were eligible for FSA funds.
- **Temporary residents** are allowed to live and work in the U.S. under the Legalization or Special Agricultural Worker program. Previously they were eligible for FSA funds.
- **Persons with non-immigrant visas**, who include those with work visas, students, visitors, and foreign government officials.

MATCH WITH DHS RECORDS

To verify the immigration status of U.S. permanent residents and other eligible noncitizens, the Department collects A-Numbers on the FAFSA. (The DHS assigns A-Numbers to all legal immigrants.) If the applicant indicates on the FAFSA that he is an eligible noncitizen and provides an A-Number, identifying information from the FAFSA is automatically sent to the DHS for “Primary Verification.”

The results of the match are shown by a match flag in the FAA information section of the output document, under the heading “DHS” on the ISIR or “DHS Match Flag” on the SAR. There will also be a comment about the results on the output document.

The A-Number on the FAFSA and the DHS verification number

When the CPS matches with DHS records, a 15-digit verification number is assigned to the student and printed in the “FAA Information” section of the SAR and ISIR. This number is needed for paper secondary confirmation with the DHS (see “Secondary Confirmation”) and is reported in box 5 of the G-845 form.

If the student does not provide an A-Number on the FAFSA, the match can’t be made and the student won’t receive a DHS verification number.

The student’s information should be resubmitted with the A-Number so that a computer match may be attempted because the school won’t be able to check the student’s status through the secondary process unless it has a DHS verification number.

Because all applications are matched with SSA records, an application that is matched with DHS records will also be matched with citizenship information from the SSA. Results from the DHS match take precedence over any results from the SSA match, so the latter’s citizenship match flags won’t appear on the output document. You should follow the usual procedures for resolving any DHS match discrepancies.

If a student leaves the citizenship question blank but provides an A-Number, the CPS will assume the applicant is an eligible noncitizen and will attempt to match the A-Number with DHS records. If the student leaves both the citizenship question and A-Number blank, the CPS won’t match with DHS records and will reject the application. The student must submit a correction with the citizenship status and A-Number if he is an eligible noncitizen.

▼ *Successful match.* If the match confirms the student’s immigration status, then he can receive aid if the other eligibility criteria are also met. The SAR and ISIR with the successful match results are documentation of the student’s eligibility. Of course, if you have other information about his status that seems to contradict the successful match result, you must resolve the conflict before paying the student (see “Conflicting Information” in Chapter 1).

▼ *Not enough information.* If the student said she was an eligible noncitizen but provided either no A-Number or an illegible or invalid one, the match won’t be attempted. Instead, the student will receive a C code and a comment stating that there’s a question about the A-Number and directing her to provide the school with documentation of her eligibility. Compare the document with the SAR/ISIR; if appropriate, the student should correct the A-Number and resubmit it so that the match can be conducted.

Note that the same will apply to citizens of the Marshall Islands, the Federated States of Micronesia, and Palau because such students won’t have A-Numbers to report. However, these students aren’t required to provide proof of eligible noncitizen status.

▼ *Status not confirmed.* If the match was conducted but didn’t confirm the student’s status, the discrepancy must be resolved before you pay him. (First make sure that his alien registration number and date of birth are correct.) To confirm he is eligible for FSA funds, his record will have to pass through a subsequent process called secondary confirmation.

AUTOMATED SECONDARY CONFIRMATION

If the database match with immigration records doesn’t confirm a student’s claim to be an eligible noncitizen, the DHS will automatically check if it has documentation that determines the student’s citizenship. If this automated process confirms a student’s eligible noncitizen status, the process obviates the manual or paper secondary confirmation that uses the G-845 form.

The CPS will wait for up to three days to give the DHS time to conduct the automated secondary confirmation. If after three days the DHS has not been able to confirm the student’s citizenship status, the CPS will process SARs and ISIRs with a secondary confirmation match flag value of “P,” meaning that the procedure is still in progress. Once the DHS finishes the confirmation, the CPS will generate SARs and ISIRs reporting the results.

The school should wait at least five but no more than 15 business days for the result of automated secondary confirmation. If the result has not been received by that time, the school must begin the paper process.

A correction made while the DHS is conducting the automated secondary confirmation will start the process over, i.e., the correction will be sent through primary confirmation. Though unlikely, if the new primary confirmation match yields a “Y,” the transaction can be used to award aid. A correction made to a transaction that contains secondary confirmation results of “Y” or “C” (or a transaction with a primary confirmation result of “Y”) will not be sent through the DHS citizenship match again. Otherwise the record will be re-sent for matching.

PAPER SECONDARY CONFIRMATION

If the student didn’t pass automated secondary confirmation or if you have conflicting information about his immigration status, you must use paper secondary confirmation. The student has to give you unexpired documentation showing that he is an eligible noncitizen. If you determine the evidence is not convincing, he isn’t eligible for FSA funds. However, if the documentation appears to demonstrate that he is an eligible noncitizen, you must submit it to the USCIS (in the DHS) to confirm it is valid. One exception to this applies to victims of human trafficking, as noted below.

Documents that establish aid eligibility

The standard document for a **permanent resident** of the United States is the Permanent Resident Card (Form I-551 since 1997) or Resident Alien Card (Form I-551 before 1997). Both forms are referred to colloquially as “green cards,” though they are not green. Permanent residents holding the older Alien Registration Receipt Card (Form I-151, issued prior to June 1978) should have replaced it with a newer card, but for receiving FSA funds it remains acceptable as evidence of permanent residence.

Permanent residents may also present an Arrival/Departure Record (CBP Form I-94) or the new Departure Record (Form I-94A, which is used at land border ports of entry) with the endorsement “Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until _____. Employment Authorized.” The form will have an A-Number annotated on it and is acceptable if the expiration date has not passed.

Automated secondary confirmation comment codes

“Y”: citizenship status confirmed. The student is eligible for aid.

“C”: in continuance. The DHS has not yet been able to confirm that the student is an eligible noncitizen. The school is encouraged but not required to wait ten business days for another ISIR with an updated match result. If there is no update, the school begins the paper (G-845) secondary confirmation process.

“N”: citizenship not confirmed. The DHS did not confirm the student’s citizenship status as eligible. The school should begin paper secondary confirmation.

“X”: DHS needs more information. The school should begin paper secondary confirmation.

School policies on secondary confirmation

34 CFR 668.134

Status not confirmed example

On his original application Hector didn't give his A-Number and reported that he was a citizen. When the SSA didn't confirm this, Hector told the FAA at Guerrero University that he was a permanent resident. He made a correction, but the USCIS didn't confirm his status as an eligible noncitizen. He explained to the FAA that he had applied for permanent resident status but didn't have documentation yet. The FAA told him that when he had documentation that his application was approved, he should bring it to Guerrero so that it could be submitted to the USCIS for confirmation.

Conditions requiring secondary confirmation

34 CFR 668.133(a)

Use of copy of I-94 or I-94A

Note that a refugee or an asylee may apply for permanent-resident status. During the period in which the application is being reviewed, the student may have a copy of the I-94 that includes the endorsement "209a (or 209b) pending. Employment Authorized." Students with this form of documentation are eligible for FSA funds as long as the I-94 has not expired.

Documentation for Cuban-Haitian entrants

The I-94 for some Cuban-Haitian entrants who are applying for permanent residence may be stamped "applicant for permanent residence." (Or the student may instead be given a separate document acknowledging the receipt of his or her application for permanent residence.) Because the application for permanent residence is not sufficient to make a student eligible for FSA funds, a student who is a Cuban-Haitian entrant must request documentation of that status from the USCIS.

The U.S. Department of State now issues a machine readable immigrant visa (MRIV) in the holder's passport. The MRIV will have a U.S. Customs and Border Protection (CBP) inspector admission stamp, and the statement "UPON ENDORSEMENT SERVES AS TEMPORARY I-551 EVIDENCING PERMANENT RESIDENCE FOR 1 YEAR" will appear directly above the machine readable section. An MRIV with this statement, contained in an unexpired foreign passport and endorsed with the admission stamp, constitutes a temporary I-551, valid for one year from the date of endorsement on the stamp.

The USCIS now issues the United States Travel Document (mint green cover), which replaces the Reentry Permit (Form I-327) and the Refugee Travel Document (Form I-571). It is used by lawful permanent residents (as well as refugees and asylees) and is annotated with "Permit to Reenter Form I-327 (Rev. 9-2-03)."

For classes of eligible noncitizens other than permanent residents, evidence of their status typically is on the I-94, but other documents are also acceptable.

- **Refugees** may have a Form I-94 or I-94A annotated with a stamp showing admission under Section 207 of the Immigration and Nationality Act (INA). They may also have the old Refugee Travel Document (Form I-571) or the new U.S. Travel Document mentioned above annotated with "Refugee Travel Document Form I-571 (Rev. 9-2-03)."
- **Victims of human trafficking** are entitled to the same benefits as refugees under the Victims of Trafficking and Violence Protection Act (VTVPA). Because this status is certified by the HHS and not the DHS, these students will not pass the DHS match, and the normal paper secondary confirmation does not apply. You must instead review the student's certification or eligibility letter from the HHS and call the Office of Refugee Resettlement at 1-866-401-5510, as noted on the letter, to verify its validity and confirm that the eligibility has not expired. You must note the date, time, and results of the call and retain a copy of the letter. If the student applies for federal student aid in a subsequent year at your school, you must call again to ensure that the student's status is still in force.

The spouse, child, or parent of a trafficking victim might be eligible for aid. He will not have a certification letter but will have a T-visa (e.g., T-2 or T-3). He will also fail the DHS match, so you must call the same office as above, verify the validity of his T-visa as well as the victim's certification letter, note the time and results, and save a copy of both documents.

- **Asylees** will have an I-94 or I-94A with a stamp showing admission under Section 208 of the INA. They may also have the same travel documents described under refugees above.

- **Conditional entrants** will have a stamp indicating the student has been admitted to the United States as a conditional entrant. Because the DHS stopped using this category after March 31, 1980, you should not disburse FSA funds if the student has an I-94 with conditional entrant status granted after that date.
- **Parolees** must have a stamp indicating that the student has been paroled into the United States for at least one year, with a date that has not expired. (Federal student aid cannot be disbursed after the document has expired.)
- **Cuban-Haitian entrants** will have a stamp across the face of the I-94 indicating that the student has been classified as a “Cuban-Haitian Entrant (Status Pending). Reviewable January 15, 1981. Employment authorized until January 15, 1981.” Note that a document showing that the holder is a Cuban-Haitian entrant is valid even if the expiration date has passed.

As of January 2005, the above stamps use red and blue security ink: the date of admission is red, and the rest of the stamp is blue. The stamp contains three codes: the first is a two-digit code to the left of the date that designates the field office with jurisdiction over the port of entry. On most stamps this code will be two numbers and no letters. Letters are currently only used on HQ stamps. The three-letter code located under the word “ADMITTED” shows the port of entry. The third code, to the right of the date, is the stamp’s unique four-digit number. When referring to a particular stamp, the port of entry code and the stamp’s unique number should be used.

You must always examine and copy original documents, and you must keep in the student’s file a copy of the immigration documentation he submits, along with the secondary confirmation results received from the USCIS. While copying immigration documents is generally not permitted, you may legally photocopy documents he uses as proof of his immigration status (such as Forms I-551 or I-94) for a lawful purpose such as applying for Federal Student Aid.

The endorsement or stamp can be placed anywhere on the I-94. If the original stamp does not copy well due to the ink color, you should replicate it by hand on the photocopy. Because DHS Customs and Border Protection (CBP) offices don’t have uniform procedures or stamps, you should contact the local office with questions regarding acceptable immigration documents.

Special circumstances

If the student has an I-551 with a baby picture, she should update the I-551 with the USCIS. Permanent residents are expected to get a new picture and be fingerprinted at the age of 14. However, you can submit the documents to USCIS and ultimately pay a student who has an I-551 with a baby picture as long as you can confirm that the I-551 belongs to the student. You can confirm this by comparing the I-551 to a current photo ID that has the student’s name, date of birth, and signature. The current photo ID must also be consistent with any

Jay Treaty

There is one unusual circumstance where you will need to collect documentation from the student without requiring secondary confirmation. The Jay Treaty of 1794 (as well as subsequent treaties and U.S. immigration law) gives Canadian-born Native Americans with “50% Indian blood” the legal right to live and work in the United States. Such individuals are not subject to the legal restrictions typically imposed on aliens by the DHS, are not required to obtain documentation from the DHS, and are considered “lawfully admitted for permanent residence.” They also are permitted to have an SSN, which they must enter on the FAFSA.

Because few FSA applicants are eligible under the Jay Treaty, the FAFSA does not include a separate response for such students. Therefore, any student eligible for FSA funds through the Jay Treaty should report that he or she is an “eligible noncitizen” and fill in “A999999999” for the A-Number. The student will fail the match and a comment 144 will be printed on the output document. The school must obtain proof that the student has 50% Native American blood and was born in Canada. To do so, the student should provide one or more of the following documents:

- A “band card” issued by the Band Council of a Canadian Reserve, or by the Department of Indian Affairs in Ottawa;
- Birth or baptism records;
- An affidavit from a tribal official or other person knowledgeable about the applicant’s or recipient’s family history;
- Identification from a recognized Native American provincial or territorial organization.

If the student can provide one of the above forms of documentation, and is otherwise eligible, the school must document the file and can award FSA funds.

identifying information that you keep in the student’s file.

A student who has an approved application for permanent residence on file with the USCIS and who is waiting for a permanent resident card may not have proof of her permanent resident status. She should contact her local USCIS office for the passport stamp or I-94 stamp described at the end of this chapter, as these are available to a student before the normal permanent resident documentation is issued. Note that an **application** for permanent resident status is not sufficient for determining eligibility for FSA funds.

The Marriage Fraud Amendments established a two-year conditional permanent resident status for certain alien spouses and their children. The alien spouse of a U.S. citizen or legal immigrant is given conditional permanent resident status if the marriage took place less than two years before the spouse applied for permanent resident status. This status may also apply to any of the spouse’s children who are aliens.

An alien who is granted conditional permanent resident status will be given a Form I-551. This is the same I-551 that is issued to regular permanent residents, except that the card for a conditional permanent resident expires in two years, as opposed to ten years for the regular card. A conditional permanent resident must file a petition for removal of this restriction in the 90 days before the end of the two years. The USCIS will review the petition and, if the result of the review is satisfactory, drop the restriction and issue new documents. Conditional permanent residents holding a valid I-551 are eligible to receive FSA funds until the expiration date.

If a person is applying to suspend deportation, she must request a hearing before an immigration law judge who will render an oral or written decision. If the decision is favorable, the USCIS will give the applicant a Form I-551, which will certify her lawful permanent resident status. Therefore, there is no special category for persons who have been granted suspensions of deportation.

Documents showing ineligible statuses

If the document a student submits is for a noneligible status, you shouldn’t submit the documentation for secondary confirmation. The USCIS can only confirm whether or not the documentation is genuine; it doesn’t determine whether the student is eligible for FSA funds. Unless the student can submit documentation for an eligible status, as described above, the student can’t receive aid.

An approved “Application for Voluntary Departure Under the Family Unity Program,” indicates that the student has been granted relief from deportation under the Family Unity Program. Students with this status are no longer eligible for aid.

The Immigration Reform and Control Act of 1986 (IRCA) established a legalization program (also called the amnesty program) for certain illegal aliens. The alien might eventually be granted perma-

nent resident status. Although these individuals were given documentation that allowed them to work while their application was being processed, they aren't eligible for aid until their application for permanent resident status is approved. Documents such an individual might have in the interim are the Employment Authorization Card (Form I-688A), Employment Authorization Documents (Form I-688B or the I-766), or the Temporary Resident Card (Form I-688). None of these documents qualifies the student for FSA eligibility.

A student with a nonimmigrant visa isn't eligible for FSA funds unless he or she has a Form I-94 with one of the endorsements listed earlier. Nonimmigrant visas include the F-1, F-2 or M-1 Student Visa, B-1 or B-2 Visitor Visa, J-1 or J-2 Exchange Visitors Visa, H series or L series Visa (which allow temporary employment in the U.S.), or a G series Visa (pertaining to international organizations). Also, someone who has only a "Notice of Approval to Apply for Permanent Residence (I-171 or I-464)" cannot receive FSA funds.

Some students may present Forms I-94 stamped "Temporary Protected Status." This status is used for persons who are from countries that are in upheaval, but the status differs significantly from "Refugee" or "Asylee" because it provides no conversion to permanent resident status. A student with this status is **not** eligible for FSA funds.

Using the G-845 for secondary confirmation

To initiate paper secondary confirmation, you must complete a Form G-845 and send it to the USCIS field office for your area within ten business days of receiving the student's documentation. The G-845 ("Immigration Status/Document Verification Request") is a standard form that asks the USCIS to confirm a noncitizen's immigration status. Because the form was revised recently, the order of the responses below has changed, but the categories of eligible noncitizens have not changed. See the electronic announcement dated 12/28/06 on the www.ifap.ed.gov website for more information about the differences between the old and new forms and to download a copy of the new form. The guidance below is for the new version.

To complete the G-845, fill in each item on the top half of the form. You must enter the A-Number in box 1. **For box 5 you must provide the 15-digit DHS verification number that is printed on the SAR and ISIR. Secondary confirmation requests without this number will be returned unprocessed.** "Education Grant/Loans/Workstudy" must be marked in box 8, "Benefit." Also, at the bottom of box 8 write "SSN" in the space marked "Other" and the student's SSN in the space next to it. You must write your name as the submitting official and your school's name as the submitting agency.

Photocopies of the front and back sides of the student's immigration document must be attached to the G-845. Be sure to submit each pertinent visa and immigration document along with the form; the G-845 submitted by itself can't be used to determine FSA eligibility. A student who lost documents or surrendered them when entering prison is responsible for getting copies of them before the G-845 is

Contacting the USCIS/DHS

Send the G-845 to the USCIS field office that serves your area. Because the USCIS is consolidating its offices that process the form, the one you send the form to will not necessarily be the closest. It will depend on the state or territory, and sometimes the county, in which your school is located. The USCIS will provide a list at www.uscis.gov of the field offices that are processing the G-845 and the states (and occasionally counties) that they serve. As of this publishing, however, the information is not available on that website but is available on the Department's site at www.ifap.ed.gov. See the electronic announcement of April 11, 2007, for complete instructions and for a copy of the new G-845 form.

Purpose of the G-845 form

The status verifier at the USCIS field office will note on the G-845 form you submit on behalf of your student what immigration status the student's documentation suggests. **The form does not directly state whether the student is eligible for Title IV aid.** To determine that, you must check the result of the status check as it appears on the G-845 against the information on eligible noncitizen statuses provided in this chapter.

**School policies and procedures
on secondary confirmation**

34 CFR 668.134–135

**Determining eligibility if USCIS
response is late**

34 CFR 668.136(b)

submitted. (See “Replacing Lost DHS Documents” on p. 35.) You can request copies of immigration documents directly from penal institutions at the request of the student. Send the completed G-845 and attachments to the field office serving the prison’s locale.

Noncitizens may also present other pertinent documents, such as marriage records or court orders, that indicate the identity or United States residency of the holder. Although these documents may not serve as adequate proof of immigration status, copies of them should be submitted with the G-845, as they may be useful to the status verifier.

A status verifier at the district USCIS office will search the student’s record to confirm his immigration status, complete the “USCIS Response” section, and send the G-845 back to your office, generally within ten working days of receipt. We recommend that you document any mailings to the USCIS and, if you haven’t heard back, that you call its office to make sure the G-845 was received. If you don’t receive a response from the USCIS after at least 15 business days from the date you sent the G-845, if you have sufficient documentation to make a decision, and if you have no information that conflicts with the student’s documents or claimed status, you shall review his file and determine whether he meets the eligible noncitizen requirements. If he does meet the requirements, make any disbursement for which he is eligible and note in his file that USCIS exceeded the time allotment and that noncitizen eligibility was determined without their verification.

When secondary confirmation results in an eligible status, you must keep the G-845. If the confirmation process indicates a discrepancy, you must ask the student to correct the discrepancy with the USCIS. No certification of loans or further disbursement of funds can be made until the discrepancy is corrected. If the discrepancy isn’t reconciled, the student must repay all aid except wages earned under FWS. Whenever the student is able to provide new information, it must be submitted to the USCIS on a new G-845.

As long as you have followed the procedures outlined here, including notifying the student of the discrepancy and withholding further payments and loan certifications as soon as a discrepancy is found, your school isn’t liable for aid disbursed prior to secondary confirmation. This assumes that you had no other conflicting information prior to making the disbursement and had reviewed the available documentation and concluded that the student was otherwise eligible.

Interpreting the USCIS response

The status verifier will mark one or more of the checkboxes on the G-845. The following list explains whether checking a box means the student is eligible. In reviewing the completed G-845, bear in mind that it reflects the student’s most recent status with the USCIS and may show a different status than the documentation presented by the student. In this case, you should verify that both documents identify the same person. If they do, the status on the G-845 should be used since it is more current.

1. “**Lawful Permanent Resident alien** of the United States.” Block #1 is checked when the document submitted is determined to be a valid I-551, I-151, I-94, I-94A, U.S. Travel Document annotated with “Permit to Reenter Form I-327 (Rev. 9-2-03),” or a passport with an MRIV bearing the statement “Upon endorsement serves as temporary I-551 evidencing permanent residence for 1 year.” A student with this status is eligible for FSA.
2. “**Conditional Resident alien** of the United States.” The document is determined to be a valid I-551, I-94, I-94A, or a passport with an MRIV bearing the statement “Upon endorsement serves as temporary I-551 evidencing permanent residence for 1 year.” A student with this status is eligible for FSA.
3. “**Refugee** under Section 207 of the INA.” This is checked when an alien has been granted refuge in the United States. Documentation presented may include a Form I-94 or I-94A stamped with “Section 207-Refugee,” a Refugee Travel Document (Form I-571), or the new U.S. Travel Document annotated with “Refugee Travel Document Form I-571 (Rev. 9-2-03).” A student with this status is eligible for aid.
4. “**Asylee** under Section 208 of the INA.” This is checked when an alien has been granted asylum in the United States. Documentation presented may include a Form I-94 or I-94A stamped with “Section 208-Asylee,” a Refugee Travel Document (Form I-571), or the new U.S. Travel Document annotated with “Refugee Travel Document Form I-571 (Rev. 9-2-03).” A student with this status is eligible for aid.
5. “Alien **paroled** into the United States pursuant to Section 212(d)(5) of the INA ...” This is checked for parolees, of which there are a few eligible classes. Documentation may include Form I-94 or I-94A stamped with “Section 212(d)(5)—Parolee.” The student is eligible for aid if paroled into the U.S. for one year or more (the corresponding subsidiary box must be checked) and if he has evidence from the DHS (such as having filed a valid permanent resident application) that he is in the U.S. for other than a temporary purpose and intends to become a citizen or permanent resident.
6. “Alien who is a **Cuban/Haitian** entrant as defined by Section 501(e) of the REAA of 1980.” This is checked for Cubans who entered the United States illegally between April 15, 1980 and October 10, 1980 and Haitians who entered the country illegally before January 1, 1981. A student with this status is eligible for aid.
7. “Alien who is a **conditional entrant**.” This is checked for conditional entrants under the old provisions of P.L. 89-236.

Documents may include Form I-94 stamped with “Section 203(a)(7).” Persons who fall into this category had to have entered the U.S. prior to the enactment of the Refugee Act of 1980. A student with this status is eligible for aid.

8. “Alien who is a **nonimmigrant**.” This is checked to indicate an alien who is temporarily in the United States for a specific purpose. This category includes students, visitors, and foreign government officials. Documents presented may include the I-94 or I-94A. Students with this status aren’t eligible for aid.
9. “Alien who has an **application pending** for:” This is checked when an alien is waiting for a new immigration status or a change of immigration status. If a change of status is pending, the appropriate block indicating the current status will also be checked elsewhere on the G-845. A pending application for an immigration status doesn’t by itself make the student eligible for FSA funds; he must have an eligible status checked on the form or provide other documentation of an eligible status.
10. “**U.S. citizen**.” This is new to the G-845 form. Because the verification request is used to check the status of immigrants, this box should be infrequently checked, and you should not see this in the financial aid office because, as explained earlier in the chapter, you would have reviewed the student’s documentation, and if it showed him to be a U.S. citizen, you would not have submitted it to the USCIS.
11. Alien **authorized employment** as indicated below:” This indicates the expiration date or that there is no expiration. Employment authorization by itself doesn’t mean that the student is eligible for FSA funds. Unless some other eligible status is also checked or the student can provide other documentation that can be confirmed by the USCIS, the student isn’t eligible for aid.
12. “Alien not authorized employment in the United States.” This block is checked when an alien’s status prohibits employment in the United States. Students with this status aren’t eligible for aid.

Citizenship and Immigration Services will initial and stamp the front of the G-845 in the signature block.

The comments block on the back of the G-845 provides further instructions for boxes that are checked:

13. “The document is not valid because it appears to be ...” This and the appropriate subsidiary box are checked when the document has expired, been revoked, or when it appears to be counterfeit or altered. Notify the student that unless

Department of Homeland Security
U.S. Citizenship and Immigration Services

**G-845, Immigration Status/
Document Verification Request**

Section A. -To be completed by the submitting agency.

To: U.S. Citizenship and Immigration Services (USCIS)

Attn: Status Verifier

From: Typed or Stamped Name and Address of submitting Agency

(USCIS may use above address with a No. 20 window envelope.)

1. Alien Registration Number or I-94 Number

2. Applicant's Name (Last, First, Middle)

3. Citizenship/Nationality

4. Date of Birth (mm/dd/yyyy)

5. Verification Number

6. Photocopy of Document Attached.
(If printed on both sides, attach a copy of the **front and back**.)

7. Other Information Attached (*Specify documents.*)

8. (<i>Benefit</i>)	(Your Case Number)
<input type="checkbox"/> Education Grant/Loans/Workstudy	
<input type="checkbox"/> Food Stamps	
<input type="checkbox"/> Housing Assistance	
<input type="checkbox"/> Medicaid/Medical Assistance	
<input type="checkbox"/> TANF	
<input type="checkbox"/> Unemployment Insurance	
<input type="checkbox"/> Other (<i>specify</i>)	

9. Name of Submitting Official

10. Title of Submitting Official

11. Date (mm/dd/yyyy)

12. Telephone Number ()

For U.S. Department of Labor Use Only: Provide 18-months of employment authorization document history data under **No. 19, "Other"** on **Page 2.**

Section B. -To be completed by USCIS.

USCIS RESPONSES: From the documents or information submitted and/or a review of our records, we find that:

The person identified is a/an:

1. **Lawful Permanent Resident alien** of the United States.

2. **Conditional Resident alien** of the United States.

3. **Refugee** under Section 207 of the INA.

4. **Asylee** under Section 208 of the INA.

5. Alien **paroled** into the United States pursuant to Section 212(d)(5) of the INA as indicated below:

a. For a period of one year or more.

b. For a period of less than one year.

6. Alien who is a **Cuban/Haitian** entrant as defined by Section 501(e) of the REAA of 1980.

7. Alien who is a **conditional entrant**.

8. Alien who is a **nonimmigrant**.
(Specify type or class and admitted to date.)

9. Alien who has an **application pending** for:
(Specify USCIS benefit below.)

10. **U. S. citizen.**

11. Alien **authorized employment** as indicated below:

a. No Expiration (Indefinite).

b. Expires on: _____
(mm/dd/yyyy)

12. Alien not authorized employment in the United States.

See Page 2 for additional comments.

USCIS Stamp

Section B. (Continued.)

USCIS Comments

13. The document is not valid because it appears to be *(Check all that apply.)*:
- a. Expired *(Provide expiration date - mm/dd/yyyy.)* _____
- b. Altered.
- c. Counterfeit.
- d. Revoked *(Provide revocation date - mm/dd/yyyy.)* _____
14. The attached Form I-551, Permanent Resident Card or Resident Alien Card, has expired. The card does not indicate that the alien's status has expired. The expiration date on the Form I-551 indicates the card has expired and must be renewed. Please refer the applicant to their local USCIS Application Support Center for a replacement card.
15. Continue to process as legal alien. USCIS is searching indices for further information.
16. Copy of document is not readable. *(Resubmit request.)*
17. No determination can be made without seeing a copy of both sides of the document submitted. *(Resubmit request.)*
18. Unable to process request without an original consent of disclosure statement signed by the applicant. *(Resubmit request.)*
19. Other *(Provide comments. Attach additional sheet of paper, if necessary.)*

Instructions

- **Submit a copy of the front and back of the alien's original immigration documentation.**
- **Make certain a complete return address has been entered in the "From" portion of the form.**
- The Alien Registration Number ("A" Number) is the letter "A" followed by a series of seven, eight or nine digits. The number found on Form I-94 may also be recorded in the block. (Check the front and back of the Form I-94 document. If the "A" Number appears, record that number when requesting information, instead of the longer admission number, because the "A" Number refers to the most integral record available.)
- If Form G-845 is submitted without a copy of the applicant's original immigration documentation, it will be returned to the submitting agency without any action taken.
- Address this verification request to the local office of the U.S. Citizenship and Immigration Services.

corrective action is taken with the USCIS, the case will be submitted to the Office of Inspector General (OIG). Until this is resolved, no further aid may be disbursed, awarded, or certified. If the student does not take corrective action in a timely manner, you must report the case to the OIG.

14. “The attached Form I-551, Permanent Resident Card or Resident Alien Card, has expired. The card does not indicate that the alien’s status has expired. The expiration date on the Form I-551 indicates the card has expired and must be renewed. Please refer the applicant to their local USCIS Application Support Center for a replacement card.” Students whose LPR card has expired are still lawful permanent residents, and if there are no other problems, they remain eligible for aid and should not be reported to the OIG.
15. “Continue to process as legal alien. USCIS is searching indices for further information.” This block is checked if the USCIS is withholding judgment, pending further investigation on the status or validity of documentation. This statement doesn’t imply that the applicant is an illegal alien or the holder of fraudulent documentation. Benefits shouldn’t be denied on the basis of this statement.

The student’s documentation should be accepted at face value until the USCIS sends final notification regarding immigration status. If the student appears to be an eligible noncitizen based upon your review of the documents, you may pay the student any FSA funds for which she is eligible. If the USCIS later notifies you that the student’s documentation isn’t valid, you must cancel further disbursements, but your school isn’t liable for the payments already made—the student is.

16. “Copy of document is not readable.” Resubmit the G-845 with higher quality copies of the original documentation.
17. “No determination can be made without seeing a copy of both sides of the document submitted.” Resubmit the G-845 with copies of both sides of each document.
18. “Unable to process request without an original consent of disclosure statement signed by the applicant.” Ignore this comment; it does not apply to federal student aid applicants.

Student rights

You must allow the student at least 30 days from the time you receive the output document to provide documentation of his immigration status. During this period and until the results of the secondary confirmation are received, you can’t deny, reduce, or terminate aid to him. If the documentation supports the student’s status as an eligible noncitizen, and if at least 15 business days passed since the date on which the documentation was submitted to the USCIS, you can

Procedures when ineligibility is determined after disbursement

34 CFR 668.136(c)

Lack of response example

Mikko is a refugee and received aid from Guerrero University for the 2006–07 school year. His status wasn’t confirmed through the DHS match, so Guerrero had to perform secondary confirmation. The DHS didn’t respond in time, so Guerrero paid Mikko without any response. When Mikko applies for 2007–08, the CPS still doesn’t confirm his status. Even though Guerrero began secondary confirmation for Mikko last year and his documents haven’t expired, because the school never received a DHS response, it must perform secondary confirmation again.

Citizens of the Freely Associated States

The Compact of Free Association (P.L. 99-239) created three political entities from the former Trust Territory of the Pacific Islands. Two of these entities, the Marshall Islands and the Federated States of Micronesia, voted in 1986 to end political ties with the United States. The third entity, Palau, voted to ratify the compact in 1994; its independence was effective October 1, 1994. These three entities are the Freely Associated States. 34 CFR 600.2

disburse aid to an otherwise eligible student pending the USCIS response.

Your school isn't liable if you erroneously conclude that a student is an eligible noncitizen, provided that you had no conflicting data on file and you relied on:

- a SAR or ISIR indicating that the student meets the requirements for federal student aid,
- a USCIS determination of an eligible immigration status in response to a request for secondary confirmation, or
- immigration status documents submitted by the student, if the USCIS did not respond in a timely fashion.

The student (or parent borrower of a PLUS loan) is liable for any FSA funds received if he is ineligible. If you made your decision without having one of these types of documents, your school is held responsible for repaying FSA funds to the Department.

Your school should establish procedures to ensure due process for the student if FSA funds are disbursed but the aid office later determines (using secondary confirmation) that the student isn't an eligible noncitizen. The student must be notified of his ineligibility and given an opportunity to contest the decision by submitting to your school any additional documents that support his claim to be an eligible noncitizen. If the documents appear to support the student's claim, you should submit them to USCIS using paper secondary confirmation. You must notify the student of your office's final decision, based on the secondary confirmation results.

For every student required to undergo secondary confirmation, you must furnish written instructions providing:

- an explanation of the documentation the student must submit as evidence of eligible noncitizen status;
- your school's deadline for submitting documentation (which must be at least 30 days from the date your office receives the results of the primary confirmation);
- notification that if the student misses the deadline, he may not receive FSA funds for the award period or period of enrollment; and
- a statement that you won't decide the student's eligibility until he has a chance to submit immigration status documents.

CITIZENS OF THE FREELY ASSOCIATED STATES

Students who are citizens of the Freely Associated States (Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia) are eligible for Pell grants, and for FWS and FSEOG under conditions described in the margin note, but are not eligible for FSA loans. They should indicate on the FAFSA that they are eligible noncitizens and leave the A-Number item blank. If the student doesn't have an SSN, he enters 888 and ED will give him a number to use, or if he was given a number in the previous year, he should use that. Because he isn't giving an A-Number, his application won't go through the DHS match. As long as his file contains consistent information on his citizenship, you aren't required to collect documentation.

Citizens of the Freely Associated States whose application was sent through FAA Access to CPS Online may indicate that they are eligible noncitizens, and their state of legal residence will be confirmed. If they are determined to be residents of the Freely Associated States, they won't be required to provide an A-Number.

DOCUMENTING IMMIGRATION STATUS IN LATER AWARD YEARS

There are several cases in which you must document a student's immigration status in a subsequent award year if that student again is not confirmed through the application process.

For example, a student who presented a Temporary Form I-551 in a prior award year should have received a permanent I-551 by the next year and shouldn't still have a temporary card. You should refer the student to USCIS to obtain a permanent I-551 or an updated endorsement on the previous card. The documents should also be submitted to USCIS on a G-845.

You must also document the eligible noncitizen status each award year for a conditional permanent resident, a refugee, a Cuban-Haitian entrant, or a person granted asylum. Students in any of these categories may have been redesignated to permanent-resident status or may have had their statuses revoked. You will have to send the documents for secondary confirmation if the student's status isn't confirmed through the USCIS match.

You don't have to document a student's eligible noncitizen status in subsequent award years if you've documented that the student is a U.S. citizen or national, is a citizen of the Freely Associated States, or has a Form I-551 or I-151.

In addition, you aren't required to perform secondary confirmation if for a previous award year it showed that the student was an eligible noncitizen and the documents used for that secondary confirmation haven't expired. You must also have no conflicting information or reason to doubt the student's claim of having eligible noncitizen status. Also note that you must have **confirmed the status** in a previous award year. (Although you can disburse aid without the USCIS re-

Exclusion from subsequent secondary confirmation

34 CFR 668.133(b)

Losing FSEOG and FWS

The Compact of Free Association Amendments Act of 2003, or the Compact Act, eliminates eligibility for citizens of the Republic of the Marshall Islands and the Federated States of Micronesia for FSEOG and FWS funds. (The citizens of Palau are eligible for these funds under the Higher Education Extension Act.) To mitigate this loss, the Compact Act also authorizes Supplemental Education Grants (SEGs) that can be awarded to the FSM and RMI starting with the 2005 fiscal year. For more information, students should contact their local education authority. Students who are citizens of the above states will continue to be eligible for FWS and FSEOG for up to four academic years after December 17, 2003, provided they were attending an institution of higher education on that date in the United States or its territories, the Federated States of Micronesia, or the Republic of the Marshall Islands. If they were not in such attendance, they are not eligible for FWS and FSEOG.

sponse if the USCIS doesn't respond in time, you can't count that lack of response as confirmation for the following year.)

REPLACING LOST DHS DOCUMENTS

If a student can't locate his official USCIS documentation, the student must request that the documents be replaced because noncitizens who are 18 years and older must have immigration documentation in their possession at all times while in the United States. Requests for replacement documents should be made to the USCIS District Office that issued the original documents.

The student will be asked to complete a Form I-90, "Application to Replace Alien Registration Card" or a Form I-102, "Application for Replacement/Initial Nonimmigrant Arrival-Departure Document." PDF versions of these forms can be downloaded from the USCIS web site at www.uscis.gov. A temporary I-94 may be issued while the replacement documents are pending.

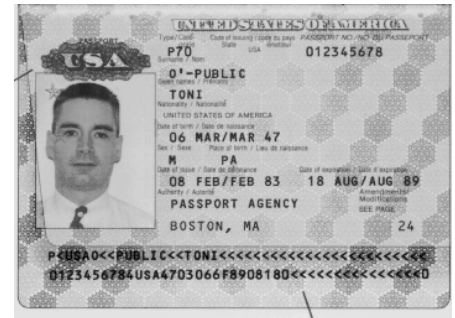
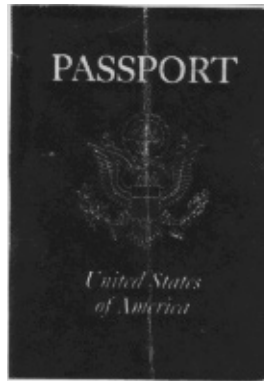
In cases of undue hardship, where the student urgently needs documentation of his status, the Freedom of Information Act (FOIA) allows him to obtain photocopies of the documents from the USCIS District Office that issued the original documents. The student can submit a Form G-639 to make this request or can simply send a letter to the district office. If he is not sure which district office issued the original documents, he can submit the request to the field office nearest to his place of residence.

CITIZEN NOT BORN IN U.S./NONCITIZEN NATIONAL

U.S. Passport

Can be used to document citizenship for citizen born abroad.

For a noncitizen national, must be stamped “Noncitizen National” (Note that a passport issued by another country may be used to document permanent resident status if it has the endorsement “Processed for I-551” and has a currently valid expiration date.)

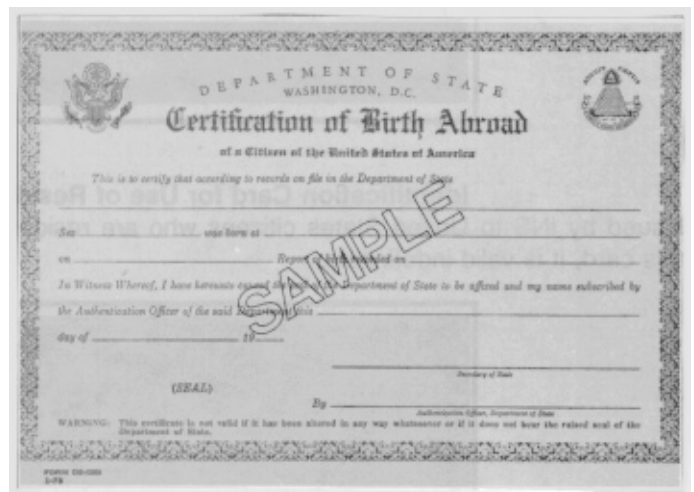


Certificate of Citizenship

The Certificate of Citizenship is issued to persons who were born abroad of U.S. parent(s), who became citizens when their parents were naturalized, or who were adopted by U.S. parents.

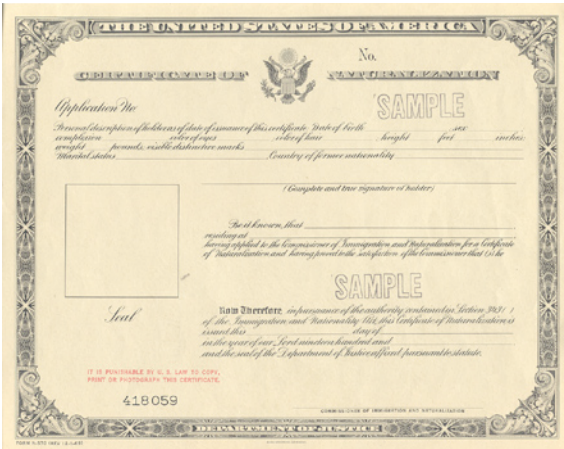
Certification of Birth Abroad

Issued to U.S. citizens born abroad. Must have embossed seal of the State Department.



Certificate of Naturalization

The Certificate of Naturalization is issued to naturalized U.S. citizens.



A revised version of the Certificate of Naturalization is issued to citizens who filed for naturalization after October 1, 1991.



PERMANENT RESIDENT/OTHER ELIGIBLE NONCITIZEN

I-94 Arrival-Departure Record

For permanent resident status, must be stamped “Processed for I-551” with expiration date or “Temporary Form I-551” with appropriate information filled in.

For other eligible noncitizens, must be stamped as Refugee, Asylum Status, Conditional Entrant (before April 1, 1980), Parolee, or Cuban-Haitian Entrant. See pp. 23–25.

Departure Number
742831632 01

U.S. IMMIGRATION
250 WAS 177

Immigration and Naturalization Service
I-94
Departure Record

SEP 13 1991

ADMITTED **B-2**
UNTIL **MARCH 12, 1992** CLASS

14. Family Name
DOE

15. First (Given) Name
JOHN

16. Birth Date (Day Mo Yr)
010191

17. Country of Citizenship
ENGLAND

See Other Side STAPLE HERE

Warning - A nonimmigrant who accepts unauthorized employment is subject to deportation.

Important - Retain this permit in your possession; **you must surrender it when you leave the U.S.** Failure to do so may delay your entry into the U.S. in the future. You are authorized to stay in the U.S. only until the date written on this form. To remain past this date, without permission from immigration authorities, is a violation of the law.

Surrender this permit when you leave the U.S.:

- By sea or air, to the transportation line;
- Across the Canadian border, to a Canadian Official;
- Across the Mexican border, to a U.S. Official.

Students planning to reenter the U.S. within 30 days to return to the same school, see “Arrival-Departure” on page 2 of Form I-20 prior to **surrendering this permit.**

Record of Changes

Port: _____ Departure Record

Date: _____

Carrier: _____

Flight #/Ship Name: _____

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

NSLDS Financial Aid History

Students who have previously attended other colleges may have a financial aid history that affects their eligibility for FSA funds at your school. You can review a student's financial aid history by using the National Student Loan Data System (NSLDS, online at www.nslsdfap.ed.gov; for questions call 1-800-999-8219). NSLDS will also help you track changes to the student's financial aid history through the postscreening and transfer student monitoring processes.

A person generally isn't eligible for FSA funds if he is in default on an FSA loan or he owes an overpayment on an FSA grant or loan and he has not made a repayment arrangement for the default or overpayment. Also, for a parent to receive a PLUS Loan, neither the parent nor the student may be in default or owe an overpayment on an FSA loan or grant (though a parent in default on a PLUS loan does not make a student ineligible for aid). Exceptions to these general rules are noted in the discussion below.

Any student applying for FSA funds must certify that he isn't in default on any FSA loan and doesn't owe an overpayment on any FSA grant, or that he has made satisfactory arrangements to repay the overpayment or default. This certification statement is printed on the *Free Application for Federal Student Aid (FAFSA)*.

A student is also ineligible if she inadvertently exceeded annual or aggregate loan limits. She can regain eligibility by repaying the extra amount borrowed or making arrangements, satisfactory to the loan holder, to repay it. See *Volume 5*.

The Higher Education Reconciliation Act (HERA) added the requirement that a student who has been convicted of, or has pled no contest or guilty to, a crime involving fraud in obtaining Title IV aid must have completely repaid the fraudulently obtained funds to the Department or the loan holder before regaining aid eligibility. Any Perkins, FFEL, or Direct loan so obtained is not eligible for rehabilitation. You can handle this requirement as you would a judgment lien below: you don't need to collect certification from each student but can deal with the situation when you become aware of it.

Finally, a student is ineligible if his property is subject to a judgment lien for a debt owed to the United States, and a parent can't receive a PLUS loan if either the student or parent is subject to such a lien. For example, if the Internal Revenue Service (IRS) had placed a lien on a student's property for failure to pay a federal tax debt or make satisfactory arrangements for repayment, the student would be ineligible for federal student aid.

FSA loans

- FFEL and Direct Stafford loans, subsidized and unsubsidized
- FFEL and Direct PLUS loans (for parents)
- FFEL and Direct graduate/professional student PLUS loans
- FFEL and Direct consolidation loans
- Federal Perkins loans (including National Direct Student loans and National Defense Student loans)
- Loans formerly known as Guaranteed Student loans, Income Contingent loans (ICL), SLS, and FISL

Federal default and debt

HEA Sec. 484(a)(3), 484(f),
34 CFR 668.32(g), 668.35

Loan limits and eligibility

See Volume 3 for loan limits
HEA Sec. 484(f),
34 CFR 668.32(g)(2), 668.35(d)

Financial aid history

34 CFR 668.19
Dear Colleague Letter GEN-96-13;
Federal Register notice
September 16, 1996

Judgment lien example

When Charlotte provides her parents' tax return to the aid administrator at Brandt College, he notices that they've reported business income, but didn't report a business asset on the FAFSA. Charlotte explains that they didn't report the business as an asset because there's a lien against the business for a federal loan. The aid administrator tells her that the asset must still be reported, and also that her parents won't be able to borrow a PLUS Loan as long as they are subject to the lien.

When the FAFSA is processed, the Central Processing System (CPS) matches the student against the National Student Loan Data System (NSLDS) to see if she is in default, owes an overpayment, or has exceeded the loan limits. The CPS doesn't perform any matches to determine whether or not the student is subject to a judgment lien for a federal debt, and you aren't required to check for such liens. However, if you know that she is subject to such a lien, you can't pay her Title IV funds.

NSLDS MATCH

To help you identify students with problems such as defaulted loans or overpayments, the CPS matches the student's FAFSA information with her financial aid history in the NSLDS database. You must resolve any conflicts between NSLDS and other information you have about the student before disbursing Title IV aid, for example, if NSLDS shows that a student isn't in default but you have documentation showing that she is in default.

The results of the NSLDS match are provided on the SAR and ISIR on the NSLDS Financial Aid History page. As with other matches, a "C" next to the student's EFC indicates problems that must be resolved. See Appendix B of the ISIR Guide for the complete tables of NSLDS match results.

Adding a school and the NSLDS match

When a school is added to the FAFSA, the application goes through the NSLDS match again rather than be processed in real time. This ensures that the new school receives the latest financial aid history on the ensuing transaction. This does not affect schools' responsibility to use transfer student monitoring. See p. 25 of the Summary of Changes for the Application Processing System posted as an electronic announcement on the IFAP website on 11/25/05.

Successful match

The SAR and ISIR will contain the NSLDS financial aid history only if the student's identifying information matches the database and there is relevant information for the student in the database. If the student has no defaults or overpayments or has made satisfactory repayment arrangements on a defaulted loan, the NSLDS match flag will be 1 and no C code will appear on the output document. A match flag of 2, 3, or 4 indicates that the student has defaulted loans or owes an overpayment or both. You will need to document that the problem has been resolved before disbursing aid, as already noted.

Note that for "real-time" processing—if a student uses Corrections on the Web or an FAA uses FAA Access to CPS Online—the CPS does not match against the NSLDS database (except when a school is added, see the margin note), but the output document will show NSLDS data from the last transaction that did match against NSLDS.

No data from match

There are several reasons why an output document may not have financial aid history information: for example, if the application was rejected for lack of a signature or if identifying information was missing. For other cases, you can check the NSLDS flags reported in the "FAA Information" section.

▼ *Partial match.* If the student's SSN is in the NSLDS database, but the first name and date of birth don't match what the student reported, no financial aid history will be reported and the output document will have an NSLDS match flag of "7" and a C code. There

will also be a comment explaining why the financial aid history isn't given and directing the student to work with the school to resolve any discrepancies. A partial match **requires resolution**; otherwise you won't have information from the Department on defaults and overpayments.

If the student originally reported incorrect identifying information, you can have her submit correct information, which will be sent through the match again.

You can also access NSLDS online and use the reported SSN to determine if the record belongs to the student by considering whether other information you have about the student is consistent with the NSLDS data. For example, if the name reported on the application is a nickname and the name in NSLDS is the actual name, you may assume that the record is the student's and use the NSLDS data to confirm the student's eligibility. Or if you know that the student attended a particular school in a particular award year, and NSLDS shows aid received at that school in that year, you may assume that the record belongs to the student. If you discover the discrepancy is due to the student misreporting the name or date of birth on the FAFSA, you should have the student make a correction. However, you may use the NSLDS record to determine the student's eligibility; you don't need to wait for the corrected data to be reported.

If you find that the financial aid history associated with the student's SSN doesn't belong to the student, you should assume that the student has no relevant financial aid information. You (or the student) may also contact NSLDS or the agency that reported someone else's data using the student's SSN, but you aren't required to do so. See Dear Colleague Letter GEN-96-13 for further discussion.

▼ *Student not in database.* If a match with NSLDS is completed but there's no information on the student in the database, then no financial aid history can be provided. The output document will have a comment explaining that the student's SSN is not associated with any financial aid history. You can thus assume that she has no financial aid history unless you have conflicting information. If a loan history should exist, help the student by contacting the lender (for FFEL) or the Direct Loan Servicing Center.

▼ *No relevant history.* If a student's SSN matches a record in the NSLDS database but there's no relevant financial aid history information to report, then no information will be on the output document. For example, no data would be reported if the only information for a student was for a Pell grant received in the previous year because that information isn't needed to determine the student's eligibility for aid for the current year. The SAR and ISIR will have a comment explaining that the student's record was matched with NSLDS, but no information was found to print on the NSLDS page.

▼ *Processing problem.* If there was a problem with the match, the SAR and ISIR won't include financial aid history information. The

Example of misreported information on the FAFSA

When Sarven Technical Institute receives Tod's ISIR, it shows that there was a discrepancy with the NSLDS database, and so no financial aid history information is provided. The FAA asks Tod if he provided the correct name and birth date on the application. Tod says he wrote in the wrong month for his birth date, but his name is correct. The FAA checks the NSLDS database using Tod's SSN. NSLDS shows the correct birth date, but the first name of the student is Warren, not Tod. Sarven checks again with Tod, and this time he explains that Tod is a nickname and Warren is his real name. Sarven determines that the financial aid history associated with the SSN belongs to Tod. It could disburse aid without requiring a correction, but Tod has other corrections to make, so Sarven will wait for the correction before disbursing aid.

Example of incorrect NSLDS data

Lydia is a first year undergraduate at Bennet College, and has never attended college before. When Bennet receives Lydia's ISIR, it shows that there was a partial match, and there's some data associated with her SSN. Bennet checks NSLDS directly, and it shows that a lender is reporting a loan made ten years ago (when Lydia was in elementary school) under her SSN, but with a completely different name and birth date. Bennet determines that this isn't Lydia's loan, and so she has no financial aid history in NSLDS. Bennet also suggests to Lydia that she should contact NSLDS or the lender and ask them to correct the NSLDS data so it doesn't cause problems for her later on.

Targeted alert process

The preamble to the November 1, 2001 regulations explains why a separate transfer student monitoring process was developed: if the ISIR were used to provide this information, “every school that the student listed on the FAFSA would be required to receive an updated ISIR every time new disbursements were reported to NSLDS, including the school that reported those disbursements.”

Note that transfer student monitoring will not send unnecessary alerts to your school when you report award changes that you have made—it only alerts you about changes to the student’s financial aid history at other schools.

See the preamble to November 1, 2001 General Provisions amendments FR Volume 65, No. 212, page 65669.

output document will have a C code and a comment explaining that the CPS couldn’t determine whether the student has loans in default and will direct the student to contact the financial aid administrator. You must get the student’s financial aid history before disbursing aid. If the student has to make corrections of any kind, the FAFSA information will go through the match again when the corrections are submitted, and you can use the results of that match to determine the student’s eligibility.

Postscreening—changes after initial match

Once you have received the financial aid history through NSLDS, you aren’t required to check for changes to the data before you disburse funds to the student. However, if you learn from NSLDS or another source that he was not or is no longer eligible, you must not deliver or disburse any more FSA funds and must help make sure he arranges to repay the aid for which he wasn’t eligible.

NSLDS uses a postscreening process to let you know when there are significant changes (such as a defaulted loan or an overpayment) to a student’s financial aid history. If postscreening identifies changes that may affect the student’s eligibility, the CPS will generate new output documents so that schools that are listed for receipt of the student’s FAFSA information will automatically be notified. Items that have changed since the last transaction are marked on the output document with a “#” sign, and the reason code for the postscreening will be given.

To help you identify when NSLDS data has changed, the document will include an NSLDS transaction number in the “FAA Information” section with the other match flags. This is the number of the last transaction on which NSLDS data changed, so if you receive an output document on which that number is higher than the one on the document you used to determine the student’s eligibility, you must review the NSLDS data on the new document to be sure there are no changes affecting the student’s eligibility. There will be postscreening codes to help determine what changed.

CHECKING THE FINANCIAL AID HISTORY FOR TRANSFER STUDENTS

Before disbursing Title IV funds, you **must** obtain a financial aid history for a student who has received aid at another school, and you must inform NSLDS about the transfer student so that you can receive updates through the Transfer Student Monitoring Process. The financial aid history is used to identify students who are ineligible for any Title IV aid due to default or overpayment on an FSA grant or loan, or for aid from a particular Title IV program because they’ve reached that program’s annual or aggregate limit.

▼ *Transfer Student Monitoring Process.* You must send NSLDS identifying information for students transferring to your school so that NSLDS can notify you of changes to their financial aid history. You may send information for students who have expressed an interest in

attending your school even if they have not yet formally applied for admission.

Through transfer student monitoring, NSLDS will alert you to any relevant changes in the transfer student's financial aid history—other than the default and overpayment information reported in the post-screening process—that may affect the student's current award(s). There are three steps: inform, monitor, and alert.

- You **must** identify students who are transferring to your school by creating a list of transfer students on the NSLDS website or by sending the list to NSLDS as an electronic batch file through SAIG. You may use either method, both methods, or alternate between methods. A change in method used does not require prior notification to NSLDS's customer service center. To begin using the "Inform" feature, you must first sign up at www.fsawebenroll.ed.gov for the Transfer Student Monitoring/Financial Aid History (TSM/FAH) batch service. Then you must designate a school contact on the School Transfer Profile Page (www.nslsdfap.ed.gov) prior to creating any Inform records. The School Transfer Profile tells NSLDS who will be submitting Inform files from or on behalf of your school and how your school wants to receive an alert notice.
- NSLDS will monitor these students for a change in financial aid history that may affect their current awards and alert you when: a new loan or grant is being awarded, a new disbursement is made on a loan or grant, or a loan or grant (or a single disbursement) is cancelled. *Note: Defaulted loans and overpayment information will not be monitored in the Transfer Student Monitoring Process, as they are already covered in the current postscreening process.* If the student has not already listed your school in Step Six when filing the FAFSA, you would need to have the student add your school in order for you to receive the postscreening information.
- Finally, when NSLDS creates an alert for one or more of your students, it will also send an e-mail to the address given on the School Transfer Profile setup page. Your school's designated contact person may then either review the alert list on the NSLDSFAP website or download a batch file, if batch alerts were requested, through SAIG in report or extract format.

▼ *Reviewing the student's financial aid history.* If a student transfers to your school during the award year, you'll need to review the student's NSLDS financial aid history on the ISIR or on-line at the NSLDS Web site. Using the Financial Aid History, you can determine:

- Whether the student is in default or owes an overpayment on an FSA loan or grant,
- The student's scheduled Pell grant and the amount already disbursed for the award year,

Transfer student monitoring process

Through this process for checking the eligibility of transfer students, you may either check the student's financial aid history on the NSLDS website for professionals, or wait seven days after you've submitted the student's information for monitoring to receive a response from NSLDS.

NSLDSFAP
www.nslsdfap.ed.gov

Dear Partner Letters GEN-00-12 and GEN-01-09

How to get the student's financial aid history.

There are several ways for you to get a student's financial aid history from NSLDS. You can:

- use the NSLDS Financial Aid History section of the ISIR,
- log on to NSLDS directly and access the data online for an individual student,
- for multiple students, use the FAT 001 Web report, which you submit on the NSLDS website (you retrieve the results through SAIG), or
- send a batch TSM/FAH Inform file to request aid history data for several students, which will be returned in either extract or report format through SAIG. The TSM/FAH processes and batch file layouts are posted on the IFAP website at the NSLDS reference materials link.

Resolving grant overpayments

Because Title IV grants have priority in packaging, aid overpayments can often be resolved by adjusting other types of aid in the package. If necessary, you can also adjust later grant payments for the same award year. But if a student receives more grant money than she is eligible for and the excess can't be offset, then she must return the overpayment. As noted at the beginning of the chapter, a student with an outstanding Title IV grant overpayment is ineligible for aid until she repays it or makes satisfactory repayment arrangements. See Volume 5 for a complete discussion.

- ACG and National SMART grants for a student's grade level and the amount already disbursed,
- The student's balance on all FSA loans, and
- The amount and period of enrollment for all FSA loans for the award year.

In most cases, the financial aid history on the ISIR will be enough. There are some cases where you might want to check NSLDS for more information. For example, if the student has more than six loans, the ISIR won't have detailed information for some of the loans. If you need that level of detail for those loans, you can get the information from NSLDS. Or, as discussed previously, you might need to use NSLDS to resolve a partial match situation (see "Partial match," p. 40).

▼ *Timing of the disbursement.* To pay the student you'll need to have an output document and an accurate EFC. A valid ISIR will include that and the student's financial aid history, and it will also tell you if he is in default or owes an overpayment. The postscreening process will send you another ISIR if he subsequently goes into or out of default or owes or ceases to owe an overpayment.

When you initiate transfer monitoring for a student, NSLDS will alert you to any significant award changes that have occurred since you last received an ISIR or alert for her. If you initiate transfer monitoring before you begin receiving ISIRs for a student, NSLDS will track changes in her financial aid history from the date of your request, or any future date, to 90 days after the start of enrollment.

The regulations state that a school may not make a disbursement to the student for seven days following the transfer monitoring request to NSLDS, unless it receives an earlier response from NSLDS or checks the student's current financial aid history by accessing NSLDS directly. Therefore, it's usually a good idea to submit the student's name to NSLDS for monitoring as soon as possible, even if he has not yet decided to enroll at your school.

Refusing or reducing loans

HEA Sec. 479A(c):

"On a case-by-case basis, an eligible institution may refuse to certify a statement that permits a student to receive a loan under part B or D [the FFEL and DL programs respectively], or may certify a loan amount or make a loan that is less than the student's determination of need (as determined under this part), if the reason for the action is documented and provided in written form to the student. No eligible institution shall discriminate against any borrower or applicant in obtaining a loan on the basis of race, national origin, religion, sex, marital status, age, or disability status."

▼ *Consequences when a transfer student subsequently is found to be ineligible for all or part of an aid disbursement.* If the school has followed the proper procedures for obtaining financial aid history information from NSLDS, it is not liable for any overpayments if the student's situation subsequently changes. However, the student will be liable for the overpayment in this situation, and you may not pay the student further FSA funds until the overpayment is resolved. (See *Volume 5* for information on resolving overpayments.)

EFFECT OF BANKRUPTCY OR DISABILITY DISCHARGE

A student who has filed bankruptcy or had a loan discharged for disability might need to provide additional documentation before receiving aid.

Bankruptcy

A student with an FSA loan or grant overpayment that has been discharged in bankruptcy remains eligible for FSA loans, grants, and work-study (NSLDS loan status code BC for loans that did not default and status code DK or OD for loans that defaulted prior to the bankruptcy discharge). A borrower doesn't have to reaffirm a loan discharged in bankruptcy in order to be eligible. The Bankruptcy Reform Act of 1994 prohibits denial of aid based solely on filing for bankruptcy or having a debt discharged in a bankruptcy.

A borrower who lists a defaulted FSA loan or grant overpayment in an active bankruptcy claim is eligible for further FSA funds if the borrower provides you with documentation from the holder of the debt stating it is dischargeable (NSLDS loan status code DO).

A borrower who includes a non-defaulted FSA loan in an active bankruptcy claim, so that collection on the loan is stayed, is eligible for aid as long as he has no loans in default (including the stayed loan).

Total and permanent disability discharge

Perkins, Stafford, and PLUS loan borrowers can have their loans discharged for a total and permanent disability. As of July 1, 2002, there is a three-year conditional period beginning the day the borrower became totally and permanently disabled and during which she will not have to pay on the loan. If she meets the disability discharge requirements for those three years, the loan will be discharged.

If a borrower whose loan is discharged wishes to take out another FSA loan, he must obtain a physician's certification that he has the ability to engage in substantial gainful activity, and he must sign a statement that he is aware the new FSA loan can't later be discharged for any present impairment unless it deteriorates so that he is again totally and permanently disabled. If the prior loan was conditionally discharged on or after July 1, 2002 and three years haven't elapsed, the student must also sign a statement affirming that collection will resume on the old loan (which must begin before receipt of the new loan) and that unless his condition substantially deteriorates, the old loan can't be discharged in the future for any impairment present when he began the conditional discharge or when he tried to get the new loan. If a defaulted loan was conditionally discharged and payment resumed on it, the student must make satisfactory repayment arrangements before receiving the new loan. A conditionally discharged defaulted loan remains in default until it is permanently discharged at the end of the three-year period.

RESOLVING DEFAULT STATUS

A student in default on an FSA loan can't receive further Title IV aid until she resolves the default, which she can do in a few ways.

▼ *Repayment in full (including consolidation).* A student can resolve a default by repaying the loan in full and thereby regain eligibility for



Total and permanent disability discharge

Perkins: 674.61(b)

FFEL: 682.402(c)

DL: 685.213

Dear Colleague Letter GEN-02-03

Total and permanent disability

The condition of an individual who is unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death.

Substantial gainful activity

The phrase "substantial gainful activity" generally describes a situation in which a borrower is sufficiently physically recovered to be capable of attending school, successfully completing a program of study, and securing employment in order to repay the new loan the borrower is seeking. If a physician's certification does not appear to support this status, the school should contact the physician for clarification.

Example: documenting loan “paid in full”

Eddy had a Stafford loan as an undergraduate that went into default while he was out of school. When he applies for financial aid so he can go to graduate school, his ISIR shows that the loan is still in default. Eddy tells the aid administrator at Guerrero University that he paid off the loan last year. The aid administrator asks Eddy to bring in a letter from the guaranty agency documenting that the loan has been paid and advises Eddy that he should ask the guaranty agency to update his status in NSLDS.

Other ways of re-establishing eligibility for Perkins loans

A provision in the Perkins Loan Program reestablishes the borrower’s eligibility if she meets any of the conditions that would remove her Perkins loan from the school’s cohort default rate. This provision only allows the borrower to regain eligibility for Perkins loans, not the other FSA programs. See Volume 6.

Satisfactory repayment and rehabilitation

HEA Sec. 428F(a) and (b), 464(h)(1) and (2)

General Provisions: 34 CFR 668.35(a)(2)

Perkins: 34 CFR 674.9(j), 674.39

FFEL: 34 CFR 682.200(b), 682.405

DL: 34 CFR 685.102(b), 685.211(f)

Rehabilitation example

Eric makes the nine payments required for rehabilitation of his defaulted loan. His original lender isn’t handling student loans anymore, so the guarantor finds another lender to purchase the loan. It takes the guarantor three months to arrange the purchase, and Eric needs to keep making the agreed-on payments on time. Once the new lender has the rehabilitated loan, Eric can apply for an in-school deferment.

FSA funds (loan status code DP). If the student and the loan holder agree on a compromised amount for settling a loan, or if the school writes off a regulatorily permissible amount, and the student repays the amount, that also counts as paying the loan in full (loan status code DC). If a defaulted loan is successfully consolidated, then it is also counted as paid in full (loan status code DN). However, if the loan holder simply writes off the entire loan, the loan isn’t paid in full, and the student remains ineligible for Title IV funds [loan status code DW, though there is no code for a Perkins write-off, which does not make a student ineligible; see 34 CFR 674.47(h)].

The student regains eligibility whether repayment was completed voluntarily or involuntarily (that is, through IRS offset or wage garnishment). A student who has repaid her defaulted loan in full is eligible for aid if the repayment was voluntary. However, you *can* still consider the default to be evidence of a student’s unwillingness to repay loans and deny the student Perkins loans. If the repayment was involuntary, you *should* consider the default as such evidence and deny the student Perkins loans (see *Volume 6*).

If a student has paid a defaulted loan in full but the SAR and ISIR have a comment showing that he is ineligible because of the default, the student must give you documentation proving that the loan has been paid in full.

▼ *Satisfactory repayment arrangements.* A student in default on an FSA loan can be eligible for Title IV aid if he has made repayment arrangements that are satisfactory to the loan holder. After the student makes six consecutive, full, voluntary payments on time, he regains eligibility for Title IV funds (loan status code DX). Voluntary payments are those made directly by the borrower and do not include payments obtained by federal offset, garnishment, or income or asset execution. Note that a student may regain eligibility for aid under this option only one time.

You can pay the student as soon as you have documentation that she has made satisfactory repayment arrangements. For example, the lender may update the code for the loan in NSLDS to DX once six payments have been made; you could then use that as confirmation of the repayment arrangement. You may also use a written statement from the loan holder indicating that the student has made satisfactory repayment arrangements as documentation of the arrangement.

▼ *Loan rehabilitation.* Although a student can regain eligibility for all FSA funds by making satisfactory repayment arrangements, the loan is still in default. After the student makes more payments, the loan may be rehabilitated, that is, it won’t be in default anymore, and the student will have all the normal loan benefits, such as deferments. The HERA changed rehabilitation so that now a loan is rehabilitated once the borrower makes nine full, voluntary payments on time (no later than 20 days after the due date) within 10 consecutive months. See *Volume 6* for more information on rehabilitation in the Perkins/NDSL program.

NSLDS Loan Status Codes

2007–2008 SARs & ISIRs

Code	Status	Eligible for FSA funds
AL	Abandoned Loan	Yes
BC	No Prior Default Bankruptcy Claim, Discharged	Yes, because loan was not in default and was discharged
BK	No Prior Default Bankruptcy Claim, Active	Yes, because loan was not in default
CA	Cancelled (For Perkins means Loan Reversal)	Yes
CS	Closed School Discharge	Yes
DA	Deferred	Yes
DB	Defaulted, then Bankrupt, Active. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13)	No, unless debtor can show that loan is dischargeable. See Dear Colleague letter GEN-95-40, dated September 1995
DC	Defaulted, Compromise	Yes, because compromise is recognized as payment in full
DD	Defaulted, Then Died	No, because if borrower is reapplying, then loan status is in error
DE	Death	No, because if borrower is reapplying, then loan status is in error
DF	Defaulted, Unresolved	No
DI	Disability	Yes
DK	Defaulted, Then Bankrupt, Discharged. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13)	Yes, because defaulted loan has been totally discharged
DL	Defaulted, in Litigation	No
DN	Defaulted, Then Paid in Full Through Consolidation Loan	Yes
DO	Defaulted, Then Bankrupt, Active, other. (FFELP and Direct Loans in Chapters 7, 11, and 12)	No, unless debtor can show that loan is dischargeable. See Dear Colleague letter GEN-95-40, dated September 1995
DP	Defaulted, Then Paid in Full	Yes, because loan was paid in full
DR	Defaulted Loan Included in Roll-up Loan	Yes, because the loan was combined with other loans and subrogated to the Department, which reported the same information to NSLDS in one loan. The status of that record will determine eligibility.
DS	Defaulted, Then Disabled	Yes, because loan debt is cancelled
DT	Defaulted, Collection Terminated	No
DU	Defaulted, Unresolved	No
DW	Defaulted, Write-Off	No
DX	Defaulted, Satisfactory Arrangements, and Six Consecutive Payments	Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA

Code	Status	Eligible for FSA funds
DZ	Defaulted, Six Consecutive Payments, Then Missed Payment	No, loan is back in active default status
FB	Forbearance	Yes
FC	False Certification Discharge	Yes
FR	Loans obtained by borrowers convicted of fraud in obtaining Title IV aid	No
IA	Loan Originated	Yes
ID	In School or Grace Period	Yes
IG	In Grace Period	Yes
IM	In Military Grace	Yes
IP	In Post-Deferment Grace (Perkins only)	Yes
OD	Defaulted, Then Bankrupt, Discharged, other (FFELP and Direct Loans in Chapters 7, 11, and 12)	Yes, because defaulted loan has been totally discharged
PC	Paid in Full Through Consolidation Loan	Yes, because it does not matter if the consolidation loan was a FFEL or Direct Loan, nor whether underlying loans were in default
PF	Paid in Full	Yes
PM	Presumed Paid in Full	Yes
PN	Non-defaulted, Paid in Full Through Consolidation Loan	Yes
RF	Refinanced	Yes, because defaulted loans cannot be refinanced
RP	In Repayment	Yes
UA	Temporarily Uninsured—No Default Claim Requested	Yes
UB	Temporarily Uninsured—Default Claim Denied	Yes, because the loan is not a federal loan while temporarily uninsured
UC	FFEL: Permanently Uninsured/Unreinsured—Non-defaulted Loan. Perkins: Non-defaulted Loan Purchased by School	Yes
UD	FFEL: Permanently Uninsured/Unreinsured—Defaulted Loan. Perkins: Defaulted Loan Purchased by School	Yes, because the loan is no longer a federal loan
UI	Uninsured/Unreinsured	Yes, does not matter if the loan was in default
XD	Defaulted, Satisfactory Arrangements, and Six Consecutive Payments	Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA

Social Security Number

To be eligible to receive FSA funds, each student must provide a correct Social Security number (SSN). To confirm the student's SSN for schools, the Department conducts a match with the Social Security Administration. In this chapter, we discuss the SSN requirement and the match process.

The FAFSA collects the student's SSN (and parents') so that the Central Processing System (CPS) can validate it through a match with the Social Security Administration (SSA). The CPS verifies that the name and birth date associated with the SSN match the name and birth date on the application. For the full list of SSN match results, see Appendix B of the 2007–08 ISIR Guide (www.ifap.ed.gov).

The CPS won't process an application without an SSN. A student who doesn't have an SSN or doesn't remember it must contact the local Social Security office for help. For more information (in English and Spanish), a student should call the SSA at 1-800-772-1213 or go to its website (www.ssa.gov). There is one exception to the requirement to provide SSNs, as discussed below (see "Exception for Micronesia, Marshall Islands, Palau").

The SSN is a key identifier for the student's records, so you must be sure the Department knows the right SSN if you find out it's wrong on the application or output document. We discuss correcting such errors later.

SSN MATCH

The CPS prints the SSN match result in the "FAA Information" section of the output document as the SSN Match Flag. If the match is successful, the CPS doesn't match the student's data against the Social Security database on subsequent transactions. However, the CPS will attempt the match again if the student makes corrections to the name, birth date, or SSN.

Successful match

If the CPS match with the Social Security Administration confirms the student's SSN, and the Social Security records have the same name and birth date as reported on the FAFSA, you may disburse aid to the otherwise eligible student. No comment is provided on the output document when the SSN match is successful. Of course, if you have any conflicting information about the SSN, you must resolve the conflict before disbursing FSA funds to the student.

SSN requirement

Higher Education Act
Sec. 484(p),
Student Assistance General Provisions
34 CFR 668.32(i), 668.36

SSN doesn't match

Student reported wrong SSN

→ Correct FAFSA data

FAFSA processing error

→ Call 1-800-4-FED-AID

Error in SSA database

→ Contact SSA office; resubmit SSN as correction after SSA change is made

Other match problems

→ SSN matches, but name and date of birth don't match

→ Missing FAFSA information: student didn't report a name or birth date, or didn't sign the FAFSA

→ SSN record includes date of death

Once a student's SSN is confirmed and there is no discrepancy on the name or birth date, the student can't change the SSN. If a student whose match data have been confirmed subsequently tries to change his SSN, the CPS won't accept the change. Instead, the student's SAR will have a comment telling the student to contact his financial aid administrator for help. In the unlikely event that the confirmed SSN is wrong, the student must correct it by filing a new FAFSA.

No match on the Social Security Number

You must resolve any problems with the match before disbursing aid. If the SSN is not found in the Social Security Administration database, the student's application will be rejected. The student will also receive a comment that instructs her to correct her SSN or contact the SSA if she believes the number reported is correct. If it is wrong on the application, the student will have to correct it with the CPS and get a successful match result before she can receive aid.

▼ *Student reported wrong SSN on the FAFSA.* If the student's application is rejected because she reported an SSN that is not in the Social Security Administration's database, the student must provide the correct SSN to the CPS. This will change the current SSN in the CPS, but it will not change the original, identifying SSN. Previously the Department recommended that a student file a new FAFSA to correct the original SSN, but now that Common Origination and Disbursement (COD) will use the current SSN to process records, changing the original SSN is not always necessary (but see Applicants Using Same SSN later in this chapter).

COD and SSN changes

See the electronic announcements on the ifap website at www.ifap.ed.gov for information about COD. See the January 7, 2004 announcement for SSN corrections in CPS.

COD replaced the Direct Loan and Pell (RFMS) reporting systems, but there are other systems, such as EDExpress and possibly some mainframe and servicer systems, that will still use the original SSN to identify records. These systems will be able to interface with COD but might still need the original SSN to process records.

▼ *FAFSA data entry error.* If a student provided the correct SSN on the FAFSA, but the SSN on the output document is wrong, the student can contact the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). If the Information Center confirms that there was a data entry error, it will refer the error to the Department for correction—the student does not need to submit a correction. After the data entry error is corrected, the CPS will produce new output documents. See Chapter 5 of the *Application and Verification Guide* for general information on data entry error corrections.

▼ *Error in Social Security database.* If the SSN on the FAFSA is correct but isn't in the Social Security database, the student must contact a local or regional Social Security Administration office to correct the database, which is updated daily with information from local and regional offices. The student must report the correct SSN and provide verifying documentation. He must also contact a Social Security office directly—the Department of Education cannot correct SSA records. Once the database is updated, the student can submit a correction by re-entering the SSN originally reported as if it is a correction. The CPS

will then do another SSN match. The student can't simply verify that the SSN is correct; the application will be rejected until the SSA database is updated.

No match on name or birth date

The student's application will be rejected if her or a parent's SSN is in the Social Security database but the name there differs from the one she gave. Misspellings or name changes due to marriage are common reasons for a non-match. The student should make sure that the name on the application matches the one on the Social Security card.

This reject is verifiable, which means that the name is questionable but not necessarily wrong. The student can eliminate the reject by entering the right name. If the name was correct on the application, she reenters it on the paper SAR, or she chooses "Data is Correct" for both the first and last name on Corrections on the Web. If her name is incorrect in the SSA database, we strongly recommend that she contact the SSA to correct it.

If the student's (or parent's) name and SSN match the SSA's database but the date of birth does not, the application will also be rejected, and the student must correct the application. If the error is with the SSA's database, he should contact the SSA to correct the record. He can override the reject by reentering the date on the paper SAR or, on Corrections on the Web, by choosing "Data is Correct" for the date of birth. The application will be sent through the match again, and if the SSA's record has been corrected, the match flag will be cleared and no further action is needed. If there is still a disagreement with the SSA record, the student will need to provide the aid office with documentation of his date of birth.

If the student reported the current or a later year as her birth date, her application will be rejected and she must correct the error.

Missing information

No match is performed if the student doesn't sign the FAFSA or provide a last name or birth date. The student's FAFSA will be rejected and the student must submit the missing information.

Although the CPS doesn't conduct the match, it will check to see whether the reported SSN falls within a range of valid numbers. If it does, the student will receive a comment explaining that the match could not be conducted without the name, birth date, or signature. The student must submit a correction providing the missing information. When the correction is sent, the information will be sent to the Social Security Administration for matching, and you should check the new output document for match results.

If the SSN is not within the valid range, the student will receive a comment and reject P stating that the reported SSN does not appear to be valid. In addition to submitting the missing name, birth date, or signature on a correction, the student must either contact the Social Security Administration to correct its records (if the reported SSN is

Example: Incorrect name on application

When Sarven Technical Institute receives Tod's ISIR, the SSN match shows the name on the application isn't the one associated with the SSN in the database. The FAA asks Tod to bring in documentation showing his correct name and SSN. He brings in his Social Security card, and the first name on the card is Warren, not Tod. He also has a driver's license showing his first name is Warren. The FAA tells Tod to correct his name on the application to Warren.

Example: Correct name not in database

Elizabeth's ISIR shows that her name doesn't match the one the SSA has on file for her SSN. When the FAA talks to Elizabeth, she explains that she recently got married and changed her last name. Elizabeth gives the FAA a copy of her marriage certificate. The FAA plans to disburse aid to Elizabeth and tells her to reenter her current name and advises her to contact SSA to have its database updated to prevent future problems.

Example: Students using same SSN

Hector completes an application in January, but uses his brother Eddy's SSN instead of his own. When Hector gets his SAR, he realizes that he used the wrong SSN, corrects the SAR, and mails it back to the processor. He gets a new SAR with the correct SSN, but it has the same identifier as the first SAR. Eddy files an application in April, and is surprised to receive a SAR that doesn't match what was on his application because it has Hector's information instead. Eddy goes to the financial aid office at Guerrero University, where a counselor tells him he'll need to file a correction application. Hector is also attending Guerrero, so the counselor contacts Hector to explain why he'll need to file a new application even though he already has a SAR with the correct information.

correct) or correct the SSN she reported. Again, you should check the new output document for match results.

Date of death

If the Social Security Administration's database shows a date of death associated with the SSN the student reported, the student's application will be rejected. Students resolve this problem in the same way as problems matching the SSN. The student must either contact Social Security Administration to get the records corrected, or must submit a change with the correct SSN (see "No Match on SSN," p. 52).

MASTER DEATH FILE

The CPS will verify that student SSNs do not appear on a master death file the Department obtains from the SSA. This will be in addition to the date of death match above. The CPS will regularly compare its records with those in the master death file. If a match is found, the CPS will resend the student record to SSA. If the SSA does not confirm a date of death for the applicant, the CPS will do nothing further. If the SSA does confirm a date of death, the CPS will send an ISIR to the schools listed on that transaction but will not send a SAR to the student.

Also, the CPS will disable PINs and will not generate renewal applications for individuals found in the death file. Their record will not be deleted from the CPS database. If an applicant wrongly appears in the death file, he will need to apply for a PIN again and receive a clean match before a new PIN will be issued.

APPLICANTS USING SAME SSN

When one student uses another's SSN, the duplicate SSN flag will be set in the ISIR, and the student's application will likely fail the SSN match, but it will be processed. She will have to make a correction as described earlier in this chapter.

If a student uses the same SSN **and** first two letters of the last name (together these data are the record identifier) as another student, the CPS will not accept her application because it will assume it to be a duplicate application of the first student. If she is using FAFSA on the Web, she will receive an immediate message telling her the proper way to make a correction or, if her record identifier is correct and she is trying to apply for aid, how she can proceed. If she is submitting a paper FAFSA, she will receive a letter giving her the same information and stating that the application was not processed.

If the student using the correct SSN applied after the other student, she must submit a special "correction application" that she can only get from the Department of Education. It will enable the CPS to accept her data instead of treating her application as a duplicate. The first student, who used the wrong SSN, **must** correct the error by filing a new FAFSA because the CPS uses the record identifier for students for the entire award year, even if they later change their SSN or last

name. If the student simply corrected her SSN, her record identifier would still be wrong.

If the student using the correct SSN applied first, the CPS will have her data, so a correction application isn't necessary. The second student will need to submit a new application.

Both students should keep copies of all output documents, including those from the first FAFSAs filed. When a student files a correction application or a new FAFSA, the application receipt date is changed. Because some schools and agencies use this receipt date to determine if the student met a deadline, she should keep the output documents to show the original receipt date and to show why a later application was necessary.

Contact the Department at (703) 284-5666 if you believe that a correction application may be needed; one can be mailed to your office or to the student.

EXCEPTION FOR THE FREELY ASSOCIATED STATES: MICRONESIA, MARSHALL ISLANDS, AND PALAU

Students from the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau are not required to provide SSNs. Instead the CPS will assign an identification number to students who indicate on their FAFSA that their state of legal residence is one of the above Pacific islands and who do not provide a Social Security number. These applications are exempt from the SSN match with the SSA. If the students are using FAFSA on the Web, there is an edit that allows them to enter in the SSN field their identification number, which will begin with 888.

SSN exception for residents of the Freely Associated States

HEA Sec. 484(a)(4)

Notes

Any man required to register with Selective Service at any time must have done so to receive aid. The Department performs a match with Selective Service to confirm a student's registration status. In this chapter, we discuss the registration requirement and the Selective Service match.

GENERAL INFORMATION

Men aged 18 through 25 are required to register with the Selective Service System. This requirement covers men residing in the United States who are U.S. citizens or noncitizens, except that a man who is in the U.S. as a lawful nonimmigrant isn't required to register as long as he maintains that status (see the exceptions to the registration requirement under "Exemptions" below). Students who are required to register with the Selective Service must do so to be eligible for FSA funds, but parents who want to borrow a PLUS loan aren't required to have registered.

The student has several ways to register, which include using the application process. There's a question on the FAFSA that asks if the student wants Selective Service to register him. By answering "yes," the student gives the Department of Education permission to submit his registration information to the Selective Service so that he may be registered. He can also ask to be registered by changing the answer to this question on the SAR to "yes" and submitting the correction (of course, the answer to the question "Are you male?" must be yes too). The student may also register at the post office with a form available there, or he can register online at the Selective Service website (www.sss.gov).

In some cases, a student will not be able to register using the FAFSA or SAR. Generally, however, a male student who is 18 through 25 and who has not registered previously may use this method. Students who have questions about Selective Service registration may contact the Selective Service at (847) 688-6888 or on the Web.

EXEMPTIONS

Men exempted from the requirement to register include:

- males currently in the armed services and on active duty (this exception does not apply to members of the Reserve and National Guard who are not on active duty);

Selective Service requirement

General Provisions
34 CFR 668.32(j), 668.37
PLUS exemption 682.201(b)(1)(v)

Age and registration

The student can be registered with Selective Service as early as 30 days before his 18th birthday. If the student is too young, Selective Service will hold the registration until the student is within 30 days of his 18th birthday. Students 26 and older can't be registered.

Gender and registration

Only males are required to register. Whether a person is male or female is a matter for medical determination. If a school needs to determine whether a student is male or female for Selective Service purposes, the school should tell the student to contact the Selective Service for a Status Information Letter.

Exemptions

34 CFR 668.37(a)(2)

Exemption examples

Tod has been on active duty in the Army from the time he was 18 and didn't register with Selective Service before he joined the Army. He's now 24, is planning to leave the Army, and wants to receive financial aid. If he applies while he's still on active duty, he doesn't need to be registered with Selective Service. Once he leaves, he must be registered, or else he won't be able to receive aid in later years. In most cases, when someone completes an enlistment contract he is automatically registered, so Tod is probably already registered even though he didn't complete a separate registration form.

George was enrolled in an officer procurement program at the Virginia Military Institute, which he started a month before he turned 18. When he was 22, he had a serious accident and was hospitalized; he officially dropped out of school a month after he was hospitalized. Due to his injuries he was hospitalized for four years. Because he qualified for a waiver for the entire time he was 18 through 25, he was not required to register with Selective Service.

- males who are not yet 18 at the time that they complete their applications (an update is not required during the year, even if a student turns 18 after completing the application);
- males born before 1960;
- citizens of the Republic of Palau, the Republic of the Marshall Islands, or the Federated States of Micronesia*;
- noncitizens who first entered the U.S. after they turned 26;
- noncitizens who entered the U.S. as lawful *nonimmigrants* on a valid visa and remained in the U.S. on the terms of that visa until after they turned 26.

There are certain less common situations in which registration isn't necessary. Students who weren't required to register prior to meeting one of these criteria and who meet a criterion for the entire time through the age of 25 qualify for the waiver if:

- they are unable to register due to being hospitalized, incarcerated, or institutionalized;
- they are enrolled in any officer procurement program at The Citadel, North Georgia College and State University, Norwich University, Virginia Military Institute, Texas A&M University, or Virginia Polytechnic and State University; or
- they are commissioned Public Health Service officers on active duty or members of the Reserve of the Public Health Service on specified active duty.

If the student isn't required to register, you must document the student's status. If the student isn't clearly exempt from the requirement to register, you should ask the student to document the exemption by providing the school with a Status Information Letter from the Selective Service.

As mentioned above, noncitizens who first enter the U. S. after the age of 26 aren't required to register. Only those immigrant men who enter and live in the U.S. at ages 18 through 25 are required to be registered. If a male immigrant can show proof that he first entered the U.S. when he was past registration age, he is clearly not required to be registered, and no Status Information Letter is needed. The student's entry documentation is enough to show whether he was required to register.

*A citizen or national of the Republic of the Marshall Islands or the Federated States of Micronesia who lives in the United States for more than one year for any reason except as a student or employee of the government of his homeland must register.

SELECTIVE SERVICE MATCH

To check that students who must be registered actually are registered, the CPS performs a match with the Selective Service System. The CPS provides a match flag showing the results in the FAA Information section of the output document. In addition, the output document has a comment about the match results.

Successful matches

If the match shows that the student is registered or exempt, a comment confirming this fact will be on the student's output document. The student is then eligible for aid.

The student is also eligible for aid if the match shows that the student is still too young to register. If the student asks to be registered, Selective Service will hold onto that registration request until 30 days before the student's 18th birthday and will then register the student.

Finally, the student is also eligible if the CPS successfully forwards the student's name to Selective Service for registration.

Unsuccessful matches

If the match doesn't confirm the student's registration, or the student can't be registered, the output document will have a comment about the problem. A "C" flag will also be printed next to the student's EFC. Until the student resolves the registration problem, you can't pay FSA funds to the student or certify or originate a loan.

▼ *Registration not confirmed.* If the match shows that the student isn't registered, the student must either register or provide evidence that he is registered or is exempt from registration. The student's Selective Service Registration Acknowledgement or letter of registration shows that the student is registered. You can also go to the Selective Service website at www.sss.gov and check on the student's registration status—a printout of the webpage is acceptable documentation that the student is registered. If the student doesn't have an acknowledgement or letter of registration, and the website doesn't confirm his registration, he'll have to contact Selective Service to resolve the problem. If the conflict is resolved in the student's favor, he'll receive a letter from the Selective Service documenting that he is registered or that he is exempt from registering.

▼ *Unsuccessful registration.* The CPS won't be able to forward the student for registration if certain information—first and last name and date of birth—is missing. The student should submit a correction with the required information, and you can check the match results from this correction to see if the student is eligible.

If the student is 26 or older, the CPS cannot register the student but will send his record through the data match. If the student is not registered, he can no longer do so, and you will have to determine if he is eligible for aid despite failing to register.

Status information letter codes

The Selective Service has different status information letters, which are indicated by a code that appears in the lower left-hand corner. Determination of aid eligibility for a man who failed to register with Selective Service should not be based solely on these letter codes. Financial aid administrators are obliged to review all evidence presented by a student to determine if he has shown "by a preponderance of evidence" that his failure to register was neither willful nor knowing. The codes are:

- **E1–E8:** These codes indicate that the student was not required to register or was exempt the entire time he could have registered (ages 18 through 25).
- **NM:** The student did not register although he was on active duty in the armed forces only for a portion of the time when he could have registered (between ages 18 through 25) and was, therefore, required to register.
- **NR:** The student was born before 1960 and is therefore not required to register.
- **RD:** The student gave a reason for not registering or documentation to show he was exempt from the requirement, but the Selective Service determined the reason or documentation to be invalid. Therefore, the student was required to register but did not. No requests to comply with the registration requirement were sent.
- **RH:** The student was sent one or more letters requesting that he register during the required period, but all letters were returned by the post office as undeliverable.
- **RL:** The student was required to register, but the Selective Service has no record of his registration and their records show he was sent one or more letters requesting that he register.
- **RR:** The student said he attempted to register, but Selective Service has no proof of the attempt.

Unsuccessful registration**example**

On his FAFSA, Hector asks the CPS to forward his information to the Selective Service for registration. However, he's over 26, so the Selective Service can't register him. His output document comes back with a blank match flag and comment 33. Hector didn't enter the U.S. until after his 26th birthday, so he doesn't have to be registered. Guerrero University already has information about his citizenship status, including the date he arrived in the U.S., so it has documentation that he is exempt from registration. The FAA explains to Hector why he wasn't required to register.

Failure to register

34 CFR 668.37(d),(e)

Veteran Status Match

See the Application and Verification Guide for information on the veteran match and dependency status.

Appeals—Selective Service registration

The school's decision is final and cannot be appealed to the Department except in one limited instance. The regulations state that the Department will hear appeals from students who have provided their schools with proof that they are in compliance (i.e., that they are registered or exempt from registration) but who are still being denied federal student aid based on the registration requirement. 34 CFR 668.37(f)

FAILURE TO REGISTER

Some students have been denied aid because they failed to register with the Selective Service before their 26th birthday. The Selective Service will register only males age 18 through 25, leaving older students with no way to remedy their situation if they failed to register. However, the student may still be eligible to receive aid if he can demonstrate that he did not knowingly and willfully fail to register.

A student who served on active duty in the armed forces but who did not register before turning 26 is still eligible to receive FSA funds because it's reasonable to conclude that he was not trying to avoid registering for the draft. Ask the student to provide a copy of his DD Form 214, "Certificate of Release or Discharge from Active Duty," showing military service in the armed forces — other than the reserve forces, the Delayed Entry pool, and the National Guard.

Students without military service who knew of the registration requirement but chose not to register are considered to have knowingly and willfully failed to register and are therefore ineligible for FSA funds. Your school's decision in this case is final and cannot be appealed to the Department except as noted in the margin.

Determining if non-registration was knowing and willful

Unless you can document that the student meets one of the allowable exemptions regarding registration or can document that the student served in active duty in the armed forces (and whose character of service was other than dishonorable), the student must write to the Selective Service to get a status information letter addressing his failure to register. He may also download a request form from the Selective Service website (www.sss.gov) to print out, complete, and mail. The student should provide as complete a description about his situation as possible: where he was living during the period when he should have registered, whether he was incarcerated or institutionalized, his citizenship status during the period, if applicable, and so on.

If the student receives a "general exemption letter" (codes E1-E8) or a "DOB before 1960" letter (code NR), the student is exempt from registration and may receive FSA funds. If the student receives any other type of letter, you must determine based on all relevant evidence whether the student knowingly and willfully failed to register. The letter from Selective Service may provide information that is crucial to your decision. For example, if the student received a letter indicating a compliance letter had been sent (code RL), this letter would be a negative factor when you make the determination. If the student received a "Military Service: Noncontinuous" letter (code NM), you might reasonably determine that the student did not knowingly and willfully avoid registration.

Most of the status information letters state that the final decision regarding the student's eligibility rests with the agency awarding funds. For the purposes of the FSA Programs, the decision is made by your school, which represents the Department of Education. If you determine that the student's failure to register was knowing and willful,

the student loses FSA eligibility.

When deciding whether the student had knowingly and willfully failed to register, you should consider the following factors:

- **Where the student lived when he was age 18 through 25.** For example, if a student was living abroad, it is more plausible that he would not come into contact with the requirement for registration.
- **Whether the student claims that he thought he was registered.** Mistakes in recordkeeping can occur. Correspondence indicating an attempt to register could form a basis for determining that the student did not knowingly and willfully fail to register. On the other hand, a letter from Selective Service stating that it received no response to correspondence sent to the student at a correct address would be a negative factor.
- **Why the student claims he was not aware of the widely publicized requirement to register when he was age 18 through 25.**

Notes

ACG and National SMART Grant Eligibility

The Higher Education Reconciliation Act (HERA) established two new federal student aid grants for undergraduate students: the Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (National SMART) Grant. These are need- and merit-based grants for students who meet additional criteria to those explained in preceding chapters.

The ACG and National SMART Grant programs are intended to encourage, respectively, rigorous academic study in high school and enrollment in college majors in the physical, life, and computer sciences; engineering; technology; mathematics; and certain foreign languages. Accordingly, the eligibility criteria relate to those goals.

These grants differ from other Title IV aid. A student may receive only two ACG awards, one for the first and the second academic years,* and only two National SMART Grant awards, one for the third and the fourth academic years. Also, both grants have a set value: an ACG is \$750 for the first year and \$1300 for the second year; a National SMART grant is \$4000 for each of the third and fourth years.

These amounts may only be reduced in limited circumstances: if a school needs to avoid overawarding a student or if there is a nationwide ratable reduction because there are insufficient funds for all eligible students in a given award year. If there is a ratable reduction, the Department expects to announce it well in advance of the award year.

Do not confuse the eligibility criteria between the two grants: rigorous program of secondary school study only applies to the two years of ACG, and eligible postsecondary school major only applies to the two years of SMART.

ACG ELIGIBILITY

To receive an ACG, students must:

- be U.S. citizens (unlike with other FSA programs, they cannot be noncitizens);
- receive a Pell grant for the same award year;
- be enrolled full time in an associate's, bachelor's, or combined undergraduate/graduate (if it includes at least three years of undergraduate education) degree program or in a two-academic-year program acceptable for full credit toward a bachelor's degree;

ACG and National SMART Grant Programs

34 CFR 691

* In discussions of ACG and National SMART grants, the year of the student refers to the Title IV academic year as defined in credit or clock hours and weeks of instructional time. This term has a different meaning than the award year, the student's year in college (freshman, sophomore, etc.), or the school's usage of academic year as the fall and spring semesters. See Volume 3 for a complete discussion of the academic year and its role in administering ACG and National SMART grants.

High school student enrolled in college classes example

The summer before and during her senior year in high school, Hilda completed three classes at Kampfer University. Because she was not enrolled as a regular student in an ACG-eligible program of study, her prior enrollment does not make her ineligible for an ACG when she starts classes full time at Kampfer the fall after she graduates from high school.

*This is checked one time only, at the end of the first academic year. Subsequent changes to the student's GPA do not affect ACG eligibility for the second year. The grades for all the hours in the payment period in which a student completes the first academic year are included when computing this GPA, even if the student surpassed the number of hours that defines the school's academic year.

- be enrolled in the first or second academic year of a program of study at an eligible two-year or four-year degree-granting institution;
- have successfully completed a rigorous secondary school program of study and graduated after January 1, 2006, for first-year students and after January 1, 2005, for second-year students; and
- if first-year students, not have been enrolled while still in high school as regular students in an ACG-eligible college program, or if second-year students, have successfully completed their first year and have a cumulative GPA* of at least 3.0 on a 4.0 scale.

Rigorous secondary school program of study

For qualifying for an ACG, any one of the following programs meet the “rigorous secondary school program of study” requirement:

1. Rigorous secondary school programs designated by state education agencies (SEAs) and state-authorized local education agencies (LEAs) and recognized by the Secretary of Education.
2. Advanced or honors secondary school programs established by states and in existence for the 2004-05 or 2005-06 school year.
3. Secondary school programs identified by a state-level partnership recognized by the State Scholars Initiative of the Western Interstate Commission for Higher Education (WICHE) of Boulder, Colorado.
4. A program for a student who completes at least two courses in the International Baccalaureate (IB) Diploma Program with a score of four or higher on the course examinations or at least two Advanced Placement (AP) courses with a score of three or higher on the College Board's exams for those courses.
5. A secondary school program in which a student completes, at minimum:
 - four years of English;
 - three years of math, including algebra I and a higher level class such as algebra II, geometry, or data analysis and statistics;
 - three years of science, including one year each of at least two of the following courses: biology, chemistry, and physics;
 - three years of social studies; and
 - one year of a language other than English.

Other considerations

A student must have successfully completed and graduated from one of the above types of program. Successful completion means fulfilling the requirements of the program, such as passing all of the designated coursework. Neither a general education development (GED)

certificate nor a passing score on an ability-to-benefit test qualifies as completing a rigorous secondary school program.

English as a second language (ESL) counts toward the English requirement if the state or the high school allowed it to count towards its English graduation requirement.

If a student's high school or college admissions office categorizes a class as social studies, then it counts as social studies for ACG eligibility.

Computer languages do not count as a foreign language, but American Sign Language does.

For each calendar year the Secretary publishes a list of all rigorous secondary school programs of study. The webpage at <http://www.ed.gov/admins/finaid/about/ac-smart/state-programs.html> links to separate pages for each year of graduation.

Documenting completion of a rigorous program

The Central Processing System (CPS) will send comments on the SAR and ISIR identifying students who might be eligible for an ACG. Students who apply for aid via FAFSA on the Web or (with FAA help) FAA Access to CPS Online will be screened for potential eligibility and will have the option to provide ACG information. Paper FAFSA filers who are potentially eligible will receive a comment on their SAR directing them to provide information to the Federal Student Aid Information Center (FSAIC) over the phone.

Schools must then confirm that a student completed a rigorous program by either using documentation directly from the cognizant authority or from the authority via the student. If the school has reason to believe documentation from the student is inaccurate or incomplete, it shall get documentation directly from the authority.

The *cognizant authority* includes, but is not limited to, an LEA, SEA or other state agency, a public or private high school, a testing organization such as the College Board or a state agency, or, for home-schooled students, the parent or guardian. In the latter case, the parent or guardian shall provide as documentation a transcript or equivalent or a detailed course list of the secondary school courses that the student completed.

For a transfer student, a school may rely upon the determination by the student's former school that he completed a rigorous program. As evidence of such a determination, a school can use documentation that the former school provides or that shows the student received an ACG disbursement at the former school.

Some high schools comprise only grades 10 through 12. In those cases, a college should use its normal procedure for ensuring that classes taken in the ninth grade are included. Also, if a transcript shows that a student completed three years of English in grades 10 through 12, she may be assumed to have taken English in ninth grade.

A college can assume the following classes as well, which apply not only to ninth grade, but to grades 6 through 8: the first year of a foreign language if a transcript shows completion of a second year; algebra I if a transcript shows algebra II or geometry and the college knows that algebra I was a prerequisite for geometry at the student's high school.

NATIONAL SMART GRANT ELIGIBILITY

To be eligible for the National SMART Grant, students must:

- be U.S. citizens (unlike with other FSA programs, they cannot be noncitizens);
- receive a Pell grant for the same award year;
- be enrolled full time in a bachelor's or combined undergraduate/graduate (if it includes at least three academic years of undergraduate education) degree program;
- be enrolled in the third or fourth academic year of their program of study at an eligible four-year degree-granting institution;
- if third-year students, have successfully completed the second year, or if fourth-year students, have successfully completed the third year;
- have a cumulative GPA* of at least 3.0 on a 4.0 scale in the courses for their program (not only those in the major); and
- be majoring in physical, life or computer science, engineering, mathematics, technology, or a critical foreign language.

*This is the cumulative GPA from all coursework in the eligible program through the most recently completed payment period.

College programs of study are categorized according to their Classification of Instructional Programs (CIP) code. These codes accompany the list of majors eligible for National SMART grants at <http://www.ifap.ed.gov/dpletters/attachments/GEN0615Attach1.pdf>. This list will be reviewed each year, and any update will appear on Department websites.

A student must major in one of the codes on this list. A student in a teacher education program may receive a National SMART grant as long as his major is an eligible one; a teacher education major with a concentration in math or science, for example, is not eligible. In the same manner, a student with a double major is eligible for the grant if one of his majors is on the accepted CIP code list.

Declaring a major

34 CFR 691.15(c)(2)

Declaration, monitoring, and change of a major

A student must declare a major to receive a National SMART grant unless your school does not permit declaration of a major until after the start of the third academic year. In those cases the student must intend to declare an eligible major and demonstrate her intent, which you must document, and must enroll in classes that lead toward a degree in that field. She must later declare a major as soon as she can.

You must check a student's major before each disbursement. If he has a double major, you must ensure that he is pursuing completion of the eligible major by enrolling in coursework leading to degree completion. Typically the registrar's office tracks CIP codes and will have information about the student's current major.

If a student changes *from* an eligible major to an ineligible one in the middle of a term or year, he does not have to return the grant he has received, but he may not receive another disbursement. If he changes *to* an eligible major and is otherwise eligible for a National SMART grant, he may then receive a grant—for the following payment period if the change occurred between payment periods or for the same payment period if the change came during the period.

GRADE POINT AVERAGE IN BOTH GRANTS

As written above, there are common eligibility criteria for both grants: eligible students must be U.S. citizens who are enrolled full time and who receive a Pell grant for the same award year. But there are significant differences in other criteria, among them the way GPA is monitored.

For an ACG, the student's GPA is checked only at the end of the first academic year, and that average determines whether a student can receive a second-year grant at all. If a student has a GPA below 3.0 at the end of the first year, no improvement of his average to above 3.0 will make him eligible for any part of a second-year ACG. Conversely, if his cumulative GPA is 3.0 or better at the end of the first year, a decline in his GPA will not make him ineligible for the second-year ACG.

The cumulative grade average covers the most recently completed payment period prior to any disbursement of a National SMART grant. This allows for a change of eligibility status for SMART grant funds. A student who is ineligible for an initial grant at the beginning of his third academic year because his GPA isn't high enough can become eligible later that year or in the next year if he raises his average to 3.0 or higher. If his average is already 3.0 and it drops below that value, he becomes ineligible for a SMART grant disbursement until his GPA is at least 3.0 again.

A school can make an interim disbursement for a coming term before the grades for the current term are available, such as for a spring semester before the final grades are available from the fall. If the grades once posted lower the student's GPA below 3.0, then the school must cancel the disbursement and it is liable for that disbursement.

For transfer students, any classes from the previous school that your school accepts count in the calculation of the GPA.

There is no GPA appeal process for ACGs and SMART grants.

Incompletes

If a student has an incomplete but his GPA would be at least 3.0 even if the incomplete were an "F", the school may make a disbursement without assuming liability for it.

School without traditional grades

At Chisos Basin University instructors submit at the end of the semester an evaluation that the work a student does in a class is “satisfactory” or “unsatisfactory.” The catalog indicates that the evaluation is never translated into a grade by the registrar’s office. Neither the catalog, the faculty handbook, nor any other CBU publication differentiates levels of satisfactory student performance. Even though the state scholarship program accepts a “satisfactory” as the equivalent of a “B”, the university may not make such an assumption for the ACG and National SMART Grant programs.

Schools without a traditional GPA

Schools that do not award standard grades for a program must have in writing an academically defensible equivalency policy and must make it available upon request. The policy must clearly differentiate student performance so that it can support a determination that a student has performed at a level commensurate with a 3.0 GPA on a 4.0 scale. Generally a grading scale that includes only “pass/fail,” “satisfactory/unsatisfactory,” or some other binary evaluation will not meet this requirement unless it can be shown that a “pass” or “satisfactory” standard is equivalent to a traditional 3.0 GPA.

All such policies must be consistent with any equivalent grading scales that the school has developed for academic and other (including Title IV) purposes—e.g., graduate school evaluations and transcripts, scholarship eligibility, insurance certifications—to the extent that such scales distinguish between levels of student academic performance.

Other Program-related Eligibility Requirements

Most of the student eligibility requirements we have discussed so far apply to all or most of the FSA programs, but there are additional factors that are program-specific.

PELL GRANTS

In general, a student must be enrolled in an undergraduate course of study to receive a Pell grant, though there are rare teaching certification exceptions (see the next page). A student who has earned a baccalaureate degree or a first professional degree (a degree offered by professional programs such as pharmacy, dentistry, or veterinary medicine) is not considered to be an undergraduate and cannot receive a Pell grant.

An undergraduate course of study usually doesn't exceed four academic years or is a program of four to five academic years designed to lead to a baccalaureate or first professional degree. If the program is longer than five years (for example, a six-year pharmacy program), then students are considered undergraduates only for the first four academic years of the program unless the school designates that the graduate program begins after the end of the third academic year; see the definition of graduate or professional student in 34 CFR 674.2, 675.2, or 682.200(b).

A student with a baccalaureate or professional degree is ineligible even if the degree is from an unaccredited school or is not recognized by your school. Similarly, a student with a baccalaureate or professional degree from a foreign school usually isn't eligible for a Pell grant. But because a foreign degree often won't translate neatly into the American classification, the school must judge whether it equates to a U.S. bachelor's degree. If the student provides written documentation that the foreign degree is not equivalent to a bachelor's degree awarded in the United States, your school may determine that he does not have a bachelor's degree. The documents may include information about the type of school the student attended and total years of education leading to the degree.

A student who has received an associate degree—or any certificate or diploma below the baccalaureate level—and who enrolls in another undergraduate program continues to be considered an undergraduate student until she has completed the curriculum requirements for a first bachelor's degree.

Undergraduate student definition and requirement

34 CFR 690.2, 34 CFR 690.6, HEA Sec. 401(c)

Wrong grade level on the FAFSA

When an undergraduate student incorrectly reports on the Free Application for Federal Student Aid (FAFSA) that he will be a graduate student or has a bachelor's degree, he must correct that information. Because the application shows that the student isn't an undergraduate, the Department's records will show that he is ineligible for Pell. If the application isn't corrected, the school won't be able to pay him a Pell grant.

Eligible postbaccalaureate program and the FAFSA

34CFR 690.6(c)

Normally a student who indicates on the FAFSA that he has a bachelor's degree won't be listed in the Department's records as a Pell-eligible student, and the school won't be able to receive Pell funds for the student. However, in order to allow students who are eligible under the postbaccalaureate program provision to be paid, students who correctly report that they have a bachelor's degree but also indicate on the FAFSA that they're in a teaching credential program will be listed as Pell-eligible students. Of course, you must determine whether the student actually falls under the eligible postbaccalaureate provision.

Incarcerated Students and Pell

HEA Sec. 401(b)(8), 34 CFR 668.32(c)(2)(iii),

"Dear Colleague" Letter P-94-7

Costs for incarcerated students

HEA Sec. 472(6)

Occasionally a student will complete all the requirements for a bachelor's degree but will continue taking undergraduate courses without accepting the degree. Your school must decide whether and at what point the student completed the baccalaureate course of study. If your school determines that the student did complete a bachelor's program, then he is no longer eligible to receive a Pell grant.

Eligible postbaccalaureate program

A student who is enrolled at least half time in a postbaccalaureate teacher certification or licensure program is eligible to receive a Pell Grant for the period necessary to complete the program if:

- the program does not lead to a graduate degree,
- the school offering the program does not also offer a bachelor's degree in education,
- the student is pursuing an initial teacher certification or licensing credential within a state, and
- the program consists of the courses required by a state to receive a professional certification or licensing credential necessary for employment as a teacher in an elementary or secondary school in that state.

Under this very limited provision, a postbaccalaureate program is defined as a program that generally requires a student to have a bachelor's degree before being admitted to the program. Accordingly, a program in which undergraduate students are routinely allowed to enroll would not meet the definition of a postbaccalaureate program for this purpose, nor would a program that is generally open to undergraduates but that also admits students with bachelor's degrees.

For FSA purposes, a school must treat a student who receives a Pell grant under this provision as an undergraduate student enrolled in an undergraduate program. The student is eligible for fifth year undergraduate (not graduate student) Stafford loan limits. However, the student would not be eligible for an FSEOG.

Incarcerated students

Students incarcerated in federal and state penal institutions aren't eligible for Pell grants, but students incarcerated in local penal institutions are. Students incarcerated by jurisdictions defined as a state in the law, such as the District of Columbia, are considered to be in a state penal institution and aren't eligible for Pell grants. A student isn't considered incarcerated if she is in a halfway house or home detention or is sentenced to serve only on weekends.

The cost of attendance for students who are incarcerated in local penal institutions is limited to tuition and fees and the price of books and supplies specifically related to the student's course of study. For more information on the cost of attendance, see *Volume 3*.

STAFFORD AND PLUS LOANS

Some Stafford and PLUS loan rules, such as those for defaults and total and permanent disability discharges, have already been discussed in Chapter 3. One point may be added here: a parent may not borrow a PLUS loan, nor may a student borrow a Stafford loan, from both the FFEL and DL programs for the same enrollment period at the same school, yet the student and parent do not have to borrow from the same program [see 34 CFR 685.300(a)(8)].

Generally a student must be enrolled or accepted for enrollment in a degree or certificate program to receive FSA funds, but there are exceptions that apply to DL and FFEL Stafford and PLUS loans.

Preparatory coursework

A student may apply for a Stafford or PLUS loan for coursework the school has documented is necessary for him to enroll in an eligible program. The courses must be part of an eligible program otherwise offered by the school, though the student does not have to be in that program. If enrolled at least half time in these prerequisite courses, he is eligible for loans for one consecutive 12-month period (not per program) beginning on the first day of the loan period. If the period of preparatory courses spans more than one academic year, the student may receive multiple loans.

Students seeking to enter an undergraduate degree or certificate program may borrow up to \$2,625 of Stafford funds (with up to \$4,000 more in unsubsidized funds for independent students and dependent students whose parents were declined a PLUS loan), and students trying to enroll in a graduate or professional program may borrow as much as \$5,500 (and up to \$7,000 of additional unsubsidized funds). For students in both categories, the loan limit is not prorated if the coursework is less than an academic year.

To be eligible under this exception, the student must be taking classes that are a prerequisite for admission. If he is only taking them to raise his GPA in order to be admitted, he would not qualify for loans under this exception.

Teacher certification coursework

Chapter 1 explains when a student may receive a Stafford or PLUS loan, among other aid, for courses necessary for an elementary or secondary school teaching credential or certification.

Parent borrower eligibility

To borrow a PLUS loan for a student, the parent must be the student's biological or adoptive mother or father. Both parents may get a PLUS loan as long as the total aid package does not exceed the student's cost of attendance. A stepparent is also eligible to borrow a PLUS loan if her income and assets would be taken into account when calculating the dependent student's EFC. A legal guardian is not considered a parent for FSA purposes.

Members of a religious order

Members of any religious order, society, agency, community, or other organization aren't considered to have financial need if the order

(1) has as a primary objective the promotion of ideals and beliefs regarding a Supreme Being,

(2) requires its members to forego monetary or other support substantially beyond the support it provides, and

(3) directs the member to pursue the course of study or provides subsistence support to its members.

Members of these religious orders can't receive subsidized Direct loans, subsidized FFELs, Pell grants, or campus-based aid. They are eligible, however, for unsubsidized FFELs and unsubsidized Direct loans.

34 CFR 674.9(c), 675.9(c), 676.9(c), 682.301(a)(2), 685.200(a)(2)(iii), 690.75(d)

Preparatory coursework example

Eddy has a bachelor's degree, with a major in mathematics. He wants to enroll in a graduate computer science program at Guerrero University. He needs 12 more semester hours of computer science coursework to meet Guerrero's admission requirements. He enrolls in courses that are part of Guerrero's undergraduate degree program, but because he is not enrolled for the purpose of receiving an undergraduate degree, he is not a regular student. However, because the coursework is necessary for his enrollment in the graduate program, he may receive a FFEL or Direct loan for this coursework.

34 CFR 682.204(a)(6) and 685.203(a)(6)

Preparatory coursework at a different school

A student may take the preparatory courses at School A to prepare for enrollment at School B. Also, School A may require documentation from School B that these courses are required for the student's enrollment.

Medical internships and residencies

A student is ineligible to receive a Stafford loan or a Perkins loan while in a medical internship or residency program unless it is part of the school's degree program. This restriction does not apply to students in dental internship programs.

A parent may receive a PLUS loan only to pay for the educational costs of a dependent undergraduate student who meets the eligible student definition.

A parent must meet the same citizenship and residency requirements as a student. Similarly, a parent who owes an overpayment on an FSA grant or is in default on an FSA loan is ineligible for a PLUS loan unless he has made satisfactory arrangements to repay the grant or loan. Yet the parent's ineligibility for a PLUS loan does not affect the student's eligibility for FSA funds.

Under the FFEL program, if the parent borrower has previously borrowed a Stafford or PLUS loan on which collection activity has ceased, she must reaffirm the loan in the same way that is described in 34 CFR 682.201(a)(4) for student borrowers.

Under both the FFEL and DL programs, if the parent had a prior Stafford loan that was cancelled for total and permanent disability, he must adhere to the same eligibility requirements outlined for Stafford borrowers in chapter 3.

Finally, a parent is not eligible for a PLUS loan if the federal government holds a judgment lien on her property.

Student credit checks

Financial aid administrators may not perform credit checks on students in connection with awarding them federal aid.

Parent adverse credit history

A parent with an adverse credit history is prohibited from obtaining a PLUS loan unless the parent meets additional criteria. The lender or the Department obtains a credit report on each applicant for a loan from at least one national credit bureau. An applicant is considered to have an adverse credit history if:

- he is 90 days or more delinquent on any debt, or
- during the 5 years preceding the date of the credit report, he has been determined to be in default on a debt, his debts have been discharged in bankruptcy, or he has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an FSA debt.

A FFEL lender is permitted to establish a more stringent definition of adverse credit history than these regulatory criteria. However, under both the FFEL and DL programs, a parent cannot be rejected for a PLUS loan because she has no credit history—i.e., the absence of a credit history cannot be construed as an adverse credit history.

A parent with an adverse credit history can qualify for a PLUS loan by securing an endorser who doesn't have an adverse credit history. The endorser for this purpose may not be the dependent student for whom the parent is borrowing. Instead of securing an endorser, a parent may appeal a determination of adverse credit history to the lender (for FFELs) or ED (for DLs) by documenting extenuating circumstances. The lender or ED has the final decision on whether to make a loan to the parent.

If your school participates in the PLUS program but a student's parent cannot obtain a PLUS loan, the student is allowed to borrow additional unsubsidized Stafford money (see Volume 3, Chapter 4).

CAMPUS-BASED AID GENERAL REQUIREMENTS

Unlike the Stafford and PLUS loan programs, a student does not have to be enrolled at least half time to be eligible to receive aid through the campus-based programs unless the student is seeking aid to attend a teacher certification or professional credential program.

A student enrolled as an undergraduate, graduate, or professional student is eligible to receive assistance from the Federal Perkins Loan and Federal Work-Study (FWS) programs. Only undergraduate students who do not have a baccalaureate or first professional degree are eligible to receive Federal Supplemental Education Opportunity Grants (FSEOGs). This means that a student who has earned a bachelor's or first professional degree may receive a Perkins loan or FWS wages to pursue a graduate or additional undergraduate degree, but he may not get an FSEOG.

See the margin note on p. 34 about how the Compact Act affects FSEOG and FWS eligibility for students from the Republic of the Marshall Islands and the Federated States of Micronesia.

Teacher certification programs

As with Stafford loans, a student may receive a Perkins loan or FWS for coursework that doesn't lead to a degree or certificate from the school but that is required by a state for an elementary or secondary school teaching credential or certificate. See chapter 1.

PERKINS LOANS

Both undergraduate and graduate students may receive loans under the Federal Perkins Loan Program, but students with *exceptional need* (as defined by your school) have priority. To be eligible for a Perkins loan, a student must meet the general student eligibility requirements and must not have borrowed the maximum amounts. A student who has earned a bachelor's or first professional degree may receive a Perkins loan to pursue an additional undergraduate degree.

A student is ineligible to receive a Perkins loan while in a medical internship or residency program unless it is a dental internship or is part of the school's degree program.

A borrower who is in default on an FSA loan is not eligible for a Perkins loan unless she has regained eligibility. However, a borrower who satisfies any of the conditions that remove her defaulted Perkins loan from the school's cohort default rate becomes eligible for additional Perkins loans.

As with Stafford loans, if a borrower has obtained a discharge of a Perkins loan or NDSL due to total and permanent disability and is

Perkins loan eligibility

34 CFR 674.9

Medical internship or residency
HEA 464(c)(2)(A)(i)

Incarceration
34 CFR 668.32(c)(2)(ii)

Default
HEA 464 (b)(1)

Teacher certification programs
34 CFR 668.32(a)(1)(iii)

Previous disability cancellation

34 CFR 674.9(g) and (h)

Willingness to repay

34 CFR 674.9(e)

applying for another Perkins loan or NDSL, she must follow the procedure explained in Chapter 3.

As mentioned above, a school may award Perkins loans or FWS to students for enrollment in an eligible teacher certification or professional credential program; see chapter 1.

Willingness to repay

In selecting Perkins loan recipients, a school must consider evidence of a borrower's willingness to repay the loan. Previous delinquency, default, or other failure to meet repayment obligations on a previous loan is evidence that the borrower is unwilling to repay other loans. For example, if a borrower has previously satisfied a defaulted student loan involuntarily (such as by garnishment of the borrower's wages), a school should consider this as evidence of unwillingness to repay and should deny further loan assistance to the borrower.

Previous Perkins loan discharged in bankruptcy

As a result of the Bankruptcy Reform Act of 1994, a student or parent may not be denied FSA loans solely on the basis of a bankruptcy filing or discharge. They also may not be required to repay a previously discharged loan in order to reestablish eligibility for new loans. However, FAAs have somewhat more latitude in making awards under the Perkins program than under DL and FFEL because they may consider a student's willingness to repay. If a student has filed for or received a discharge in bankruptcy, has had an FSA loan determined dischargeable by a court of law, or has had an FSA loan discharged in bankruptcy, the bankruptcy may be considered when determining a student's willingness to repay provided it is not the sole basis for the determination and for a denial of a Perkins loan. Schools may also, of course, consider the student's post-bankruptcy credit history in determining willingness to repay.

Additional FWS criteria

For information on eligible FWS jobs, see Volume 6, The Campus-Based Programs.

FWS eligibility

34 CFR 675.9

FEDERAL WORK-STUDY (FWS)

To be eligible for a Federal Work-Study (FWS) job, a student must meet the usual eligibility criteria and must have financial need, that is, his cost of attendance (COA) must be greater than his expected family contribution (EFC). Also, a financial aid administrator may not award FWS employment to a student if that award, when combined with all other resources, would exceed the student's need. However, unlike the other two campus-based programs, the FWS Program does not require that priority be given to students who have *exceptional* financial need. In choosing students for FWS employment, schools must follow the selection procedures discussed in Volume 3.

FSEOG

To receive a Federal Supplemental Educational Opportunity Grant (FSEOG), a student must meet the general eligibility requirements discussed in the other chapters of this volume. An eligible recipient must also be an undergraduate student and have financial need, and students with the lowest EFCs who will also receive Pell grants for the

FSEOG eligibility

34 CFR 676.9

34 CFR 668.32(c)(1)

award year have primary consideration for FSEOG money. See the volume on calculating awards.

An undergraduate student is defined under the FSEOG Program as a student who is enrolled in an undergraduate course of study at an institution of higher education and who:

- has not earned a bachelor's degree or first professional degree; and
- is in an undergraduate course of study that usually does not exceed four academic years or is enrolled in a four- to five-academic-year program designed to lead to a first degree.

A student who has earned a bachelor's or first professional degree is not eligible to receive an FSEOG to pursue an additional undergraduate degree based on the above definition of undergraduate student. A school must make FSEOG funds reasonably available (to the extent that funds remain) to all eligible students.

LEAP PROGRAM

To be eligible for assistance under the Leveraging Educational Assistance Partnership (LEAP) Program, all students must meet the general eligibility requirements for the FSA programs and the additional eligibility criteria that state higher education agencies establish. The student must also demonstrate *substantial financial need*, as defined by the state agency and approved by the Department. The definition may be in terms of income, expected family contribution (EFC), or cost of attendance minus available resources. Regardless of how it defines need, the state agency is responsible for developing a consistent method for approving individual student recipients. States may decide whether to make individual LEAP awards that vary according to student need or to give a set amount to all students who meet the established need criteria.

The maximum award is \$5,000, though states can reduce that. They also determine what costs can be covered; some states limit awards to cover only tuition and fees, while others include allowances for commuting, room, board, and other costs.

Many states exclude students who attend schools outside the state, but some have reciprocal arrangements with neighboring states so that students may receive LEAP funds from their home state even though they are enrolled in another state. LEAP funds may be awarded to students participating in study-abroad programs that are approved for credit by the home school.

Most states limit LEAP awards to undergraduates attending at least half time, but each state may choose to allow graduate, less-than-half-time, and other nontraditional students to also receive LEAP awards.

If a student owes a refund on a LEAP overpayment, she would still be eligible to receive additional FSA funds as long as she meets all

FSEOG undergraduate student definition

34 CFR 676.2(b)

Federal eligibility rules and LEAP funds

The requirement that a student must meet the general FSA program eligibility criteria applies to all the components of a state's LEAP program: the annual federal allotment of funds and all the state matching funds, including the maintenance of effort match.

other eligibility requirements and as long as the school can eliminate the overpayment by adjusting financial aid payments (other than Pell grants) in the same award period in which the overpayment occurred.

Application, need, and dependency status

In states that have *centralized* administration of the LEAP Program, the student applies directly to the state higher education agency, which receives and processes applications, notifies students of awards, verifies attendance, makes disbursements, and keeps records of all student awards. In states that have *decentralized* administration, the student applies indirectly through the school, to which the state agency has delegated certain functions of the program, such as awarding funds (though these funds are still considered state—not institutional—aid). The school recommends potential recipients to the state agency, which then approves individual awards. Every award requires the agency’s formal approval, based on a determination of need. You can find a list of the state agencies on the Department’s website at www.ed.gov.

Most states measure need as determined by the processing of the FAFSA. However, in decentralized programs LEAP applications may be processed according to need as determined by the school. Either way, the state agency has final authority for selecting recipients according to its standards.

The Department may approve on a case-by-case basis a state’s criteria for determining dependency status if they vary from the established criteria that are listed in the *Application and Verification Guide*. The state must show that it has good reason to use different criteria, yet its definition of an independent student might not differ totally from the federal definition. For example, a state might use all the federal criteria but delete the professional judgment provision.

Cost of applying

To award a student LEAP aid, a state may require him to provide information on the Free Application for Federal Student Aid (FAFSA) or on another free form. In addition, the state may require him to provide more information on a supplemental form. If there is a fee for submitting and processing this supplemental form, the fee must be payable to the state regardless of whether the information from it may also be used for institutional aid.

ROBERT C. BYRD HONORS SCHOLARSHIP PROGRAM

Byrd scholarships are awarded on the basis of outstanding academic achievement and the promise of continued achievement, through procedures established by the state education agency (SEA, the department of education or other agency in the state that is primarily responsible for the supervision of public elementary and secondary schools) in the state where the student is a legal resident. A student attending an out-of-state secondary school, such as a boarding school or a U.S. Department of Defense school overseas, must apply for a Byrd scholarship through the SEA of her state of residence.

The SEA develops its selection procedures after consulting with school boards and administrators, teachers, counselors, and parents. Before each state's selection criteria and application procedures are implemented, they are reviewed and approved by the Department.

Students can receive up to \$1,500 for one year of study, which is the period during which a full-time student is expected to complete one year of coursework as defined by the school.

Initial student eligibility

The eligibility criteria for receiving a Byrd scholarship are similar to those for the FSA Programs but not identical. Each student must meet the criteria listed below during the same secondary academic year in which he submits the scholarship application. The student must:

- graduate from a public or private secondary (high) school (home-schooled students and those at military schools are not eligible for Byrd scholarships) or receive the recognized equivalent of a high school diploma (a GED certificate or a certificate that is earned by passing a state-authorized examination and that the state recognizes as a diploma equivalent);
- have applied to or been accepted for enrollment as a full-time student (one who carries a full-time academic workload as determined by the school for a given program) at an institution of higher education;
- be a legal resident of the state to which he is applying for a scholarship;
- be a U.S. citizen or national or provide evidence from the U.S. Citizenship and Immigration Services (USCIS) that he is

Δ a permanent resident of the United States,

Δ in the United States for other than a temporary purpose, with the intention of becoming a citizen or permanent resident, or

Δ a citizen of the Freely Associated States (Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau);

- is not ineligible to receive assistance as a result of default on a federal student loan or other obligation, as provided under 34 CFR 75.60; and
- is registered with the Selective Service, if so required, in accordance with the regulations in 34 CFR 668.33.

Continuing eligibility criteria

Awards can be renewed for up to three additional years provided that funds are appropriated and students remain eligible. A student remains eligible for the scholarship as long as she continues to:

Part-time attendance example

Wendy is a student at Frisson University who received a Byrd scholarship as a freshman. For her sophomore year she enrolls full-time for the fall semester and half-time for the spring semester since she will be working part-time in a co-op job related to her field of study. Because of this, the SEA waives Wendy's full-time enrollment requirement for spring and prorates the \$1500 scholarship. Wendy would still receive half the scholarship for the fall term ($\$1,500 \times 0.5$ years = \$750), and because she is attending half time in the spring, she will be eligible to receive half of the remaining \$750 ($\$750 \times 0.5 = \375).

- meet the citizenship/permanent resident requirements given previously,
- avoid loan default, as outlined above,
- meet Selective Service obligations,
- maintain the satisfactory academic progress standards of the school in accordance with the provisions of 34 CFR 668, and
- be enrolled as a full-time student (though see the exception below) at an institution of higher education.

Byrd scholarships are awarded for not more than four years. If the student completes his undergraduate program in three years, then he is eligible to receive the scholarship for only those three years.

Part-time enrollment after the first year

Byrd scholars must be enrolled full time for the first year of study. If after the first year the SEA determines that unusual circumstances justify waiving the full-time requirement, the student may enroll part time and continue to receive the scholarship, but the SEA must prorate her payments according to her enrollment status.

Scholarship suspension

A scholar who fails to meet any of the eligibility requirements within an award year will have her scholarship suspended by the SEA. The scholar's eligibility remains suspended until she is able to demonstrate to the satisfaction of the SEA that she again meets the requirements. Once the suspension period reaches 12 months, her eligibility for that scholarship is terminated.

The SEA may define exceptional circumstances under which it will extend the 12-month suspension period without ending the student's eligibility.

Scholars may postpone or interrupt enrollment

A state agency may permit a scholar to interrupt or postpone his enrollment at a postsecondary school for up to 12 months. For a postponement this begins on the date the student would have enrolled in the school after the state agency awarded him the scholarship.

Each state agency establishes standards that determine when it will approve a postponement or interruption. If the SEA does approve the postponement or interruption, it must document the scholar's subsequent enrollment.

A scholar who postpones or interrupts her enrollment is not eligible to receive scholarship funds until she is again enrolled at the school. Note that for a student whose scholarship has been suspended, a postponement or interruption does not count against her in calculating the 12 months of suspension.

Scholarship limited to domestic schools

A Byrd scholar may not use his scholarship to attend a foreign school. He must attend an eligible postsecondary school located in

one of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, the Northern Mariana Islands, American Samoa, or the Freely Associated States (the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau).

However, a scholar studying abroad through an eligible institution (the home school) that is located in a state or one of the other regions listed in the previous paragraph is eligible to receive funds as long as she is enrolled at the home school and receives credit from it.

Byrd Program on the Web

The Department gives information on the Byrd Program at www.ed.gov/programs/idadesbyrd/index.html

This site has contact information if you have questions (the program is not administered by FSA).

Notes

Institutional Eligibility

This chapter discusses the three types of institutions that are eligible to participate in the Federal Student Aid (FSA) programs. If circumstances change and a participating school no longer qualifies as an eligible institution, it must notify the Department and carry out the closeout procedures described in Chapter 12 of this Volume.

A school that wishes to participate in the FSA programs must demonstrate that it is eligible to participate before it can be certified for participation. A school must apply to and receive approval from the Department of its eligibility to participate. Some schools apply only for a designation as an eligible institution (they do not seek to participate) so that students attending the school may receive deferments on FSA program loans, or be eligible for the HOPE/Lifetime Learning Scholarship tax credits or other non-FSA programs that require that the school be FSA-eligible. The same application is used to apply for both eligibility and certification for participation (see chapter 2).

THE THREE DEFINITIONS OF ELIGIBLE INSTITUTIONS

The regulations governing institutional eligibility define three types of eligible institutions — institutions of higher education, proprietary institutions of higher education, and postsecondary vocational institutions. Under the three definitions, a school is eligible to participate in all the FSA programs provided the school offers the appropriate type of eligible program (see chart on next page). This section covers the key elements of the three definitions, giving special attention to those requirements that affect the definition of an eligible program.

Although the criteria for the three types of institutions differ somewhat, the definitions are not mutually exclusive. That is, a public or private nonprofit institution may meet the definition of more than one type of eligible institution.

INSTITUTIONAL CONTROL

The *control* of an institution distinguishes whether the institution is public or private, nonprofit or for-profit. Under the institutional definitions, an *institution of higher education* or a *postsecondary vocational institution* can be either public or private, but is always nonprofit. A *proprietary institution of higher education* is always a private, for-profit institution.

CHAPTER 1 HIGHLIGHTS

- **Three definitions of eligible institutions**
 - institution of higher education
 - proprietary institution of higher education
 - postsecondary vocational institution
- **Basic requirements**
 - Legal authorization by a state
 - Accreditation (and alternatives)
 - Admissions standards (high school diploma, recognized equivalent, home schooling)
- **Additional institutional eligibility factors**
 - 90/10 Rule
 - Correspondence courses/students limitation
 - Incarcerated students limitation
 - Limitation on students admitted without HS diploma or equivalent
 - Bankruptcy
 - Crimes involving FSA funds
- **Foreign schools eligible for FFEL programs**
- **Related information**
 - Applying to participate, Volume 2, Appendix A
 - Closeout procedures, Volume 2, Appendix B
 - Eligible program—Volume 2, Chapter 4
 - Eligibility of ability-to-benefit students, home-school students, and correspondence students—Volume 1, Chapter 1.

Assessing your school's compliance

To assess your school's compliance with the provisions of this chapter see the FSA Assessment module for "Institutional Eligibility," at ifap.ed.gov/qahome/qaassessments/institutionalelig.html

Type and Control of Eligible Institutions		
<i>Institution of Higher Education</i> A public or private nonprofit educational institution located in a state	<i>Proprietary Institution of Higher Education</i> A private, for-profit educational institution located in a state	<i>Postsecondary Vocational Institution</i> A public or private nonprofit educational institution located in a state
Eligible Programs		
<p>(1) Associate, bachelor's, graduate, or professional degree, or</p> <p>(2) At least a two-year program that is acceptable for full credit toward a bachelor's degree, or</p> <p>(3) At least a one-year training program that leads to a degree or certificate (or other recognized educational credential) and prepares students for gainful employment in a recognized occupation.</p>	<p>Program offered: must provide training for gainful employment in a recognized occupation, and must meet the criteria of at least one category below.</p> <p>(1) Provides at least a 15-week (instructional time) undergraduate program of 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. May admit students without an associate degree or equivalent.</p> <p>(2) Provides at least a 10-week (instructional time) program of 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. Must be a graduate/professional program, or must admit only students with an associate degree or equivalent.</p> <p>(3) Provides at least a 10-week (instructional time) undergraduate program of 300–599 clock hours. Must admit at least some students who do not have an associate degree or equivalent, and must meet specific qualitative standards. Note: These programs are eligible only for FFEL and Direct Loan participation.</p>	
Additional Rules		
<p>“Two-Year Rule” (applicable to proprietary and postsecondary vocational institutions) — Legally authorized to give (and continuously has been giving) the same postsecondary instruction for at least two consecutive years.</p> <p>Special rule (applicable to proprietary institutions) — Derives no more than 90% of its revenues from FSA funds.</p>		

ELIGIBLE INSTITUTION

To be eligible, an institution must adhere to the following requirements:

- It must be *legally authorized* by the state where the institution offers postsecondary education to provide a postsecondary education program,
- It must be *accredited* by a nationally recognized accrediting agency or have met the alternative requirements, if applicable, and
- It must *admit as a regular student* only individuals with a high school diploma or its recognized equivalent, or individuals beyond the age of compulsory school attendance in the state where the institution is located.

These requirements are discussed in the following sections.

LEGAL AUTHORIZATION BY A STATE

With the exception of foreign schools, an eligible institution under any of the three definitions must be located in a state. Generally, the determining factor is the physical location of the main campus or place of instruction.

To qualify as an eligible institution under any of the three institutional definitions, a school must be legally authorized by the state in which it offers an educational program to provide the program. The state's legal authorization is the legal status granted to a school through a charter, license, or other written document issued by an appropriate agency or official of the state in which the school is located. It may be provided by a licensing board or educational agency. In some cases, the school's charter is its legal authorization.

A school must have evidence that it has the authority to operate in a state at the time of the school's certification to participate in the FSA programs. For more information on applying for participation in the FSA programs, see Chapter 2.

ACCREDITATION

Generally, a school must be accredited or preaccredited by a nationally recognized accrediting agency or association (both referred to here as agencies) to be eligible. The procedures and criteria for recognizing accrediting agencies are found in chapter 12.

Except as provided below, a school must be accredited by an agency that has the authority to cover all of the institution's programs. An agency such as this is referred to as the school's primary accrediting agency. A school can have only one primary accreditor.

Definitions of eligible institutions of education cite

34 CFR 600.4, 600.5, and 600.6

Nonprofit institution

A school that is

- owned and operated by one or more nonprofit corporations or associations whose net earnings do not benefit any private shareholder or individual,
- legally authorized to operate as a nonprofit organization by each state in which it is physically located, and
- determined by the Internal Revenue Service (IRS) to be eligible for tax-deductible contributions in accordance with the IRS Code (26 U.S.C. 501(c)(3)).

State

"State" includes not only the 50 states, but also American Samoa, Puerto Rico, the District of Columbia, Guam, the U.S. Virgin Islands, and the Northern Mariana Islands. A "state" also includes the Freely Associated States, which include the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

Authorization by a state cite

34 CFR 600.4(a)(1)

Nationally recognized accrediting agency or association

An accrediting agency or association which the Department has recognized to accredit or preaccredit a particular category of institution, school, or educational program in accordance with the provisions in 34 CFR Parts 602 and 603.

Obtaining a list of recognized accrediting agencies

The Department periodically publishes a list of nationally recognized accrediting bodies in the Federal Register, based on criteria given in 34 CFR Part 602. The list of accrediting agencies recognized for FSA purposes can be found on the Department's Web site at: www.ed.gov/admins/finaid/accred/index.html

The list of accrediting agencies recognized for their preaccreditation categories is in section 7. Information about national recognition of states approval agencies is in section 10.

School required to be licensed and accredited cites

34 CFR 600.4(a)(3) & (5)
34 CFR 600.5(a)(4) & (6)
34 CFR 600.6(a)(3) & (5)

Preaccredited:

A status granted by a nationally recognized accrediting agency or association to a public or private nonprofit institution that is progressing towards accreditation within a reasonable period of time.

Institutions of Higher Education (IHE)
34 CFR 600.4(a)(5)(i)
Postsecondary Vocational Institutions (PVI)
34 CFR 600.6(a)(5)(i)

Alternatives to accreditation cites

Institutions of Higher Education (IHE)
34 CFR 600.4(a)(5)(i)
Postsecondary Vocational Institutions (PVI)
34 CFR 600.6(a)(5)(ii)

A school may also be accredited by one or more programmatic accrediting agencies. A programmatic accrediting agency is one that accredits only individual educational programs that prepare students for entry into a profession, occupation, or vocation.

If a school is seeking to change primary accreditors it must first provide the Department (and the agencies) all materials documenting the reasons and causes for making the change. (Information on changes in accreditation can be found in chapter 5.)

Alternatives to regular accreditation

The law provides two statutory alternatives to accreditation by a recognized accrediting agency. First, a public, or private nonprofit institution may be preaccredited by an agency or association that has been approved by the Department to grant such preaccreditation. Second, public postsecondary vocational educational institutions may be eligible for FSA funds if accredited by a state agency that the Department determines to be a reliable authority.

Primary accreditor

The primary accreditor typically is an accrediting agency whose scope is institution-wide rather than only programmatic. A participating institution must advise the Department which accrediting agency it wants to serve as its primary accrediting agency for the purpose of FSA eligibility. If a school offers only programs of a singular nature, the school's primary accreditor may be an agency that accredits only those specific educational programs.

Dual accreditation

If a school is accredited by two agencies at the same time, the school must designate which agency's accreditation will be used in determining institutional eligibility for FSA funds and must inform the Department via the E-App. Further, the school must provide to the Department (and to both agencies) all materials documenting the reasons and causes for dual accreditation before the school adds the additional accreditation. See chapter 5 for more on changes in accreditation and loss of eligibility.

ADMISSIONS STANDARDS

An eligible institution may admit as regular students only persons who have a high school diploma or its recognized equivalent, or persons who are beyond the age of compulsory school attendance in the state in which the school is located. (Admissions standards also play a role in student eligibility, as discussed in *Volume 1, Chapter 1.*)

High school diploma

Unless required by its accrediting or state licensing agency, the school is not required to keep a copy of a student's high school diploma or GED (the recognized equivalent of a high school diploma, *see below*). Rather, the school may rely on the student's certification (including that on the FAFSA) that he or she has received the credential and a copy of the certification must be kept on file. This certification need not be a separate document. It may be collected on the school's admissions application. The school may also require the student to provide supporting documentation.

Recognized equivalent of a high school diploma

Generally, a recognized equivalent of a high school diploma is either a GED or a state certificate (received after the student has passed a state-authorized test) that the state recognizes as being equivalent to a high school diploma. However, the Department recognizes that there are special cases:

- If a student has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor's degree, the student's academic transcript is considered equivalent to a high school diploma.
- A student without a high school diploma who is seeking enrollment in a program of at least the associate-degree level, and who has excelled academically in high school and met formalized written admissions policies of the school, is also considered to have the equivalent of a high school diploma.

Criteria for ability-to-benefit and home-school students

To be eligible for FSA funds, students who are beyond the age of compulsory attendance but who do not have a high school diploma or its recognized equivalent must meet ability-to-benefit criteria or meet the student eligibility requirements for a student who is home-schooled. (For more information on this student eligibility requirement, see *Volume 1, Chapter 1.*)

For purposes of student eligibility, a student who does not have a high school diploma or equivalent is eligible to receive FSA funds if the student completes a secondary school education in a home-school setting that is treated as a home school or private school under state law (see *Volume 1, Chapter 1* for student eligibility rules). However, a student must be enrolled in an eligible institution to receive FSA funds, and an eligible institution may admit as regular students only

Admissions standards cite

34 CFR 600.4(a)(2)
34 CFR 600.5(a)(2)
34 CFR 600.6(a)(2)

Regular student

A person who is enrolled (or is accepted for enrollment) in an eligible program for the purpose of obtaining a degree, certificate, or other recognized educational credential. Note that if an individual is not yet beyond the age of compulsory school attendance in the state in which the institution is physically located, the institution may only enroll the individual as a "regular student" if he or she has a high school diploma or its equivalent. 34 CFR 600.2

Admissions standards as a student eligibility issue

To be eligible for FSA funds, a student who does not have a high school diploma or its recognized equivalent must not only be beyond the age of compulsory attendance, but must also meet the criteria for home-schooled students or demonstrate "ability-to-benefit." See *Volume 1, Chapter 1.*

High school diploma

By high school diploma we mean one recognized by the state in which the high school is located. See *Volume 1, Chapter 1* for more information.

Ability-to-benefit cites

Approval of tests
34 CFR 668, Subpart J
Ability-to-benefit limitation cite
34 CFR 600.7(a)(1)(iv)

Home schooling cites

HEA 484(d)(3)
34 CFR 668.32(e), and
DCL: GEN-02-11
Eligibility of Home-Schooled Students – Institutional and Student Eligibility, November 27, 2002

Home schooling example

If your state requires children to attend school until age 17, you may admit as a regular student a home-schooled student who completes the secondary curriculum at age 16 if your state would not consider the student truant and would not require that student to go back to high school, or continue a home-school education until age 17.

Limitation on students admitted without HS diploma or equivalent

A school that admits students who do not have a high school diploma nor its recognized equivalent has some additional considerations. A waiver of this limitation is possible for some schools. See the discussion under *Limitation on students without HS diploma or equivalent*.

Branch campus

A branch campus is a location of a school that is geographically apart and independent of the main campus of the school. A location is considered to be independent of the main campus if the location:

- is permanent in nature;
- offers courses in educational programs leading to a degree, certificate, or other recognized educational credential;
- has its own faculty and administrative or supervisory organization; and
- has its own budgetary and hiring authority.

Branch campus cite
34 CFR 600.2 and 600.8

Additional location cite

34 CFR 600.32

students with a high school diplomas or equivalent, or students who are beyond the age of compulsory school attendance in the state in which the institution is located.

The Department considers that a home-schooled student is beyond the age of compulsory school attendance if the state in which the eligible institution is located does not consider the student truant once he or she has completed a home-school program. You may rely on a home-schooled student's self-certification that he or she completed secondary school in a home-school setting, as discussed in *Volume 1, Chapter 1*, under "Academic Qualifications."

"TWO-YEAR" RULE

To be eligible as a proprietary institution or a postsecondary vocational institution, a school must be legally authorized to give (and have continuously been giving) the same postsecondary instruction for at least two consecutive years prior to its application. The educational program(s) offered must remain substantially the same in length and subject matter, except for changes made because of new technology or requirements of other federal agencies. A school subject to the two-year rule may not award FSA funds to a student in a program that is not included in the school's approval documents.

If a school is subject to the two-year rule, during the school's initial period of participation in the FSA programs the Department will not approve additional programs that would expand the institution's eligibility. An exception would be considered if the school demonstrates that the program has been legally authorized and continuously provided for at least two years prior to the date of the request.

A branch campus of an eligible proprietary institution or postsecondary vocational institution seeking status as a main campus or freestanding institution is subject to the two-year rule. A branch campus must be designated as such by the Department for two years after certification as a branch campus before the branch can seek certification as a main or freestanding school.

An additional location must obtain approval from the Department to become a branch campus. A branch campus then must operate as a branch campus for two years (satisfy the two-year rule) before it may be considered for status as a freestanding institution. Time as an additional location of an eligible proprietary institution or postsecondary vocational institution does not count toward the two-year rule.

ADDITIONAL INSTITUTIONAL ELIGIBILITY FACTORS

An otherwise eligible institution becomes an ineligible institution if the school violates, among other requirements—

- the 90/10 Rule (applicable to proprietary schools only)
- the correspondence course limitation or the correspondence student limitation,
- the incarcerated student limitation, or
- the 50% limit on students without a high school diploma or equivalent.

In addition, a school is not eligible if it (or its owner) files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving FSA program funds. A school that becomes ineligible because of one of these factors must immediately stop awarding FSA program funds and must comply with the requirements in 34 CFR 668.26 for a school that has lost its FSA participation. For more information on requirements when a school's FSA participation ends, see chapter 12.

Demonstrations of compliance

All of the *limitation* requirements and the 90/10 Rule involve certain percentage calculations that are performed by the school either to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. For each of the tests enumerated above, a calculation performed by the school must be attested to by the independent auditor who prepares the school's audited financial statement or its FSA compliance audit (for more information on audits, see chapter 12). If a school's initial or previous calculation was in error, the auditor's report must be part of the audit workpapers and must include a recalculation. The auditor's attestation report must indicate whether the school's determinations (including any relevant waiver or exception) are accurate. Requirements for demonstrating compliance with the 90/10 Rule are discussed below.

For each of the limitation requirements, the school must notify the Department (via Section G of the E-App) of the school's failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued waiver, as applicable. The school's notification must occur by July 31 following the end of an award year. A school that fails to meet any of these requirements loses its eligibility to participate in any FSA program as of the last day of the most recent award year for which the school failed to meet the requirement.

If a school loses its eligibility because it failed to meet one or more of the limitation requirements, the school cannot regain eligibility until it can demonstrate that it was in compliance with all of the limitation requirements for the most recently completed award year. Once this has occurred the school may apply to regain its eligibility. In addition, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.

Notification cite

34 CFR 600.7(h)

If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Electronic Application (E-App) (which deal with enrollment thresholds in these areas), the school must notify the Department via the E-App. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (Waivers are available for the correspondence student limitation, the incarcerated student limitation, and the ATB limitation.)

Conditions of institutional ineligibility

34 CFR 600.7

Disqualified individuals and the PPA

In its PPA, a school agrees to not knowingly employ in a capacity involving the administration of FSA funds, anyone who has pled nolo contendere or guilty or has been administratively or judicially determined to have committed fraud or any other material violation of the law involving federal, state, or local government funds (34 CFR 668.14(b) (18)(i)).

90/10 cite

Sec. 102 of the HEA
34 CFR 600.5

For schools using a calendar year

as their fiscal year, their most recently completed fiscal year is the one that ended on December 31, 2004. For those schools using the award year as their fiscal year, their most recently completed fiscal year will be the one that ends on June 30, 2005.

Financial statement notification

A school must send notice of its failure to satisfy the 90/10 Rule to the Department by U.S. Mail to the following address:

U.S. Department of Education
School Eligibility Channel
Data Management and Analysis Division
Document Receipt and Control Center
830 First Street, NE
Room 71-I-1
Washington, DC 20002-5402

Phone: (to confirm receipt only)
(202) 377-3161 or (202) 377-3155.

Correspondence limitations cite

Sec. 481(a)(3)(A) and (B) of the HEA
34 CFR 600.7(a)(1)(i) and (ii)

Correspondence student eligibility

For information about a student's eligibility for FSA funds while enrolled in a correspondence course and cost of attendance information for correspondence courses, see *Volume 1, Chapter 1* and *Volume 3, Chapter 2*.

If a school becomes ineligible because it files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving FSA program funds, the school must notify the Department of the change within 10 days. The loss of eligibility is effective as of the date of the bankruptcy, or the date the school or individual pleads to or is found responsible for the crime, as applicable. A loss of eligibility for these two reasons is permanent. The institution's eligibility cannot be reinstated.

The 90/10 Rule

To be eligible for FSA participation, a proprietary institution may derive no more than 90% of its revenues from the FSA programs. A school must determine and certify its revenue percentages using the formula described in the chart on the following pages for its latest complete fiscal year.

A proprietary school is required to disclose the percentage of its revenues derived from the FSA programs (that the school received during the fiscal year covered by the audit) as a footnote to its audited financial statement. For information on audited financial statements, see chapter 12.

Proprietary institutions have 90 days after their most recent fiscal year has ended to report to the Department if they did not satisfy the 90/10 Rule for that period. A school changing from for profit to nonprofit must continue to file this report for the first year of its nonprofit status.

Schools that fail to satisfy the 90/10 Rule automatically lose their eligibility on the last day of the fiscal year for which the calculation is done. As mentioned earlier, the school must immediately stop awarding FSA program funds and follow the closeout procedures described in Chapter 12. Schools have 90 days after their most recently completed fiscal year has ended to report to the Department if they did not satisfy the 90/10 Rule for the fiscal period.

Correspondence course and correspondence student limitation

In general, a school does not qualify as eligible to participate in the FSA programs if, for the latest complete award year—

- more than 50% of the school's courses were correspondence courses (correspondence course limitation).

(This limitation does not apply to a school that mainly provides vocational adult education or job training (as defined under Sec. 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act).)

- 50% or more of the school's regular enrolled students were enrolled in correspondence courses (correspondence student limitation).

This limitation may be waived for a school that offers a two-year associate degree or four-year baccalaureate degree

Calculating revenues for the 90/10 rule

To be eligible for FSA participation, a proprietary institution may derive no more than 90% of its revenues from the FSA programs. A school must determine and certify its revenue percentages using the following regulatory formula for its latest complete fiscal year (34 CFR 600.5(d)).

FSA funds used for tuition, fees, and other institutional charges to students

The sum of revenues generated by the school from: (1) tuition, fees, and other institutional charges for students enrolled in eligible training programs; plus (2) school activities necessary for the education or training of students enrolled in those eligible programs.*

**to the extent not included in tuition, fees, and other institutional charges*

Exclusions from fraction

In determining whether a school satisfies the 90/10 Rule, the following funds are excluded from both the numerator and denominator:

1. FWS funds (unless the school used these FWS funds to pay a student's institutional charges),
2. LEAP and SLEAP funds (see further discussion below),
3. institutional funds the school uses to match Federal Student Aid funds,
4. refunds paid to or on behalf of students who have withdrawn dropped out, been expelled, or otherwise failed to complete the period of enrollment, and
5. the cost of books, supplies, and equipment unless those costs are institutional charges as described in *Volume 5, Chapter 2*.

Counting LEAP funds

If a state agency specifies the exact amount or percentage of LEAP funds included in an individual student's state grant, only the specified amount or percentage of the student's state grant up to \$5,000 (the statutory maximum LEAP award) is considered LEAP funds.

If the state agency identifies a specific student's state grant as containing LEAP funds but does not provide an exact amount or percentage, the entire amount of the grant up to \$5,000 is considered LEAP funds. State grant funds that are not LEAP/SLEAP are included in the denominator.

If the state agency does not specify the amount of LEAP funds included in a student's individual grant but does specify the percentage of LEAP funds in the entire amount of state grant funds provided to the school and the student meets the FSA student eligibility requirements, the school must apply this percentage to the individual student's total state grant to determine the amount of the grant up to \$5,000 to be considered LEAP funds.

The cash basis of accounting

A proprietary institution of higher education must use the cash basis of accounting in determining whether it satisfies the 90/10 Rule. Under the cash basis of accounting, revenue is recognized when received rather than when it is earned.

For the purpose of calculating the qualifying percentages under the 90/10 Rule, revenue is an inflow or other enhancement of assets to an entity, or a reduction of its liabilities resulting from the delivery or production of goods or services. A school may recognize revenue only when the school receives cash, i.e., when there is an inflow of cash. As a result, in order for a school to recognize revenue under the cash basis of accounting, that revenue must represent cash received from a source outside the institution.

FSA program funds for institutional charges

In figuring what FSA program funds were used to pay tuition, fees, and other institutional charges, a school must assume that any FSA program funds disbursed (or delivered) to or on behalf of a student were used for such costs, regardless of whether the school credits those funds to the student's account or pays them directly to the student, unless those costs were otherwise paid by

- grant funds provided by nonfederal public agencies,
- grant funds provided by independent private sources,
- funds from qualified government agency job training contracts, or
- funds received from a prepaid state tuition plan.

Revenues from activities

In figuring revenues generated by school activities, a school may include only revenue generated by the school from activities it conducts, that are necessary for its students' education or training. The activities must be—

- conducted on campus or at a facility under the control of the institution,
- performed under the supervision of a member of the institution's faculty, and
- required to be performed by all students in a specific educational program at the institution.

Revenues from auxiliary enterprises and activities that are not a necessary part of the students' education, such as revenues from the sale of equipment and supplies to students and revenues from vending machines, may not be included in the denominator of the 90/10 calculation.

Revenues from clinic or school

If a clinic or service is operated by the school, offered at the school, performed by students under direct faculty supervision, and required of all students as part of their educational program, then revenues from the clinic or service may be included in the denominator of the 90/10 calculation.

Tuition waivers

Institutional grants in the form of tuition waivers do not count as revenue because no new revenue is generated. Similarly, internal transfers of cash among accounts are not considered revenue because they do not represent an inflow of cash to the institution. Institutional scholarships are not revenues generated by the school (unless they are donated by an unrelated or outside third party). An exception is permitted for schools to use donations from a related party to create restricted accounts for institutional scholarships, but only the amount earned on the restricted account and used for scholarships would count as revenue in the denominator of the calculation.

Funds held as credit balances in institutional accounts cannot be counted in the 90/10 formula. However, once funds held as credit balances are used to satisfy institutional charges, they would be counted in both the numerator and the denominator of the formula.

Revenues from loans

When a school makes a loan to a student, it does not receive cash from an outside source. Accordingly, cash revenue from institutional loans is recognized only when those loans are repaid, because that is when there is an inflow of cash from an outside source. Loan proceeds from institutional loans that were disbursed to students may not be counted in the denominator of the fraction, because these proceeds neither generate nor represent actual inflows of cash. The school may include only loan repayments it received during the appropriate fiscal year for previously disbursed institutional loans.

Loans made by a private lender that are in any manner guaranteed by the school are known as recourse loans. The proceeds from recourse loans may be included in the denominator of an institution's 90/10 calculation for the fiscal year in which the revenues were received, provided that the institution's reported revenues are also reduced by the amount of recourse loan payments made to recourse loan holders during that fiscal year.

Note that recourse loan payments may be for recourse loans that were made in a prior fiscal year. Under the cash basis of accounting the reductions to total revenues in the denominator of the 90/10 calculation are reported in the fiscal year when the payments are made.

The nonrecourse portion of a partial recourse loan may be included in a 90/10 calculation. In order to include a partial recourse loan in a 90/10 calculation, the contract must identify the percentage of the sale that is nonrecourse; only that percentage may be included. Furthermore, no after-the-fact adjustments may be provided for.

Revenue generated from the sale of nonrecourse institutional loans to an unrelated third party may be counted as revenue in the denominator of the 90/10 calculation to the extent that the revenues represent actual proceeds from the sale.

The sale of institutional loan receivables is distinguishable from the sale of an institution's other assets because receivables from institutional loans are produced by transactions that generate tuition revenue. Tuition revenue represents income from the major service provided by an institution. That would not be true in the case of the sale of other institutional assets.

Additional guidance on 90/10 and institutional loans and scholarships can be found in Dear Partner Letter GEN-99-33 and Dear CPA Letters CPA-99-01 and CPA-99-02.

program if the school demonstrates to the Department that in that award year, the students enrolled in its correspondence courses receive no more than 5% of the total FSA program funds received by all of the school's students in the award year.

For additional information on the effects of correspondence courses and students on institutional eligibility, see chapter 8.

Incarcerated student limitation

A school is not eligible for FSA program participation if, in its latest complete award year, more than 25% of its regular students are incarcerated. A public or private non-profit school can ask the Department to waive this limitation (see sidebar for details). If granted, the waiver is effective as long as the public or private non-profit school continues to meet the waiver requirements each award year. For information on the eligibility of incarcerated students for FSA assistance, see *Volume 1, Chapter 1*.

Limitation on students admitted without HS diploma or equivalent

Unless a school provides a four-year bachelor's degree program, or a two-year associate degree program, the school will not qualify as an eligible institution if, for its latest complete award year, more than 50% of its regular enrolled students had neither a high school diploma nor its equivalent.

If a public or private nonprofit institution exceeds the 50% limit because it serves significant numbers of these students through contracts with federal, state, or local government agencies, the Department may waive the limitation.

The waiver will only be granted if no more than 40% of the public or private non-profit regular students not served through contracts with federal, state, or local government agencies to provide job training do not have a high school diploma or its equivalent. If granted, the waiver may be extended in each year the public or private non-profit school continues to meet the requirements. The public or private non-profit school's calculation must be attested to by an independent auditor.

Bankruptcy

A school is not an eligible institution if the school, or an affiliate of the school that has the power, by contract or ownership interest, to direct or cause the direction of the management of policies of the school, files for relief in bankruptcy or has entered against it an order for relief in bankruptcy.

Incarcerated student defined

An "incarcerated student" is a student who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm, or other similar correctional institution (does not include detention in a halfway house, home detention, or weekend-only sentences).

Waiver of incarcerated student limitation

- For a public or private non-profit school offering only two-year or four-year programs that lead to associate or bachelor's degrees, the waiver applies to all programs offered at the school.
- However, if the public or private non-profit school offers other types of programs, the waiver would apply to any of the school's two-year associate degree programs or four-year bachelor's degree programs, and also to any other programs in which the incarcerated regular students enrolled have a 50% or greater completion rate. (The calculation of this completion rate is specified in Section 600.7(e)(2) of the Institutional Eligibility regulations and must be attested to by an independent auditor.)
- A non-profit school may request the waiver using the E-App, by answering the questions in "section G" and explaining in "question 69."

(see <http://www.eligcert.ed.gov>).

Incarcerated student limitation cite

34 CFR 600.7(a)(1)(iii) and 600.7(c)

Foreign School Information

You can find additional information about foreign school eligibility in “The Student Financial Aid Handbook for Foreign Schools” on the IFAP Web site located at <http://ifap.ed.gov>

Crimes involving FSA program funds

In order to safeguard FSA funds, schools are prohibited from having as principals or employing or contracting with other organizations that employ individuals who have engaged in the misuse of government funds. Specifically, a school must not knowingly—

1. employ in a capacity that involves the administration of the FSA programs or the receipt of funds under those programs, an individual who has been convicted of, or has pled nolo contendere or guilty to, a crime involving the acquisition, use, or expenditure of federal, state, or local government funds, or has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds;
2. contract with a school or third-party servicer that has been terminated from the FSA programs for a reason involving the acquisition, use, or expenditure of federal, state, or local government funds, or that has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds; or
3. contract with or employ any individual, agency, or organization that has been, or whose officers or employees have been:
 - a. convicted of, or pled nolo contendere or guilty to, a crime involving the acquisition, use, or expenditure of federal, state, or local government funds; or
 - b. administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds.

FOREIGN SCHOOLS ELIGIBLE FOR FFEL PROGRAMS

In general, by law, a foreign school can participate in the FFEL programs if the foreign school is comparable to an institution of higher education (as defined earlier in this section) and has been approved by the Department. Additionally, the regulations set out specific requirements for foreign medical schools and foreign veterinary schools.

Applying for Participation in the FSA Programs

In this chapter, we will discuss how and when a school applies for approval to participate in the Federal Student Aid (FSA) programs, including when a school should submit an Application to Participate (E-App) and steps a school must follow when submitting an E-App.

APPLYING TO PARTICIPATE

Overview

A school must be certified by the Department to participate in any of the FSA programs—

- Federal Pell Grant Program
- Academic Competitiveness Grant and National SMART Grant Programs
- Federal Direct Loan Program
- Federal Family Education Loan (FFEL) Program, and
- Campus-Based programs (Federal Supplemental Educational Opportunity Grant [FSEOG], Federal Work-Study [FWS], and Federal Perkins Loan)

To begin the certification process, a school must submit an Electronic Application for Approval to Participate in the Federal Student Aid Programs (E-App) to the Department.

The E-App collects information that allows the Department to examine three major factors about the school: institutional eligibility, administrative capability, and financial responsibility. These subjects are discussed in detail in chapters 1, 3, 4, 10 and 11. In addition, a school can use the E-App to apply for participation in either or both the FFEL and Direct Loan programs.

In evaluating the school and deciding whether to approve or deny the request to participate in any FSA program, the Department examines the E-App and accompanying submissions. In addition, for schools that are participating or have participated in the FSA programs, the Department will examine a school's compliance audits, financial statements, and program reviews. The Department also will check to see if a school has submitted all the required financial statements and compliance audits. The Department may request additional materials (such as those containing the school's satisfactory academic progress policy, admissions policies, and refund policies) and ask additional questions.

CHAPTER 2 HIGHLIGHTS

■ Applying to participate

- The Electronic Application (E-App)
 - Applying as an eligible nonparticipating school
 - Applying for initial certifications as a participating school
 - FSA Administration training requirement

■ Reinstatement

- Outcomes of the application process
 - Effective date of participation
 - Beginning to disburse funds
 - Provisional certification
 - Revoking provisional certification

■ Program Participation Agreement

Related topics

- Recertification, changes in ownership, and updating school information on the E-App (Chapter 5)
- Ending participation in the FSA programs (Chapter 12)

FSA Assessments-

To assess your school's compliance with the provisions of this chapter see the FSA Assessment module for "Institutional Eligibility," at

ifap.ed.gov/qahome/qaassessments/institutionalelig.html

ACG/ National SMART Grant programs

A school is considered to be certified for Academic Competitiveness Grant and National SMART Grant programs if it is certified to participate in a Pell Grant Program and has a program eligible for ACG and National SMART Grant Programs.

E-App

The E-App is available on the Web at:
<http://www.eligcert.ed.gov>



The Electronic Application (E-App)

A school must use the **E-App** when it—

- wishes to be designated as an *eligible institution* so that its students may receive deferments under the FSA programs, its students may be eligible for the Hope and Lifetime Learning Tax Credit, or so that the school may apply to participate in federal HEA programs other than the FSA programs;
- wishes to be approved for the first time (initial certification) to participate in the FSA programs;
- wishes to be reapproved (*Recertification*) to participate in the FSA programs (discussed in chapter 5);
- wishes to be reinstated to participate in the FSA programs (discussed in chapter 5);
- undergoes a change in ownership, a conversion from a for-profit institution to a nonprofit institution or vice versa, or a merger of two or more institutions (referred to collectively as a *change in ownership, structure, or governance* for the remainder of the chapter) and wishes to participate in the FSA programs (discussed in chapter 5);
- must update information previously reported (discussed in chapter 5); or
- wishes to expand its FSA eligibility and certification (discussed in chapter 5).

Two-Year Rule & additional programs

Since a proprietary or postsecondary vocational institution is subject to the two-year rule (see Chapter 1), during the school's initial period of participation in the FSA programs, ED will not approve adding programs that would expand the school's eligibility.

An exception may be considered if the school can demonstrate that the program has been legally authorized and continuously provided for at least two years prior to the date of the request. A school subject to the two-year rule may not award FSA funds to a student enrolled in a program that is not included in the school's approval documents.

The date of submission for an E-App is the date a school uses the *Submit Application* page to electronically submit the E-App or the date the signature page and supporting documents were postmarked or sent by a delivery service, whichever is later (the date the school submits a materially complete application).

Applying for initial certification as a participating school

A school applying for initial certification may submit an E-App to the Department at any time. (See the sidebar note on the next page for a description of the other documents that must be submitted to make the application materially complete.) A school that is not currently certified, will not be considered certified during the review period.

Applying for reinstatement after voluntary withdrawal

A school that voluntarily left the FSA programs —

- may seek to be reinstated at any time, and
- must submit a materially complete application to the Department (using its old OPEID number).

Applying for reinstatement after termination or preemptive withdrawal

A school that was terminated from the FSA programs or that left because it was about to be terminated or otherwise sanctioned—

- generally must wait at least 18 months before applying for reinstatement;
- must submit a materially complete application to the Department; and
- under the cohort default rate rules only, generally loses the ability to participate for the remainder of the current fiscal year and the two following fiscal years.

ELIGIBILITY DURING REVIEW PERIOD & AFTER APPROVAL***Status during the review period***

If your school has never been an eligible institution, or if it has never been certified, it will not be considered certified during our review period. Similarly, if your school once participated in the FSA programs but no longer does so, it will not be considered certified during our review period.

If a school applying for recertification meets the submission deadlines detailed in the introduction to the E-App, its PPA automatically remains in effect until the Department either approves or does not approve the E-App (*see Chapter 5*).

Effective date for participation (if approved)

The date the PPA is signed on behalf of the Secretary is the date the school may begin FSA program participation. (Currently, there are additional steps that must be taken for participation in the Direct Loan Program.) The Department's Program Systems Service and regional offices are notified, as well as state guaranty agencies, that the school is approved to participate in the FSA programs.

Beginning to disburse funds (if approved)

A school may make Pell Grant disbursements to students for the payment period in which the PPA is signed. Schools receiving initial certification can participate in the Campus-Based programs in the next award year that funds become available. FFEL and Direct Loan program disbursements may begin in the loan period that the PPA is signed on behalf of the Secretary.

Materially complete

- a copy of the school's state license or other equivalent document authorizing the school to provide a program of postsecondary education in the state in which it is physically located,
- a copy of a document from its accrediting agency that grants it accreditation status, including approval of the nondegree programs it offers, and
- any other required supporting documentation.

ED recommends that a school keep a copy of its E-App and supporting documents and retain proof of the date submitted to the Department.

Applying as an eligible nonparticipating school

Some schools choose to establish their eligibility for FSA programs but elect not to participate in them, because designation as an eligible institution qualifies a school or its students to apply to participate in non-FSA programs, such as the HOPE and Lifetime Learning Tax Credit. In addition, only students attending eligible institutions qualify for in-school deferments of payments on their federal education loans

A nonparticipating eligible institution wishing to be designated an eligible nonparticipating institution may submit an E-App to the Department at any time. The application must be materially complete.

Following submission of an application, the Department will contact the school if it has additional questions about the application. Generally, this will be within 90 days of the Department receiving an application. After completing its review, if a school's application has been approved, the Department will send an electronic notice to the president and financial aid officer notifying them that the school is eligible and that its approval letter and ECAR must be printed and maintained. If the school's application has not been approved, the Department will notify the school and explain why.

Outcomes of the review process

Review of an E-App results in one of three outcomes: (1) full certification, (2) provisional certification, or (3) denial.

Initial applications, applications submitted as a result of a change in ownership, and applications requesting reinstatement, are always approved provisionally.

PROVISIONAL CERTIFICATION

Rather than granting full approval to participate, the Department may grant a school conditional approval (referred to as *provisional certification* in the law) to participate in the FSA programs for up to three complete award years. This level of approval is granted at the Department's discretion. If the Department grants a provisional certification, the PPA details the provisions of that certification.

Provisional certification is *always* used when—

- a school is applying to participate for the first time (if approved, it will be provisionally certified for no more than one complete award year),
- a participating school is reapplying because it has undergone a change in ownership, structure, or governance (if approved, it will be provisionally certified for no more than three complete award years), or
- a school reapplies to participate in the FSA programs after its approval to participate ended.

Provisional certification may also be used in other cases, such as when—

- a participating school whose participation has been limited or suspended (or that voluntarily agrees to this provisional status) is judged by the Department to be in an administrative or financial condition that might jeopardize its ability to perform its responsibilities under its PPA (see Chapter 12);
- a participating school's accrediting agency loses its Departmental approval and the school is seeking approval from another accrediting agency (it may be provisionally certified for no more than 18 months after the agency's loss of approval);
- it is determined that a school is not financially responsible but the school has met other requirements and has accepted provisional certification (see Chapter 11); or
- a school that is reapplying for certification has a high default rate.

Revoking provisional certification

If the Department determines that a school with provisional certification cannot meet its responsibilities under its PPA, the Department may revoke the school's participation in the FSA programs. The Department will notify the school of such a determination in a notice that states the basis and consequences of the determination. The notice is sent by certified mail (or other expeditious means). The revocation takes effect on the date the Department mails the notice to the school.

The certification process

Steps 1-3 are for initial applicants only; schools seeking reinstatement should begin with step 4.

- 1 A school seeking initial certification should go to the Web site: <www.eligcert.ed.gov> and click on the link marked **Initial Applicants**.
- 2 Once the school answers the questions for initial applicants, the school prints and faxes them to the School Participation Team (SPT) responsible for the school's home state (SPT phone numbers are listed on the E-App Web site under Introduction).
- 3 The SPT will provide the school with an OPEID number that gives the school access to the entire E-App.
4. The school uses its OPEID to enter the E-App site, and completes the E-App.
- 5 The school must print Section L of the E-App (the signature page), and the school's president/CEO must sign it. The school must send the completed signature page and all required supporting documents, such as accreditation and state licensure documents, to ED at

**U.S. Department of Education, FSA
Integrated Partner Management
830 First Street, NE
Washington, DC 20202-5402**

6. The Department will contact the school if it has additional questions about the school's E-App. Generally, this will be within 90 days of the Department receiving an E-App.
7. If the school's application is approved, the Department will send an electronic notice to the CEO/President and the financial aid administrator notifying them that the school's PPA is available to print and review. The PPA includes the date that the school's eligibility to participate expires. (If the E-App is not approved, the Department will notify the school, giving the reason(s) for denial.)
8. The appropriate officials at the school must sign the PPA and send two copies to the address shown above (step 5).
9. The Department mails the school's copy of the PPA, signed and dated on behalf of the Secretary. The Department also sends the school an electronic notice that the approval letter and Eligibility and Certification Approval Report (ECAR) are available on-line. The ECAR contains the most critical data elements that form the basis of the school's approval and lists the highest level of programs offered, any nondegree programs or short-term programs, and any additional locations that have been approved for the FSA programs. Both the PPA and ECAR must be kept available for review by auditors and Department officials, including individuals conducting FSA program reviews.

The school may request a redetermination of the revocation by submitting, within 20 days of receiving the notice, written evidence (filed by hand delivery, mail, or fax) that the finding is unwarranted. The Department will review the request and notify the school by certified mail of its decision. If the revocation is upheld, the school may not apply for reinstatement for 18 months or until the expiration of any debarment/suspension action, whichever is later.

SPT for Foreign Schools

If you are a foreign institution or foreign graduate medical school, contact the School Participation Foreign School Team at:

Telephone: (202) 377-3168

Fax: (202) 275-3486

Fundamentals of Title IV Administration Training cite

34 CFR 668.13(a)(2) and (3)

Default Management Plan

New schools are generally required to develop a default management plan prior to certification. See Chapter 10 for discussion and exceptions to this requirement, and sample default management plan.

OTHER REQUIREMENTS

FSA Administration Training Requirement

In order to participate in any FSA program, a school that is new to the FSA programs must send two representatives (its president/CEO and a financial aid administrator) to a *Fundamentals of Title IV Administration* training workshop offered by the Department. The Department also requires a school that has undergone a change in ownership, structure, or governance to attend the training. The training requirement must be completed within 12 months of the execution of the Program Participation Agreement.

Fundamentals of Title IV Administration training provides a new school with a general overview of the FSA programs and their administration. It does not cover fiscal and accounting procedures in detail.

- The chief executive may elect to send for Title IV training another executive level officer of the school in his or her place. Both the designated financial aid administrator and the chief executive of the school, or designee, must attend the certification training up to one year prior to but no later than twelve months after the school executes its program participation agreement.
- The attending financial aid administrator must be the person designated by the school to be responsible for administering the FSA programs. The financial aid representative must attend all four and one-half days of the workshop.

If the school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. Because the school ultimately is responsible for proper FSA program administration, the Department strongly recommends that a financial aid employee from the school attend the training as well.

The school may request a waiver of the training requirement for the financial aid administrator and/or the chief executive from its School Participation Team. The Department may grant or deny the waiver for the required individual, require another official to take the training, or require alternative training.

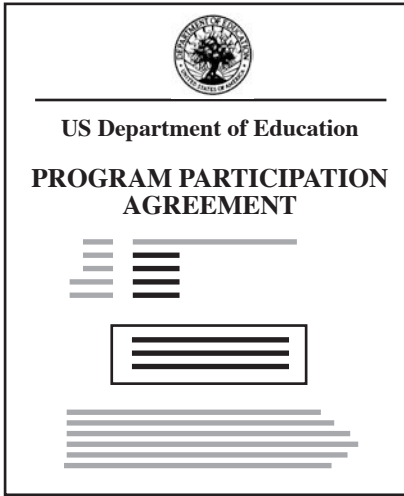
Application fees prohibited

In the PPA, the school agrees that it will not charge for processing or handling any application, form, or data used to determine a student's FSA eligibility. For instance, the school may not charge (or include in the student's cost of attendance) a fee to certify a loan application, complete a deferment form, process a Pell Grant payment, verify an application, or send or request a financial aid transcript.

A student uses the *Free Application for Federal Student Aid* (FAFSA) to apply for FSA program funds. However, a school may require additional data that are not provided on the federal form to award school aid. School charges for collecting such data must be reasonable and within marginal costs.

Program Participation Agreement cites

Sec. 487 of the HEA
34 CFR 668.14



Programs covered by the PPA

An eligible school must enter into a PPA with the Department to participate in the following programs:

- Federal Pell Grant
- Federal Supplemental Educational Opportunity Grant (FSEOG)
- Federal Work-Study (FWS)
- Federal Perkins Loan (Perkins)
- Federal Direct Loan Program (DL)
- Federal Family Education Loan (FFEL)

As noted at the beginning of this chapter, a school that is certified for Pell Grant purposes is considered to be certified for the ACG and National SMART Grant programs, if it has at least one academic program that is ACG/SMART-eligible.

THE PROGRAM PARTICIPATION AGREEMENT

If the Department determines that a school has met the eligibility requirements (discussed in chapters 1, 3, and 4), the Department then assesses the school’s financial responsibility and administrative capability. These evaluations are used to determine whether the school may be certified for participation in the FSA programs. For more information on administrative capability and financial responsibility, see chapters 10 and 11, respectively.

Once the Department certifies a school to participate in the FSA programs, the school is bound by the requirements of those programs. To begin its participation, a school must enter into a Program Participation Agreement (PPA).

Purpose and scope of the PPA

Under the PPA, the school agrees to comply with the laws, regulations, and policies governing the FSA programs. After being certified for FSA program participation, the school must administer FSA program funds in a prudent and responsible manner. A PPA contains critical information about a school’s participation in the FSA programs. In addition to the effective date of a school’s approval, the date by which the school must reapply for participation, and the date on which the approval expires, the PPA lists the FSA programs in which the school is eligible to participate.

Expiration or termination of the Agreement

Either the school or the Department may terminate the Program Participation Agreement. The Agreement automatically terminates if the school loses eligibility.

A school’s Program Participation Agreement expires on the date that —

- the school changes ownership that results in a change in control (see Chapter 5),
- the school closes or stops providing educational programs for a reason other than a normal vacation period or a natural disaster that directly affects the school or its students;
- the school ceases to meet the eligibility requirements (see Chapter 1),
- the school’s period of participation expires, or
- the school’s provisional certification is revoked.

In the case of a location of the school, the school’s program participation agreement no longer covers a location as of the date on which that location ceases to be a part of the participating institution.

Contents of the Program Participation Agreement

General Terms & Conditions

After enumerating the FSA programs in which a school is authorized to participate, a Program Participation Agreement states the General Terms and Conditions for institutional participation. By signing the Agreement a school certifies that it —

1. will comply with the program statutes, regulations, and policies governing the FSA programs;
2. has established a drug abuse prevention policy accessible to any officer, employee, or student at the school (see Chapter 3) and is in compliance with the disclosure requirements for Campus Security Policy and Crime Statistics (Chapter 6).
3. will comply with
 - a. Title VI of the Civil Rights Act of 1964, as amended, barring discrimination on the basis of race, color, or national origin;
 - b. Title IX of the Education Amendments of 1972, barring discrimination on the basis of sex;
 - c. the Family Rights and Privacy Act of 1974 (see Chapter 9)
 - d. Section 504 of the Rehabilitation Act of 1973, barring discrimination on the basis of physical handicap (34 CFR Part 104); and
 - e. The Age Discrimination Act of 1975 (34 CFR Part 110);
4. acknowledges that the Department, states, and accrediting agencies may share information about the school without limitation; and
5. acknowledges that the school must, prior to any other legal action, submit any dispute involving the final denial, withdrawal, or termination of accreditation to initial arbitration.

Selected provisions from the General Provisions

In addition to the general statement that a school will comply with the program statutes, regulations, and policies governing the FSA programs, the Program Participation Agreement contains references to selected important provisions of the General Provisions Regulations (34 CFR Part 668). The Program Participation Agreement specifies that—

1. The school will use funds received under any FSA program as well as any interest and other earnings thereon **solely for the purposes specified for that program**.
2. If the school is permitted to request FSA program funds under an advance payment method, the school will **time its requests for funds to meet only the school's immediate FSA program needs** (see *Volume 4 – Chapter 3*).
3. **The school will not charge for processing or handling any application, form, or data used to determine a student's FSA eligibility** (see *Chapter 3*).
4. The school will establish administrative/fiscal procedures and reports that are necessary for the proper and efficient management of FSA funds, and it will **provide timely information** on its administrative capability and financial responsibility to the Department and to the appropriate state, guaranty, and accrediting agencies (see *Chapters 10 and 11*).

- 5-6. The school will comply with the standards of **financial responsibility and administrative capability** (see Chapters 10 and 11).
7. The school will submit timely reports to the Department and to loan holders, as required.
8. A school must not certify or originate an FFEL or Direct Loan for an amount that exceeds the annual or aggregate loan limits. (see Volume 3, Chapter 4 and Volume 4, Chapter 1).
9. The school will provide information concerning **institutional and financial assistance information** as required to students and prospective students (see Chapter 6).
10. If the school advertises **job placement rates** to attract students, it must make available to prospective students the most recent available data concerning employment statistics, graduation statistics, and other information to substantiate the truthfulness of the advertisements, as well as the state licensing requirements for the jobs for which the training will prepare the student. (see Chapter 6).
11. If the school participates in the FFEL program, the school will provide borrowers with information about **state grant assistance** from the state in which the school is located, and will inform borrowers from other states of the sources of information about state grant assistance from those states (see Chapter 6).
12. The school will provide required certifications (see the certifications listed at the end of this numbered list).
13. If the school provides financial assistance to students under the **ability to benefit** provisions, the school will make available to those students a program proven successful in assisting students in obtaining the recognized equivalent of a high school diploma (see Chapter 3).

The law does not require a school to verify that a student is enrolled in a GED program or to monitor the student's progress in the program. A student admitted based on his or her ability to benefit who does not have a high school diploma or its recognized equivalent is not required by law to enroll in a GED program, but the school may choose to make this an admission requirement

14. The school cannot deny FSA funds on the grounds that a student is **studying abroad** if the student is studying in an approved-for-credit program (see Chapters 1 and 7).
- 15-16. To begin participation in the FFEL programs (or if a school **changes ownership** or changes its status as a parent or subordinate institution), the school must develop a **default management plan** for approval by the Department and must implement the plan for at least two years. (see discussion & exceptions in Chapter 10)
17. The school must **acknowledge the authority of the Department** and other entities to share information regarding fraud, abuse, or the school's eligibility for participation in the FSA programs (see Chapter 12).
18. The school **may not knowingly employ or contract** with any individual, agency, or organization that has been convicted of or pled guilty or nolo contendere to a crime or was judicially determined to have committed fraud involving the acquisition, use, or expenditure of federal, state, or local government funds or has been administratively or judicially determined to have committed fraud or any other material violation involving federal, state, or local government funds (see Chapter 1).
19. The school must, in a **timely manner**, complete reports, surveys, and any other data collection effort of the Department including surveys under the Integrated Postsecondary Education Data System (IPEDS).
20. In the case of a school that offers athletically related student aid, it will **disclose the completion and graduation rates of student athletes** and the athletic program participation and financial support pursuant to 34 CFR 668.47 and 34 CFR 668.48 in conformance with the Student Right-to-Know Act (see Chapter 6).
21. The school **cannot penalize** in any way a student who is unable to pay school costs due to compliance with the FSA program requirements or due to a delay in an FSA loan disbursement caused by the school.

22. The school cannot pay or contract with any entity that pays commissions or other incentives based directly or indirectly on securing enrollment or financial aid (except when recruiting foreign students ineligible for FSA program funds) to persons engaged in recruiting, enrolling, admitting, or financial aid administration (see Chapter 3).
23. The school must comply with the program integrity requirements established by the Department, state authorizing bodies, and accrediting agencies (see Chapter 12).
24. The school must comply with the requirements for the **Return of Title IV funds** when a student withdraws (see Volume 5, Chapter 2).
25. The **school is liable** for all improperly administered funds received or returned under the FSA programs including any funds administered by a third-party servicer (see Chapter 3).
26. If the stated objectives of an educational program offered by the school are preparing students for **gainful employment in a recognized occupation the school will**
 - a. demonstrate a reasonable relationship between the length of the program and entry level requirements for the recognized occupation, and
 - b. establish the need for the training for the student to obtain employment in the recognized occupation for which the program prepares the student.

The PPA also contains an unnumbered provision concerning the reporting requirements for schools that offer athletically-related student aid. See Chapter 6 for a discussion of this requirement.

Certifications

Three certifications are included in the PPA:

- Lobbying; Debarment, Suspension, and other responsibility matters; and Drug-Free Workplace Requirements
- Drug Prevention Certification
- Certification regarding Debarment, Suspension, Eligibility, and Voluntary Exclusion—lower tier covered transactions.

Additional provisions for Direct Loan schools

The school and its representatives shall comply with the statute, guidelines, and regulations governing the Title IV, Part D, William D. Ford Federal Direct Loan Program as required by Section 454 of Public Law 103-66.

The school will:

- Identify eligible FSA applicants and estimate their need, based on the law.
- Provide a certification statement of eligibility for students to receive loans that will not exceed the annual or aggregate limits
- Establish a schedule for disbursement of loan proceeds to meet the requirements of Section 428G of the HEA.
- Provide timely and accurate information to the Department on enrollment status and the status of student borrowers (if known) after the student leaves the institution, and the utilization of FSA funds.
- Comply with student loan information requirements for the Direct Loan Program.

- Provide that student and parents will be eligible to receive FFEL loans, at the discretion of the Department, except that a student or parent may not receive FFEL and Direct Loans for the same period of enrollment.
- Implement a quality assurance system
- Not charge any fees of any kind to student or parent borrowers for loan application, origination activities, or the provision and processing of any information needed to receive a Direct Loan.
- The school will originate loans to eligible students and parents in accordance with the requirements of Part D of the HEA and use funds advanced to it solely for that purpose (Option 2 only).
- The note or evidence of obligation of the loan shall be the property of the Secretary (Options 2 and 1 only).
- Implement such other provisions as the Secretary determines are necessary to protect the interest of the United States and to promote the purposes of Part D of the HEA.
- Accept responsibility and financial liability stemming from its failure to perform its functions under this Program Participation Agreement.

The Institution's continued approval to participate in the Direct Loan Program will be based on the Department of Education's review and approval of the Institution's future applications for recertification to continue participating in the federal student aid programs.

Note that the PPA may list additional requirements that are school-specific; schools must carefully review *all* of the requirements listed on their PPA.

In addition to the requirements listed on the PPA, a school must meet any requirements for participation in the General Provisions (34 CFR Part 668), as well as those specific to an individual FSA program.

- * FEDERAL PELL GRANT PROGRAM, 20 U.S.C. 1070a et seq; 34 CFR Part 690.
- * FEDERAL FAMILY EDUCATION LOAN PROGRAM, 20 U.S.C. 1071 et seq; 34 CFR Part 682.
- * FEDERAL DIRECT STUDENT LOAN PROGRAM, 20 U.S.C. 1087a et seq; 34 CFR Part 685.
- * FEDERAL PERKINS LOAN PROGRAM, 20 U.S.C. 1087aa et seq; 34 CFR Part 674.
- * FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM, 20 U.S.C. 1070b et seq; 34 CFR Part 676.
- * FEDERAL WORK-STUDY PROGRAM, 42 U.S.C. 2751 et seq; 34 CFR Part 675.
- * ACADEMIC COMPETITIVENESS GRANT, 1070a-1; 34 CFR Part 691
- * NATIONAL SCIENCE AND MATHEMATICS ACCESS TO RETAIN TALENT GRANT GRANT, 1070a-1; 34 CFR Part 691

These requirements are discussed in the *Application and Verification Guide* and Volumes 1-6 of this *Federal Student Aid Handbook*.

General Participation Requirements

A school that participates in the Federal Student Aid (FSA) programs must meet certain requirements, including providing drug and alcohol abuse prevention programs, and must adhere to certain standards of conduct with respect to lenders and third-party servicers. In some cases, a participating school may be required to report information about funds paid for lobbying activities and gifts or contracts involving foreign sources.

CONTRACTS WITH THIRD-PARTY SERVICERS

Schools are permitted to contract with consultants for assistance in administering the FSA programs. However, the school ultimately is responsible for the use of FSA funds and will be held accountable if the consultant mismanages the programs or program funds.

The General Provisions regulations contain requirements for all participating institutions that contract with third-party servicers. As defined by regulation, a third-party servicer is an individual or organization that enters into a contract (written or otherwise) with a school to administer any aspect of the school's FSA participation.

Examples of functions that are covered by this definition are:

- processing student financial aid applications, performing need analysis, and determining student eligibility or related activities;
- certifying loans, servicing loans, or collecting loans;
- processing output documents for payment to students, and receiving, disbursing, or delivering FSA funds;
- conducting required student consumer information services;
- preparing and certifying requests for advance cash monitoring or reimbursement funding, preparing and submitting notices and applications required of eligible and participating schools, or preparing the Fiscal Operations Report and Application to Participate (FISAP); and
- processing enrollment verification for deferment forms or Student Status Confirmation Reports.

CHAPTER 3 HIGHLIGHTS

- General requirements
 - Voter registration (in certain states)
 - GED preparatory program
- Contracts with 3rd-party servicers
- Incentive compensation
- Prohibited activities in loan programs
- Programs to prevent drug & alcohol abuse
 - Drug & alcohol abuse prevention programs
 - Drug-Free Workplace requirements
- Anti-lobbying certification & disclosure
- Reporting information on foreign sources & gifts

Related information

- Administrative Capability, Volume 2, Chapter 10
- Financial Standards, Volume 2, Chapter 11

Assessing your school's compliance

To assess your school's compliance with the provisions of this chapter see the FSA Assessment modules for:

- Institutional Eligibility
ifap.ed.gov/qahome/qaassessments/institutionalelig.html
- Consumer Information
ifap.ed.gov/qahome/qaassessments/consumerinformation.html

Third-party servicer cite

34 CFR 668.1, 668.2, 668.11, 668.14, 668.15, 668.16, 668.23, 668.25, 668.81, 668.82, 668.83, 668.84, 668.86, 668.87, 668.88, 668.89, and Subpart H.

Institutional liability

A school remains liable for any and all FSA-related actions taken by the servicer on its behalf.

Excluded functions

Examples of functions excluded from the definition of “third-party servicer” are:

- performing lockbox processing of loan payments;
- performing normal electronic fund transfers (EFTs) after being initiated by the school;
- publishing ability-to-benefit tests;
- acting as a Multiple Data Entry Processor (MDE);
- financial and compliance auditing;
- mailing documents prepared by a school or warehousing school records;
- participating in a written arrangement with other eligible schools to make eligibility determinations and FSA awards for certain students (see Chapter 7); and
- providing computer services or software.

A person or organization performing these functions is not considered to be a third-party servicer and is not subject to third-party servicer requirements.

An employee of a school is not a third-party servicer. For this purpose, an employee is one who:

- works on a full-time, part-time, or temporary basis,
- performs all duties on site at the school under the supervision of the school,
- is paid directly by the school,
- is not employed by or associated with a third-party servicer, and
- is not a third-party servicer for any other school.

Requirements for contracting with a third-party servicer

For purposes of administering FSA programs, a school may only contract with an eligible third-party servicer as specified by the regulatory criteria. Under such a contract, the servicer agrees to comply with all applicable requirements, to refer any suspicion of fraudulent or criminal conduct in relation to FSA program administration to the Department’s Inspector General, and, if the servicer disburses funds, to confirm student eligibility and make the required Returns to Title IV funds when a student withdraws.

If the contract is terminated, or the servicer ceases to perform any functions prescribed under the contract, the servicer must return to the school all unexpended FSA funds and records related to the servicer’s administration of the school’s participation in the FSA programs.

Notifying the Department of contracts

Schools are required to notify the Department of all existing third-party servicer contracts. If a school has submitted information regarding its third-party servicers as part of applying for certification or recertification, no additional submission is required.

If a school has not notified the Department, the school immediately must do so by completing Section J of the **E-App** (see Chapter 5).

A school is required to notify the Department if:

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

Notification to the Department (which must include the name and address of the servicer and the nature of the change or action) must be made within 10 days of the date of the change or action.

A school must provide a copy of its contract with a third-party servicer only upon request. A school is not required to submit the contract as part of the recertification process.

Incentive compensation in the law & regulations

The prohibition of incentive compensation appears in Section 487(a)(20) of the HEA and in FSA regulations at 34 CFR 668.14(b)(2). In response to numerous requests from schools, and after engaging in negotiations with the financial aid community, the Department amended the regulations on November 1, 2002. ED developed the 12 permissible payment arrangements found in 34 CFR 668.14(b)(2)(ii) to provide an illustrative framework a school may use to make its own determination about compliance with the HEA. The list is not exhaustive, and schools that have additional questions should consult with their legal counsel when making this determination. The Department does not review or approve an individual school's payment arrangements.

School lender requirements

* NEW *

To be a school lender, a school must have met the requirements that were in effect as of February 7, 2006, which is the day prior to the enactment of the Higher Education Reconciliation Act of 2005 (HERA). On February 7, 2006, a school lender —

1. Had to employ at least one person whose full-time responsibilities were limited to the administration of programs of financial aid for students attending that school;
2. Could not be a home study school;
3. Could not make loans to more than 50% of the undergraduate students at the school;
4. Could not make a loan, other than a loan to a graduate or professional student, unless the borrower had previously received a loan from the school or had been denied a loan by another eligible lender;
5. Could not have a cohort default rate greater than 15%; and
6. Had to use the proceeds from any special allowance payments received from the Department and interest payments from borrowers for need-based grant programs, except for reasonable reimbursement for direct administrative expenses.

These requirements were modified by the enactment of HERA—the current provisions are described under “School lenders in the FFEL Program.”

HEA §435(d)(2)

20 U.S.C. 1085

34 CFR 682.601

(Interim Final Regulations Aug. 9, 2006;

Final Regulations: Nov. 1, 2006)

Audit requirements for school lenders

A school acting as a lender is subject to certain audit requirements that apply to lenders, as described in §682.601(a)(7), and

- §682.305(c)(2)(v) for governmental entities and nonprofit organizations.
- §682.305(c)(2)(i) through (iii) for schools that are not governmental entities and nonprofit organizations.

SCHOOL LENDER IN THE FFEL PROGRAM

* HERA CHANGES *

A school lender may make only subsidized or unsubsidized Stafford Loans to graduate or professional students enrolled at the school. A home study school cannot be a school lender.

To be a school lender, a school must have made one or more FFEL program loans on or before April 1, 2006, and must have met program requirements as of February 7, 2006 (see sidebar). To make or originate loans under the FFEL program, a school—

- Must employ at least one person whose full-time responsibilities are limited to the administration of programs of financial aid for students attending the school;
- Must award any contract for financing, servicing, or administration of FFEL loans on a competitive basis;
- Must offer loans that carry an origination fee or an interest rate, or both, that are less than the fee or rate authorized under the provisions of the Act;
- Must not have a cohort default rate greater than 10%.

A school lender must use any of the following proceeds for need-based grants:

- special allowance payments
- interest payments from borrowers
- interest subsidy payments,
- proceeds from the sale or other disposition of loans (exclusive of return of principal, any financing costs incurred by the school to acquire funds to make the loans, and the cost of charging origination fees or interest rates that are less than the statutory maximums)

An eligible school lender must ensure that the proceeds are used to supplement, and not to supplant, non-Federal funds that would otherwise be used for need-based grant programs.

An eligible school lender may use a portion of these proceeds for reasonable and direct administrative expenses that are incurred by the school and are directly related to the school’s performance of actions required by statute and regulations. Reasonable and direct administrative expenses do not include financing and similar costs such as costs paid by the school to obtain funding to make FFEL loans, the cost of paying Federal default fees on behalf of borrowers, or the cost of charging origination fees or interest rates that are less than the statutory maximums.

INCENTIVE COMPENSATION

Schools may not provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any individual or entity engaged in recruiting or admission activities or in making decisions regarding the award of FSA program funds.

ED identified 12 types of payment and compensation plans that do not violate this statutory prohibition. These 12 safe harbors are divided into two categories.

The first safe harbor comprises the entirety of the first category, and describes whether a particular compensation payment is an incentive payment. It explains the conditions under which a school may pay compensation without that compensation being considered an incentive payment.

The second category is composed of the remaining 11 safe harbors. It describes the conditions under which a school may make an incentive payment to an individual or entity that could potentially be construed as based upon securing enrollments or financial aid. The safe harbors in this category describe the conditions under which such a payment may be made. If an incentive payment arrangement falls within any one safe harbor, that payment arrangement is not covered by the statutory prohibition.

Adjustments to employee compensation

This safe harbor strikes a balance between a school's need to base its employees' salaries or wages on merit, and the Department's responsibility to ensure that such adjustments do not violate the statutory prohibition against the payment of commissions, bonuses, and other incentive payments. Under this safe harbor, a school may make up to two adjustments (upward or downward) to a covered employee's annual salary or fixed hourly wage rate within any 12-

The 12 "safe harbors"

The payment or compensation plans included in the safe harbors cover the following subjects:

1. adjustments to employee compensation—34 CFR 668.14(b)(22)(ii)(A),
2. recruitment into programs that are not eligible for FSA program funds—34 CFR 668.14(b)(22)(ii)(B)
3. payment for securing contracts with employers—34 CFR 668.14(b)(22)(ii)(C)
4. profit-sharing or bonus payments—34 CFR 668.14(b)(22)(ii)(D)
5. compensation based upon students completing their programs of study—34 CFR 668.14(b)(22)(ii)(E)
6. payments to employees for pre-enrollment activities—34 CFR 668.14(b)(22)(ii)(F)
7. compensation paid to managerial and supervisory employees not involved in admissions or financial aid—34 CFR 668.14(b)(22)(ii)(G)
8. token gifts—34 CFR 668.14(b)(22)(ii)(H)
9. profit distributions—34 CFR 668.14(b)(22)(ii)(I)
10. Internet-based recruiting activities—34 CFR 668.14(b)(22)(ii)(J)
11. payments to third parties for services to the school that do not include recruitment activities—34 CFR 668.14(b)(22)(ii)(K)
12. payments to third parties for services that include recruitment activities—34 CFR 668.14(b)(22)(ii)(L)

Covered employee

One who is involved in recruitment, admissions, enrollment, or financial aid activities

Compensation based on program completion: credits must be earned in residence

For this purpose, a school may not count transfer credits, credits awarded through successful completion of testing, credits for life experience, and any other credits not earned through attendance at that school toward the successful completion of an academic year.

month period without the adjustment being considered an incentive payment, provided that no adjustment is based solely on the number of students recruited, admitted, enrolled, or awarded financial aid. One cost-of-living increase that is paid to all or substantially all of the school's full-time employees will not be considered an adjustment under this safe harbor. In addition, with regard to overtime, if the basic compensation of an employee is not an incentive payment, neither is overtime pay required under the Federal Fair Labor Standards Act.

Enrollments in programs that are not eligible for FSA funds

A school may provide incentive compensation to recruiters based upon their recruitment of students who enroll only in programs that are not eligible for FSA funds.

Contracts with employers to provide training

In general, the business-to-business marketing of employer-provided education is not covered by the incentive compensation prohibition. This safe harbor addresses payments to recruiters who arrange contracts between a school and an employer, where the employer pays the tuition and fees for its employees (either directly to the school or by reimbursement to the employee).

As long as there is no direct contact by the school's representative with prospective students, and as long as the employer is paying at least 50% of the training costs, incentive payments to recruiters who arrange for such contracts are not covered by the incentive payment prohibition, provided that the incentive payments are not based on the number of employees who enroll, or the amount of revenue generated by those employees.

Profit-sharing or bonus payments

Profit-sharing and bonus payments to all or substantially all of a school's full-time employees are not incentive payments based on success in securing enrollments or awarding financial aid. As long as the profit-sharing or bonus payments are substantially the same amount or the same percentage of salary or wages, and as long as the payments are made to all or substantially all of the school's full-time professional and administrative staff, compensation paid as part of a profit-sharing or bonus plan is not considered a violation of the incentive payment prohibition. In addition, such payments can be limited to all or substantially all of the full-time employees at one or more organizational levels at the school, except that an organizational level may not consist predominantly of recruiters, the admissions staff, or the financial aid staff.

Compensation based upon program completion

Compensation that is based upon students successfully completing their educational programs, or one academic year of their educational programs, whichever is shorter, does not violate the incentive compensation prohibition. This safe harbor recognizes that a major reason for the incentive compensation prohibition is to prevent schools from enrolling unqualified students. Completing a program

of education or, in the case of students enrolled in a program longer than one academic year, completing the first academic year of that program, is a reliable indicator that the students were qualified to enroll in the program.

Successful completion of an academic year means that the student has earned at least 24 semester or trimester credit hours or 36 quarter credit hours, or has successfully completed at least 900 clock hours of instruction at the school. (Time may not be substituted for credits earned.) In addition, the 30 weeks of instructional time element of the definition of an academic year does not apply to this safe harbor. Therefore, this safe harbor applies when a student earns, for example, 24 semester credits, no matter how short or long a time that takes.

Pre-enrollment activities

Generally, clerical pre-enrollment activities are not considered recruitment or admission activities. Accordingly, a school may make incentive payments to individuals whose responsibilities are limited to pre-enrollment activities that are clerical in nature.

However, soliciting students for interviews is a recruitment activity, not a pre-enrollment activity, and individuals may not receive incentive compensation based on their success in soliciting students for interviews. In addition, since a recruiter's job description is to recruit, it would be very difficult for a school to document that it was paying a bonus to a recruiter solely for clerical pre-enrollment activities.

Managerial and supervisory employees

The incentive payment prohibition, therefore, does not extend beyond first line supervisors or managers. This safe harbor recognizes that the incentive payment prohibition applies only to individuals who perform activities related to recruitment, admissions, enrollment, or the financial aid awarding process and their immediate supervisors. Direct supervisors are included in this prohibition because their actions generally have a direct and immediate impact on the individuals who carry out these covered activities.

Token gifts

Under this safe harbor, the regulations have been amended to take into account an increase in the value of what is considered a token gift. The Department has increased the maximum cost of a token, noncash gift that may be provided to an alumnus or student to \$100, provided that:

- the gifts are not in the form of money; and
- no more than one gift is provided annually to an individual.

The cost basis of a token noncash gift is what the school paid for it. The value is the fair market value of the item. The fair market value of an item might be considerably greater than its cost. A high value item for which the school paid a minimal cost would not be considered a token gift.

Buying third-party leads

Although buying leads from third parties for a flat fee is not a clerical pre-enrollment activity under this safe harbor, the activity is not covered under the incentive compensation prohibition.

Profit distributions

Profit distributions to owners are not payments based on success in securing enrollments or awarding financial aid. Therefore any owner, whether an employee or not, is entitled to a share of the organization's profits to the extent they represent a proportionate share of the profits based upon the employee's ownership interest.

Internet-based activities

This safe harbor recognizes that the Internet is simply a communications medium, much like the U.S. mail, and is outside the scope of the incentive compensation prohibition. This safe harbor permits a school to award incentive compensation for Internet-based recruitment and admission activities that –

- provide information about the school to prospective students,
- refer prospective students to the school, or
- permit prospective students to apply for admission online.

Payments to third parties for non-recruitment activities

This safe harbor recognizes that the incentive payment prohibition applies only to activities dealing with recruiting, admissions, enrollment, and financial aid. Therefore, a school may make incentive payments to third parties for other types of services, including tuition-sharing arrangements, marketing, and advertising that are not covered by the incentive compensation prohibition.

Payments to third parties for recruitment activities

This safe harbor recognizes that the incentive compensation prohibition applies to individuals who work both for the school and to entities outside the school, and that the rules that apply to schools apply equally to outside entities. Thus, if a school uses an outside entity to perform activities for it, including covered activities, the school may make incentive payments to the third party without violating the incentive payment prohibition as long as the individuals performing the covered activities are not compensated in a way that is prohibited by the incentive payment compensation rule.

For example, if a school established a group of employees who provided the school with a series of services, and one of those services was recruiting, the incentive compensation prohibition would preclude only the individuals doing the recruiting from being paid on an incentive basis.

If that school hired a contractor to provide these services, the same rules would apply. The outside entity could not pay the individuals performing the recruiting services on an incentive basis, but it could pay the other employees performing non-recruiting activities on an incentive basis.

PROHIBITED ACTIVITIES IN THE LOAN PROGRAMS

A school is prohibited from paying points, premiums, payments, or additional interest of any kind to an eligible lender or other party in order to induce a lender to make loans to students at the school or to the parents of the students.

Lenders may not offer, directly or indirectly, points, premiums, payments, or other inducements, to a school or any other party to secure applicants for FFEL loans. Similar restrictions apply to guaranty agencies. In addition, lenders and guaranty agencies are forbidden to mail unsolicited loan application forms to students enrolled in high school or college, or to their parents, unless the prospective borrower has previously received loans guaranteed by that agency.

However, lenders, guaranty agencies, and other participants in the FFEL Program may assist schools in the same way that the Department assists schools under the Direct Loan Program. For example, a lender's representatives can participate in counseling sessions at a school, including initial counseling, provided that school staff are present, the sessions are controlled by the school, and the lender's counseling activities reinforce the student's right to choose a lender. A lender can also provide loan counseling for a school's students through the Web or other electronic media, and it can help a school develop, print, and distribute counseling materials.

Prohibited inducements

Schools 34 CFR 682.212

Lenders 34 CFR 682.200

Guarantors 34 CFR 682.401(e)

Drug-Free Schools and Communities Act

The FSA requirements are derived from the 1989 Amendments to the Drug-Free Schools and Communities Acts of 1986 and 1988

See: Public Law 101-226

Drug-Free Workplace Act

The Drug-Free Workplace Act of 1988 (Public Law 101-690) requires a federal grant recipient to certify that it provides a drug-free workplace.

Because a school applies for and receives its Campus-Based allocation directly from the Department, the school is considered to be a federal grant recipient.

34 CFR Part 84

Developing a drug prevention program

The regulations published in the Federal Register, August 16, 1990 offer a number of suggestions for developing a drug prevention program.

Measuring the effectiveness of a drug prevention program

The effectiveness of a school's drug prevention program may be measured by tracking:

- the number of drug- and alcohol-related disciplinary actions;
- the number of drug- and alcohol-related treatment referrals;
- the number of drug- and alcohol-related incidents recorded by campus police or other law enforcement officials;
- the number of drug- and alcohol-related incidents of vandalism;
- the number of students or employees attending self-help or other counseling groups related to alcohol or drug abuse; and
- student, faculty, and employee attitudes and perceptions about the drug and alcohol problem on campus.

PROGRAMS TO PREVENT DRUG & ALCOHOL ABUSE

There are two requirements that relate to preventing drug and alcohol abuse. Every school that participates in the FSA programs must have a drug and alcohol prevention program for its students, as described below. A school that receives Campus-Based funding must also have a drug prevention program for its employees.

Drug & alcohol abuse prevention program

Every participating school must certify that it has adopted and implemented a program to prevent drug and alcohol abuse by its students. Unlike the annual drug-free workplace certification discussed later in this section, a school usually will only submit this certification to the Department once (on the E-App). A school that changes ownership is an exception; it must recertify that it has a drug and alcohol abuse prevention program.

The program adopted by the school must include an annual distribution to all students, faculty, and staff of information concerning drug and alcohol abuse and the school's prevention program.

A school must review its program once every two years to determine its effectiveness and to ensure that its sanctions are being enforced.

A school that does not certify that it has a drug prevention program, or that fails to carry out a drug prevention program, may lose its approval to participate in the FSA programs.

Drug-Free Workplace requirements for Campus-Based schools

A school that participates in the Campus-Based programs must complete the certification on ED Form 80-0013, which is part of the FISAP package (the application for Campus-Based funds). This certification must be signed by the school's CEO or other official with authority to sign the certification on behalf of the entire school.

The certification lists a number of steps that the school must take to provide a drug-free workplace, including—

- establishing a drug-free awareness program to provide information to employees,
- distributing a notice to its employees of prohibited unlawful activities and the school's planned actions against an employee who violates these prohibitions, and
- notifying the Department and taking appropriate action when it learns of an employee's conviction under any criminal drug statute.

A school's administrative cost allowance may be used to help defray related expenses, such as the cost of printing informational materials given to employees. The administrative cost allowance is discussed in *Volume 6 – Campus-Based Programs*.

The drug-free workplace requirements apply to all offices and departments of a school that receives Campus-Based funds. Organizations that contract with the school are considered subgrantees not subject to the requirements of the Drug-Free Workplace Act.

Additional Sources of Information

The following resources are available for schools that are developing drug prevention programs.

- ***The Center for Substance Abuse Treatment and Referral Hotline.***
Information and referral line that directs callers to treatment centers in the local community (1-800-662-HELP).
- ***The Drug Free Workplace Helpline.***
A line that provides information only to private entities about workplace programs and drug testing. Proprietary and private nonprofit but not public postsecondary schools may use this line (1-800-967-5752).
- ***The National Clearinghouse for Alcohol and Drug Information.***
Information and referral line that distributes U.S. Department of Education publications about drug and alcohol prevention programs as well as material from other federal agencies (1-301-468-2600).

Anti-Lobbying Certification & Disclosure

Section 319 of Pub. L. 101-121, enacted October 23, 1989, amended title 31, United States Code, by adding a new section 1352, entitled "Limitation on Use of Appropriated Funds to Influence Certain Federal Contracting and Financial Transactions," commonly known as the Byrd Anti-Lobbying Amendment.

As a result of that legislation, the Office of Management and Budget (OMB) issued interim final common regulations on February 26, 1990, for implementing and complying with the law. The Department of Education (ED) codified these regulations at 34 CFR Part 82, which is part of the Education Department General Administrative Regulations (EDGAR).
34 CFR Part 82

ANTI-LOBBYING CERTIFICATION AND DISCLOSURE

If a school receives more than \$100,000 in Campus-Based funds, it must submit Certification Form ED-80-0013 (combined with Debarment and Drug-Free Workplace Certifications), stating that the school will not use federal funds to pay a person for lobbying activities in connection with federal grants or cooperative agreements. This certification must be renewed each year for a school to be able to draw down Campus-Based funds.

Primarily, this certification covers the use of the Campus-Based administrative cost allowance. Association membership is not a legitimate administrative cost of the FSA Programs. A school may not use its Administrative Cost Allowance to pay for its membership in professional associations (such as the National Association of Student Financial Aid Administrators, the National Association of College and University Business Officers, etc.), regardless of whether the association engages in lobbying activities.

The school is also responsible for payments made on its behalf, and must include the certification in award documents for any subgrantees or contractors (such as need analysis servicers, financial aid consultants, or other third parties paid from the administrative cost allowance).

If a school that receives more than \$100,000 in Campus-Based funds has used nonfederal funds to pay a nonschool employee for lobbying activities, the school must also submit a Disclosure Form (Standard Form LLL) to the Department. The school must update this disclosure at least quarterly and when changes occur.

Both of these forms are sent to schools with the Campus-Based fiscal report/application (FISAP) each summer. The certification form and the disclosure form must be signed by the Chief Executive Officer (CEO) or other individual who has the authority to sign on behalf of the entire school. A school is advised to retain a copy in its files.

REPORTING INFORMATION ON FOREIGN SOURCES & GIFTS

Federal law requires certain postsecondary schools (whether or not the school is eligible to participate in the FSA programs) to report ownership or control by foreign sources. Federal law also requires these postsecondary schools to report contracts with or gifts from the same foreign source that, alone or combined, have a value of \$250,000 or more for a calendar year.

Who must report

A school (and each campus of a multicampus school) must report this information if the school—

- is legally authorized to provide a program beyond the secondary level within a state,
- provides a program that awards a bachelor’s degree or a more advanced degree, or provides at least a two-year program acceptable for full credit toward a bachelor’s degree,
- is accredited by a nationally recognized accrediting agency, and
- is extended any federal financial assistance (directly or indirectly through another entity or person) or receives support from the extension of any federal financial assistance to the school’s subunits.

Timing of submission

A school must report this information by the January 31 or July 31 (whichever is sooner) after the date of receipt of the gifts, date of the contract, or date of ownership or control. The January 31 report should cover the period July 1–December 31 of the previous year, and the July 31 report should cover January 1–June 30 of the same year.

Information to be reported

Using the E-App, you must report the following information in Section K, question 71:

- for gifts received from or contracts entered into with a foreign government—the name of the country and the aggregate amount of all gifts and contracts received from each foreign government,
- for gifts received from or contracts entered into with a foreign source other than a foreign government—the name of the foreign state to which the contracts or gifts are attributable, and the aggregate dollar amount of the gifts and contracts attributable to a particular country (The country to which a gift or a contract is attributable is the country of citizenship; or, if unknown, the principal residence for a foreign source who is a natural person and the country of incorporation, or if unknown, the principal place of business for a foreign source that is a legal entity.),

Where to report foreign gift information

Foreign gift, contract, and ownership or control reports must be submitted to the FSA School Participation Teams using FSA’s electronic application (E-App) found at www.eligcert.ed.gov

Go to Section K, Question 71, and enter the appropriate information about the foreign gift, contract, or ownership and control, then go to Section L, to complete the signature page. You may then submit your report.

Foreign gifts references

Higher Education Act: Sec. 117
Recent reminder to schools of requirements for reporting foreign gifts
DCL: GEN-04-11, Oct. 4, 2004.

Definitions

A foreign source is

- a foreign government, including an agency of a foreign government;
- a legal entity created solely under the laws of a foreign state or states;
- an individual who is not a citizen or national of the United States; and
- an agent acting on behalf of a foreign source.

A gift is any gift of money or property.

A contract is any agreement for the acquisition by purchase, lease, or barter of property or services for the direct benefit or use of either of the parties.

Restricted or conditional gift or contract

A *restricted or conditional gift or contract* is any endowment, gift, grant, contract, award, present, or property of any kind that includes provisions regarding

- the employment, assignment, or termination of faculty;
- the establishment of departments, centers, research or lecture programs, or new faculty positions;
- the selection or admission of students; or
- the award of grants, loans, scholarships, fellowships, or other forms of financial aid restricted to students of a specified country, religion, sex, ethnic origin, or political opinion.

Penalties

If a school fails to comply with the requirements of this law in a timely manner, the Department is authorized to undertake a civil action in federal district court to ensure compliance. Following a knowing or willful failure to comply, a school must reimburse the Treasury of the United States for the full costs of obtaining compliance with the law.

For additional information & alternative reporting

Contact the School Participation Team for your state. Contact information for these Teams is posted on the Schools Portal:

fsa4schools.ed.gov

- in the case of a school that is owned or controlled by a foreign entity—the identity of the foreign entity, the date on which the foreign entity assumed ownership or control, and a description of any substantive changes to previously reported ownership or control, or institutional program or structure resulting from the change in ownership or control,
- for restricted or conditional gifts received from, or restricted or conditional contracts entered into with a foreign government—the name of the foreign country, the amount of the gift or contract, the date of the gift or contract, and a description of the conditions or restrictions,
- for restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign person—the citizenship (or if unknown, the principal residence) of that person, the amount of the gift or contract, the date of the gift or contract, and a description of the conditions and restrictions, and
- for restricted or conditional gifts received from or restricted or conditional contracts entered into with a foreign source (legal entity other than a foreign state or individual—the country of incorporation or, if unknown, the principal place of business for that foreign entity), the amount of the gift or contract, date of the gift or contract, and a description of the conditions and restrictions.

Once you've entered the appropriate information about the foreign gift, contract, or ownership and control, then go to Section L to complete the signature page. You may then submit your report.

Alternative reporting

In lieu of the reporting requirements listed above:

- If a school is in a state that has substantially similar laws for public disclosure of gifts from, or contracts with, a foreign source, a copy of the report to the state may be filed with the Department. The school must provide the Department with a statement from the appropriate state official indicating that the school has met the state requirements.
- If another department, agency, or bureau of the Executive Branch of the federal government has substantially similar requirements for public disclosure of gifts from, or contracts with, a foreign source, the school may submit a copy of this report to the Department.

GENERAL REQUIREMENTS

Voter registration

If a participating school is located in a state that has not enacted the motor vehicle/voter registration provisions of the National Voter Registration Act, the school must make a good faith effort to distribute voter registration forms to its students. (Schools in Puerto Rico are not subject to this provision because Puerto Rico is not a state under the National Voter Registration Act.)

In states where this condition applies, schools must request voter registration forms from the state 120 days prior to the state's deadline for registering to vote. This provision applies to general and special elections for federal office, and to the elections of governors and other chief executives within a state. If a school does not receive the forms within 60 days prior to the deadline for registering to vote in the state, it is not liable for failing to meet the requirement during that election year.

The school must make the voter registration forms widely available to its students. It must individually distribute the forms to its degree or certificate seeking (FSA eligible) students.

Preparatory programs for students without high school diploma or equivalent

A school that admits students without a high school diploma or its recognized equivalent (except home-schooled students) must make available to its students a program that has proven successful in assisting students in obtaining the recognized equivalent of a high school diploma. For example such a program might assist a student in obtaining a General Educational Development (GED) test or a State certificate received by a student after the student has passed a State-authorized examination that the State recognizes as the equivalent of a high school diploma. Such programs include preparatory programs that are conducted by state and local secondary school authorities, as well as programs for which the school has documentation that statistically demonstrates success. The school must provide information about the availability of the preparatory program to affected students.

The program does not have to be provided by the school itself, and the school is not required to pay the costs of the program. The program must be offered at a place that is convenient for the students and the school must take reasonable steps to ensure that its students have access to the program, such as coordinating the timing of its program offerings with that of the preparatory program.

The law does not require a school to verify that a student is enrolled in a preparatory program or to monitor the student's progress in the program. A student admitted based on his or her ability to benefit who does not have a high school diploma or its recognized equivalent is not required by law to enroll in a program, but the school may choose to make this an admission requirement.

Students without high school diploma or equivalent: related topics

- Volume 1, Chapter 1: remedial coursework, ability to benefit tests as alternative
- Volume 2, Chapter 1: Eligibility of schools enrolling students without high school diploma or equivalent

A student may not receive FSA funds for the program although he or she may be paid for postsecondary courses taken at the same time as the preparatory coursework, including remedial coursework at the secondary level or higher

Program Eligibility

Many of the program eligibility requirements are derived from the institutional definitions that we discussed in Chapter 1. However, bear in mind that institutional eligibility does not mean that all programs at the school are eligible. A financial aid office should have a process to confirm the eligibility of an educational program before paying any FSA funds to students enrolled in that program, and should promptly report any changes to the Department (see Chapter 5).

PROGRAM ELIGIBILITY REQUIREMENTS

To qualify as an eligible institution, a school must offer at least one eligible program. Not all programs at an eligible institution must be eligible, but at least one of the programs at the school must meet the eligible program requirements. Except for students enrolled in certain preparatory or teacher certification courses, a student must be enrolled in an eligible program to receive FSA funds (for more information, see *Volume 1 – Chapter 1*).

DETERMINATION OF PROGRAM ELIGIBILITY

Because a school's eligibility does not necessarily extend to all its programs, the school must ensure that a program is eligible before awarding FSA program funds to students in that program. The school is responsible for determining that a program is eligible. In addition to determining that the program meets the eligible program definition, the school should make certain that the program is included under the notice of accreditation from a nationally recognized accrediting agency (unless the agency does not require that particular programs be accredited). The school should also make certain that it is authorized by the appropriate state to offer the program (if the state licenses individual programs at postsecondary institutions). (Please see the chart on Eligible Institutions and the discussion under Legal authorization by a state earlier in chapter 1.)

A school's eligibility extends to all eligible programs and locations that were identified on the school's E-App, unless the Department determines that certain programs or locations did not meet the eligibility requirements. In general, the school's eligible nondegree programs and locations are specifically named on the approval notice (Eligibility and Certification Approval Report [ECAR]). Additional locations and programs may be added later, and may not appear on an ECAR issued earlier (*see Chapter 2*).

If a program offered through telecommunications or continuing education meets the definition of an eligible program, students

CHAPTER 4 HIGHLIGHTS

- Program eligibility requirements
 - Determination of program eligibility
 - Eligible programs at public or private nonprofit institutions of higher education
 - Eligible programs at proprietary or postsecondary vocational institutions
- Additional eligibility requirements
 - ACG/National SMART programs
 - ESL programs
 - Study abroad programs
 - Direct assessment programs
 - Flight school programs
- Clock hour/credit hour conversions

- Related information
 - Student eligibility for specific educational programs—Volume 1, Chapter 1
 - Types of educational programs defined for eligible institutions—Volume 2, Chapter 1
 - Updating the E-APP for changes to programs and locations—Volume 2, Chapter 5

Program eligibility cite

34 CFR 668.8
34 CFR 691.2(b)

FSA Assessments

To assess your compliance with the provisions of this chapter, see the FSA Assessment module for "Program Eligibility," at

ifap.ed.gov/qa/home/qaassessments/institutionalelig.html

Recognized occupation

All non-degree programs must prepare students in that program for gainful employment in a specific recognized occupation. (This requirement also applies to degree programs at proprietary schools.)

A “recognized occupation” is one that is listed in the “occupational division” of the most recent edition of the Dictionary of Occupational Titles (DOT) (published by the U.S. Department of Labor) or one that is considered by ED, in consultation with the Department of Labor, to be a recognized occupation.

The Department of Labor last updated the DOT in 1991. You can find the DOT at

<http://www.oalj.dol.gov/libdot.htm>

The Department of Labor has replaced the DOT with the Occupational Information Network (O*NET OnLine) available at

<http://online.onetcenter.org/>

Please note that if the title of your program does not clearly indicate the specific occupation that the program prepares the student for, you must provide that information on the school’s E-App.

enrolled in that program must be considered for FSA program assistance on the same basis as students enrolled in eligible programs offered through traditional modes. With some limitations, if a program offered through correspondence meets the definition of an eligible program, students enrolled in that program will be considered eligible. (See chapter 8 for more information.)

When a school offers programs that meet different eligible program definitions, the school is operating as more than one type of institution. For example, a public or private non-profit institution that offers a bachelor’s degree program (qualifying the school as an institution of higher education) may also offer a certificate or diploma training program that is less than one year that qualifies it as a postsecondary vocational institution.

Types of eligible programs at an institution of higher education

A school qualifies as an institution of higher education if (in addition to meeting all other eligibility requirements, including being a nonprofit school) it offers a program that leads to an associate, bachelor’s, professional, or graduate degree. For such programs, there are no minimum program length requirements.

A school may also qualify as an institution of higher education if it offers a program of at least two academic years in duration that is acceptable for full credit toward a bachelor’s degree, or if it offers a program of at least one academic year in duration that leads to a certificate, degree, or other recognized credential and prepares students for gainful employment in a recognized occupation.

Types of eligible programs at a proprietary or postsecondary vocational institution

Three types of eligible programs will qualify an otherwise eligible school as a proprietary institution or a postsecondary vocational institution. All of these programs must have a specified number of weeks of instruction, and must provide training that prepares a student for gainful employment in a recognized occupation.

1. The first type of eligible program must provide at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction. The program may admit as regular students persons who have not completed the equivalent of an associate degree.
2. The second type of eligible program must provide at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks of instruction. The program must be a graduate or professional program or must admit as regular students only persons who have completed the equivalent of an associate degree.
3. The third type of program is known as the short-term program. A short-term program qualifies for the FFEL and Direct Loan programs only. This type of program must provide at least 300 but less than 600 clock hours

of instruction offered during a minimum of 10 weeks of instruction. The program must admit as regular students some persons who have not completed the equivalent of an associate degree.

There are several additional requirements that a short-term program must meet. The program must :

- have verified completion and placement rates of at least 70% (see chart on the next page),
- not be more than 50% longer than the minimum training period required by the state or federal agency, if any, for the occupation for which the program of instruction is intended, and
- have been in existence for at least one year.

Completion & placement rates for short-term programs

For the purpose of demonstrating compliance with the standards for short-term (300-600 clock hour) programs, a school must calculate the completion and placement rates for the award year. The independent auditor who prepares the school's compliance audit report must attest to the accuracy of the school's calculation of completion and placement rates.

Number of regular students who earned credentials for successfully completing the program within 150% of the length of the program = Completion Rate

Number of regular students enrolled in the program for the award year
 - number of regular students who withdrew with a 100% refund of tuition and fees
 - number of regular students enrolled at the end of the award year

Number of students who obtained employment* within 180 days of receiving credential and who are employed (or have been employed) for at least 13 weeks following receipt of credential = Placement Rate

Number of regular students who received credential for successfully completing the program during the award year

**in the recognized occupation for which they were trained or in a related comparable occupation*

The school must document the employment of any student it includes as employed in the placement rate calculation. Examples of such documentation include, but are not limited to, a written statement from the employer, signed copies of state or federal income tax forms, or written evidence of payment of Social Security taxes.

The school must reasonably determine whether a related occupation is comparable. For instance, for a student who was trained as an auto mechanic, it is reasonable to determine that a job as a boat mechanic is comparable. However, for a person trained in retail sales management, a counter-service job at a fast-food restaurant is not comparable.

Additional ESL considerations

→ A school must define the effect of any noncredit remedial courses (including ESL courses) on a student's academic progress. See Chapter 10 in this Volume.

→ Awarding students education loans over a series of semesters for coursework not applicable to the students' educational objectives can result in the students exhausting their eligibility for FSA loans before the students complete their programs. See *Volume 1, Chapter 1*.

★NEW ★ Grant programs

The Higher Education Reconciliation Act of 2005 (HERA) created two new grant programs: Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (National SMART) Grant.
34 CFR 691

★NEW ★

Direct Assessment programs

HERA also extended FSA eligibility to educational programs that use Direct Assessment to measure student learning .
34 CFR 668.10

ADDITIONAL ELIGIBILITY REQUIREMENTS

There are additional FSA program eligibility requirements for specific educational programs. For example, only undergraduate educational programs are eligible under the Pell Grant and FSEOG programs. Correspondence programs are not eligible unless they meet the general requirements for an eligible program and are required for the student's regular program of study leading to a degree.

ACG and National SMART Grant Programs ★NEW ★

To qualify as an eligible program for the ACG and National SMART Grant programs, an educational program must also meet the following requirements:

- For ACGs, the program must lead to an associate's degree or a bachelor's degree; be a two-academic-year program acceptable for full credit toward a bachelor's degree; or be a graduate degree program that includes at least 3 academic years of undergraduate education.
- For National SMART Grants, the program must lead to a bachelor's degree in an eligible major or be a graduate degree program in an eligible major that includes at least 3 academic years of undergraduate education. (See *Volume 1, Chapter 6* for more information on National SMART Grant eligible majors.)

ESL Programs

Students enrolled in a program that consists solely of English as a Second Language (ESL) instruction are eligible *for FSA funds only from the Pell Grant program*. An ESL program must meet the general requirements for an eligible program (for example, it must lead to a degree or other credential). Moreover, *an ESL program may admit only students who need instruction in English to be able to use the knowledge, training, or skills they already have*. The school must document its determination that the ESL instruction is necessary for each student enrolled.

A school that wishes to award FSA assistance to students enrolled in an ESL program must request an eligibility determination for the program from the Department.

Direct assessment programs ★NEW ★

Instead of using credit hours or clock hours as a measure of student learning, some instructional programs use direct assessment of student learning, or recognize the direct assessment of student learning by others. Examples of direct measures include projects, papers, examinations, presentations, performances, and portfolios. The assessment must be consistent with the accreditation of the institution or program using the results of the assessment.

A school that wishes to award FSA funds in a program using direct assessment must apply to the the Department for approval of the program, using the E-app. The application must specify the equivalent number of credit or clock hours for a direct assessment program (or portion of the program, as applicable). (The clock or credit hours will be used as the basis for the FSA award calculations described in Volume 3.) As a part of its application, the school must explain how it determined the equivalent number of credit or clock hours for the program.

A direct assessment program may use learning resources (e.g., courses or portions of courses) that are provided by entities other than the school providing the direct assessment program without regard to the limitations on contracting for part of an educational program (*see Chapter 8*).

FSA funds may be awarded only for learning that results from instruction provided, or overseen, by the school. FSA funds cannot be awarded for any portion of the program based on study or life experience prior to enrollment in the program, or based on tests of learning that are not associated with educational activities overseen by the school.

Direct assessment as a measure of learning ★NEW★

Direct assessment of student learning means a measure by the institution of what a student knows and can do in terms of the body of knowledge making up the educational program. These measures provide evidence that a student has command of a specific subject, content area, or skill or that the student demonstrates a specific quality such as creativity, analysis or synthesis associated with the subject matter of the program.

Applying for eligibility for a program using direct assessment

The school's application must include an attachment that explains the following—

- (1) A description of the educational program, including the educational credential offered (degree level or certificate) and the field of study;
- (2) A description of how the assessment of student learning is done;
- (3) A description of how the direct assessment program is structured, including information about how and when the school determines on an individual basis what each student enrolled in the program needs to learn;
- (4) A description of how the institution assists students in gaining the knowledge needed to pass the assessments;
- (5) The number of semester or quarter credit hours, or clock hours, that are equivalent to the amount of student learning being directly assessed for the certificate or degree;
- (6) The methodology the school uses to determine the number of credit or clock hours to which the program is equivalent;
- (7) The methodology the institution uses to determine the number of credit or clock hours to which the portion of a program an individual student will need to complete is equivalent;
- (8) Documentation from the school's accrediting agency indicating that the agency has evaluated the school's offering of direct assessment program(s) and has included the program(s) in the school's grant of accreditation;
- (9) Documentation from the accrediting agency or relevant state licensing body indicating agreement with the school's claim of the direct assessment program's equivalence in terms of credit or clock hours; and
- (10) Any other information the Department may require to determine whether to approve the school's application.

Several types of programs and coursework that might otherwise be eligible for FSA purposes are not eligible if they involve direct assessment:

- Programs at foreign schools.
- Preparatory coursework required for entry into an eligible program (*see Volume 1, Chapter 6*).
- Courses necessary for an elementary or secondary school teaching credential or certificate (*see Volume 1, Chapter 6*).
- Remedial coursework measured through direct assessment.

However, note that remedial instruction that is offered in credit or clock hours in conjunction with a direct assessment program, is eligible for FSA funds.

If the school plans to change any aspect of the program described in the application, it must obtain prior approval from the Department by reapplying.

Study abroad programs

A participating institution may establish programs of study abroad for which its students are eligible to receive assistance through the FSA programs. A study abroad program is an eligible program if—

- students studying abroad concurrently remain enrolled at their eligible home school; and
- the eligible home school awards academic credit for the program of study abroad.

While the study abroad program must be considered part of the student's eligible program, it does not have to be a **required** part of the student's eligible degree program in order to be an eligible study abroad program. However, a school must have a written agreement with the institution offering the study abroad program, or with an entity representing that institution (*see Chapter 7*). Moreover, in the information it provides to students about a study abroad program, a school must inform students about the availability of FSA program assistance.

Flight school programs

Under the FFEL programs, a flight school program must maintain current valid certification by the Federal Aviation Administration to be eligible.

CLOCK HOUR/CREDIT HOUR CONVERSIONS IN DETERMINING PROGRAM ELIGIBILITY

The clock hour/credit hour requirements *both* determine program eligibility, and affect the amount of FSA program funds a student enrolled in the program may receive. Here, we discuss the effect of clock hour/credit hour conversions on program eligibility. (For a discussion of the effects of clock hour/credit conversions on enrollment level and eligibility for FSA program assistance, see *Volume 3 – Chapter 1*.)

The clock hour/credit hour conversion formulas determine, for FSA purposes, the number of credit hours in a program. A school must determine if an undergraduate program measured in credit hours qualifies as an eligible program after using the required formulas unless the school offers an undergraduate program in credit hours, *and*—

- the program is at least two academic years in length and provides an associate degree, a bachelor’s degree, a professional degree; or
- each course within the program is acceptable for full credit toward that institution’s associate degree, bachelor’s degree, professional degree, and the degree offered by the school requires at least two academic years of study.

The school must use the clock hour/credit hour conversion formula to determine whether the undergraduate program qualifies as an eligible credit hour program for FSA purposes. In addition to schools that meet the aforementioned criteria, public and private nonprofit hospital-based diploma schools of nursing are exempt from using the clock-to-credit hour conversion formula to calculate awards for the FSA programs.

Formulas for clock/credit hour conversion

To determine the number of credit hours in a program for FSA purposes, schools must use one of the following formulas.

For a semester or trimester hour program

Number of clock hours in the credit-hour program

30

For a quarter hour program

Number of clock hours in the credit-hour program

20

In order to meet the minimum program eligibility standards, the conversion formula must yield one of the following results:

- a program offered in semesters or trimesters must provide at least 16 semester or trimester credit hours over 15 weeks of

Conversion cite

34 CFR 668.8(k) & (l)

Measuring attendance

A student’s period of attendance is measured according to one of several commonly accepted academic standards. A clock hour is based on an actual hour of attendance (though each hour may include a 10-minute break). Credit hours are typically based on two hours of homework for each hour of class attendance.

A school is not permitted to count more than one clock hour per 60-minute period; in other words, a school may not schedule several hours of instruction without breaks, and then count clock hours in 50-minute increments.

The result would be that seven hours of consecutive instruction would count as 8.4 clock hours (420 minutes ÷ 50 minutes = 8.4 hours).

Seven 60-minute periods of instruction may not count for more than seven clock hours.

Acceptable doesn’t mean accepted

Consider a student who completes a two-year program in plumbing and then wants to reenroll in the school’s Bachelor’s program in construction technology.

Any of the five plumbing courses taken by the student in the two-year plumbing program may be used to satisfy the plumbing requirement in construction technology. However, the construction technology program requires only two plumbing electives, and only two plumbing courses are accepted toward the student’s degree in construction technology.

Since all of the plumbing courses that are part of the two-year program are acceptable in the construction technology program, the fact that only two plumbing courses are accepted does not disqualify the plumbing program for the exception.

Rounding prohibited

Because the results of these formulas determine the eligibility of a program, the resulting number of credit hours may not be rounded.

CLOCK HOUR/CREDIT HOUR PROGRAM CONVERSION EXAMPLE

Sternberg University (SU) offers a two-year nondegree program measured in semester credit hours. Courses within the program are not creditable toward a degree at SU. Students in the program earn 16 credit hours per semester.

SU determines that there are 1,440 clock hours of instruction in the program. There are 330 clock hours of instruction in the first and second semesters (660 first-year total), and 390 clock hours of instruction in the third and fourth semesters (780 second-year total).

By applying the conversion formula the school determines there are 48 credit hours in the program ($1,440 \div 30 = 48$).

Because the program is at least 15 weeks in length and (through the conversion formula) has been determined to offer at least 24 credit hours of instruction, it is an eligible program provided it is otherwise eligible (see the chart on Eligible Programs and the discussion under Program Eligibility Requirements in chapter 1)

Exemption if ED determines that the program offers “equivalent degree.”

The regulations also stipulate that the school is exempted from using the clock hour/credit hour formulas if the Department determines that the program provides a degree equivalent to an associate degree, a bachelor’s degree, or a professional degree. This does not permit a school to ask for a determination that a nondegree program is equivalent to a degree program.

instructional time (16 semester or trimester credit hours per year is 3/4 time; 24 per year is full time);

- a program offered in quarter hours must provide at least 24 quarter credit hours over 15 weeks of instructional time (24 quarter credit hours per year is 3/4 time; 36 per year is full time);
- a 10-week program that admits as regular students only persons who have completed the equivalent of an associate degree must provide at least 8 semester or trimester credit hours, or 12 quarter credit hours.

If a school applies the appropriate formula and finds that a program is eligible, the converted credit hours are used to determine the amount of FSA funds that a student who is enrolled in the program is eligible to receive as explained in *Volume 3, Chapter 1*.

Credits approved by state and accrediting agencies

When some states and accrediting agencies approve programs, they also approve the number of credits in the programs. The credits approved by states and accrediting agencies are *not* necessarily the credits for FSA purposes. For FSA purposes, the number of credits in the program will be those determined by the conversion formula, and they will never be more than those approved by a state or accrediting agency.

Updating Application Information

In this chapter, we will describe the regular recertification of schools, as well as changes that can affect a school's participation and how and when to report these changes to the Department on the E-APP.

RECERTIFICATION

A school may be certified to participate for up to six years. Recertification is the process through which a school that is presently certified to participate in the FSA programs applies to have its participation extended beyond the expiration date of its current Program Participation Agreement (PPA) and Eligibility and Certification Approval Report (ECAR). The Department will notify a school six months prior to the expiration of the school's PPA. The school must submit a materially complete application before the expiration date listed in its PPA.

If a school that is currently certified submits its materially complete application to the Department no later than 90 calendar days before its PPA expires, its PPA remains valid, and its eligibility to participate in the FSA programs continues until its application is either approved or not approved. This is true even if the Department does not complete its evaluation of the application before the PPA's expiration date. (For example, if a school's PPA expires on June 30 and it submits its application by March 31, the school remains certified during the Department's review period—even if the review period extends beyond June 30.) If the 90th day before the PPA's expiration falls on a weekend or a federal holiday and the school submits its Application (E-App) no later than the next business day, the Department considers the application to be submitted 90 days before the PPA expires.

If the school's application is not received at least 90 days before the PPA expires or is not materially complete, the school's PPA will expire on the scheduled expiration date and the FSA program funding will cease. If a school's eligibility lapses, the school may not continue to disburse FSA funds until it receives the Department's notification that the school is again eligible to participate in the programs.

Following submission of an application, the School Participation Team will contact the school if it has questions about the application. Generally, this will be within 90 days of the Department receiving an application. If a school's application has been approved, the Department will send an electronic notice to the president and financial aid officer notifying them that the school's PPA is available to print, review, sign, and return. If the school's application is not approved, ED will notify the school and explain why.

CHAPTER 5 HIGHLIGHTS

- Recertification
- Changes in ownership that require notification or reapplication
 - Changes at public institutions
 - Change of control, structure, or governance
 - Changes for closely-held corporation
 - Changes for publicly-traded corporation
 - Changes at other types of corporations
 - Changes for corporations not closely held or registered with SEC
- Changes in ownership interest and 25% threshold
- Steps to be taken during change in ownership
- Temporary approval for continued participation
- Substantive changes & how to report them
 - Adding locations
 - Adding programs
 - Changing status of program or branch
 - Changes in accreditation

FSA Assessment modules

To assess your compliance with the provisions of this chapter see "Recertification," at ifap.ed.gov/qa/home/qaassessments/institutionalelig.html

Recertification cites

Sec 498(g) and (h) of the HEA
34 CFR 600.20(b) and (f)

Eligible nonparticipating school

Nonparticipating eligible schools are only required to renew their eligibility when the Department requests it. Their eligibility status continues indefinitely as long as the school continues to meet the institutional eligibility requirements. If the school wishes to be certified to participate in the FSA programs, it must submit an application and other supporting documentation (see Chapter 2).
34 CFR 600.20(b)(1)

Electronic submission required

Changes to previous applications, changes in ownership, reporting, expanding eligibility and certification, and applications for initial certification, recertification, and reinstatement must be submitted to the Department electronically through the Internet (see chapters 2 and 10).

Changes in ownership cites

34 CFR 600.3
Sec. 498(i) of the HEA
34 CFR 600.31

Training requirement after a change in ownership or control

If after a change in ownership or control the financial aid administrator and/or the chief administrator have not changed, the school may request a waiver of the training requirement from its School Participation Team. The Department may grant or deny the waiver for the required individual, require another official to take the training, or require alternative training.

Default management plan after change in ownership or status

A school that changes ownership or changes its status as a parent or subordinate institution must develop a default management for approval by the Department and must implement the plan for at least two years.

A school is exempt from submitting a default management plan if—

- the parent school and the subordinate school both have a cohort default rate of 10% or less, and
- the new owner of the parent or subordinate school does not own, and has not owned, any other school with a cohort default rate over 10%.

CHANGE IN OWNERSHIP OF FOR-PROFIT AND NONPROFIT INSTITUTIONS

Changes at public institutions

The Department does not consider that a public institution has undergone a change in ownership that results in a change of control if there is a change in governance and the institution after the change remains a public institution, provided:

- the new governing authority is in the same state as included in the institution’s program participation agreement; and
- the new governing authority has acknowledged the public institution’s continued responsibilities under its program participation agreement.

Within 10 days of undergoing a change in governance, however, a public institution must **report** that change to the Department. The institution must also explicitly acknowledge its continued responsibilities under its Program Participation Agreement (PPA). If the documentation transferring control of a public institution to another in-state entity does not specifically acknowledge the aforementioned responsibilities, the institution must acknowledge them in a separate letter or notice.

Change in ownership that results in a change of control, structure, or governance

A change in ownership and control occurs when a person or corporation obtains new authority to control a school’s actions, whether the school is a proprietorship, partnership, or corporation. A change in ownership that results in a change in control includes any change through which a person or corporation

- acquires an ownership interest in the entity that owns the school or the parent corporation of that entity, or
- who owns or acquires an ownership interest attains or loses the ability to control the school.

The most common example of this change in controlling interest is when the school is sold to a new owner. Other kinds of “covered transactions” include—

- the transfer of the controlling interest of stock of the school or its parent corporation;
- the merger of two or more eligible schools;
- the division of one school into two or more schools;
- the transfer of the liabilities of a school to its parent corporation;

- a transfer of assets that comprise a substantial portion of the educational business of the school, except if it is exclusively in the granting of a security interest in those assets; or
- a conversion of the school from a for profit to a nonprofit school or a nonprofit to a for-profit.

Change in ownership for closely-held corporation

A closely-held corporation (including the term close corporation) is—

- A corporation that qualifies under the law of the State of its incorporation as a closely-held corporation; or
- If the State of incorporation has no definition of closely-held corporation, a corporation the stock of which is held by no more than 30 persons; and has not been and is not planned to be publicly offered.

For a closely-held corporation, a change in ownership and control occurs when—

- A person acquires more than 50 percent of the total outstanding voting stock of the corporation;
- A person who holds an ownership interest in the corporation acquires control of more than 50 percent of the outstanding voting stock of the corporation; or
- A person who holds or controls 50 percent or more of the total outstanding stock of the corporation ceases to hold or control that proportion of the stock of the corporation.

Change in ownership for publicly traded corporations

For publicly traded corporations, a change in ownership and control occurs when—

- a person acquires such ownership and control of the corporation such that the corporation is required to file a Form 8K with the Securities and Exchange Commission notifying that agency of the change in control; or
- a person who is a controlling shareholder of the corporation ceases to be a controlling shareholder.

A controlling shareholder is a shareholder who holds or controls through agreement **both** 25% or more of the total outstanding voting stock of the corporation and more shares of voting stock than any other shareholder. A controlling shareholder for this purpose does not include a shareholder whose sole stock ownership is held as a U.S. institutional investor, held in mutual funds, held through a profit-sharing plan, or held in an Employee Stock Ownership Plan (ESOP).

Family defined

34 CFR 60.021(f)

Excluded Transactions

34 CFR 600.31(e)(1) and (2)

Change in ownership for a publicly traded corporation cite

34 CFR 600.31(c)(2)

Excluded transactions—transfers to family members

Changes of ownership do not include a transfer of ownership and control to a member of the owner's family (whether or not the family member works at the school) that includes:

1. parent, stepparent, sibling, step-sibling, spouse, child or stepchild, grandchild or step-grandchild;
2. spouse's parent or stepparent, sibling, step-sibling, child or stepchild, or grandchild or step-grandchild;
3. child's spouse; and
4. sibling's spouse.

Nor does it include a transfer of ownership and control, upon the retirement or death of the owner, to a person (who is not a family member) with an ownership interest in the school who has been involved in management of the school for at least two years preceding the transfer, and who has established and retained the ownership interest for at least two years prior to the transfer.

These are known as excluded transactions, and they apply only to the transfer of the entire portion of the owner's interest.

34 CFR 600.21(f)

34 CFR 600.31(e)

Partnership or sole proprietorship

A change in ownership and control occurs when a person who has or acquires an ownership interest acquires or loses control as described in this section.

Parent corporation.

An institution that is a wholly-owned subsidiary changes ownership and control when the parent corporation changes ownership and control as described in this section.

Ownership interest

Ownership or ownership interest does not include an ownership interest held by:

1. a mutual fund that is regularly and publicly traded;
2. a U.S. institutional investor as defined by the Securities and Exchange Commission;
3. a profit-sharing plan of the school or its corporate parent (provided that all full-time permanent employees of the school or corporate parent are included in the plan); or
4. an Employee Stock Ownership Plan (ESOP).

25% Threshold cite

34 CFR 600.31(c)(2)(ii)(A)

For a publicly traded corporation, when a change of ownership occurs, instead of a same-day balance sheet, the school may submit its most recent quarterly financial statement as filed with the SEC. Together with its quarterly financial statement, the school must submit copies of all other SEC filings made after the close of the fiscal year for which a compliance audit has been submitted to ED.

Consider a publicly traded school that is provisionally certified because of a change in ownership that experiences another change of ownership. If any controlling shareholder on the newer change of ownership application was listed on the ownership application for which the provisional approval was granted, the expiration date for the original provisional certification remains unchanged if the newer application is approved.

Change in ownership for corporations that are not closely held or registered with SEC

A change in ownership and control of a corporation that is neither closely held nor required to be registered with the Securities Exchange Commission (SEC) occurs when a person who has or acquires an ownership interest acquires both control of at least 25% of the total outstanding voting stock of the corporation and managing control of the corporation.

CHANGES IN OWNERSHIP INTEREST AND 25% THRESHOLD

Ownership or ownership interest means a legal or beneficial interest in a school or its corporate parent, or a right to share in the profits derived from the operation of a school or its corporate parent. The school must report any change in ownership interests whenever—

- an owner acquires a total interest of 25% or greater;
- an owner who held a 25% or greater interest reduces his or her interest to less than 25%; or
- an owner of a 25% or greater interest increases or reduces his or her interest but remains the holder of at least a 25% ownership interest.

Because of these reporting requirements, even though transferring ownership interest through death or retirement may be excluded from being considered a change in ownership resulting in a change of control, the resulting change in percentages of ownership interests must be reported to the Department.

A school must report any changes that result in an individual or owner (including a corporation or unincorporated business entity) acquiring the ability to substantially affect the actions of the school. Such a change must be reported within 10 days of the change. A school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. Adherence to these requirements is enforced during the institutional participation approval process, program reviews, and audit process.

All schools are bound by these reporting requirements, and substantial penalties may be imposed on schools that fail to comply with them.

An individual or corporation has the ability to substantially affect the school's actions when he, she, or it—

- personally holds, or holds in partnership with one or more family members, at least a 25% ownership interest in the school;
- personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school;
- is the school's general partner, chief executive officer (or other executive officer), chief financial officer, individual designated as the lead program administrator for the FSA programs at the school, or a member of the school's board of directors; or
- is the chief executive officer (or other officer) for any entity that holds at least a 25% ownership interest in the school, or is a member of the board of directors for such an entity.

To ensure that its FSA program participation isn't jeopardized, a school must report to the Department an ownership change (including the names of persons involved). On receiving the notification, the Department will investigate and notify the school whether a change in ownership resulting in a change of control has occurred that will require the school to submit a materially complete application if it wishes to participate in the FSA programs.

Preacquisition review

Schools may submit an E-App marked "preacquisition review" before a change in ownership takes place. The purpose of this review is to determine whether the school has answered all the questions completely and accurately. A preacquisition review application must be submitted at least 45 days prior to the expected date of the transaction.

The SPT will notify the school of the results of the review. However, the school will not be given a decision whether or not its application would be approved as a result of this preacquisition review. Please note that a preacquisition review is not required; it is an option.

If the potential owner decides not to purchase the school, he or she must notify the School Participation Team of the decision to withdraw the application.

If the potential owner considering the change in ownership decides to go through with the purchase, and wants to participate in the FSA programs, he or she must:

- notify the Department within 10 days of the date the change in ownership actually took place (If this date falls on a weekend or a federal holiday, the notification may be no later than the next business day.); and
- submit the supporting documents required for a materially complete application. (Refer to section "M" of the E-App for the list of specific forms to submit.)

Audits and closeout procedures

Although a separate financial aid compliance audit is not required when there is a change in ownership, structure, or governance, the prospective owner may choose to have the accounts audited before they are closed out. Questions about FSA accounts or closeout procedures should be addressed to the appropriate School Participation Team (see the “Contacts” listing on the Financial Aid Professionals portal:

fsa4schools.ed.gov

Prospective owners may also obtain from the Department’s School Participation Team (for the appropriate region) information on whether the school in questions has outstanding program review or audit liabilities.

STEPS TO BE TAKEN DURING CHANGE IN OWNERSHIP

Steps to be taken by former owners

If a school is changing control, the former owners must notify the Department about the change and the date it occurs, and provide any supporting information the Department requests. This must be at the same time that the owner notifies the school’s accrediting agency, but no later than 10 days after the change occurs. (If the former owner fails to notify the Department, the prospective owner is responsible for doing so.) The current owner also must notify the state agency that licenses or approves the school.

Steps to be taken by prospective owners

The prospective owner should request that the former owner provide copies of the school’s existing ECAR, school refund policy, return of FSA funds policy, any required default management plan, program reviews, audited financial statements (for at least the two most recently completed fiscal years), and compliance audits. The prospective owner will need this information to receive approval to participate.

Accompanying the application must be audited financial statements for the school’s two most recently completed fiscal years, an audited balance sheet showing the financial condition of the school at the time of the change, and a default management plan, if required. Each participating school must demonstrate financial responsibility independently. If the entity that has acquired the school is an ongoing entity (partnership or corporation), the school must also submit completed audited financial statements of the acquiring entity for the last two consecutive fiscal years. For information on financial responsibility and submitting audited financial statements, see Chapters 11 and 12.

The school also must submit proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

The school may not award FSA program funds until it receives a new PPA signed on behalf of the Secretary.

Accepting liabilities and responsibility for return of funds

If new owners acquire a school or if a school is the result of the merger of two or more schools that formerly were operating separately, the new owner is liable for any debts that accrued from the former owner’s FSA program administration. A new owner accepts liability for any federal funds that were given to the school but that were improperly spent before the date the change in ownership, structure, or governance became effective. A new owner must also abide by the school’s refund and the FSA Return of Funds policy for students enrolled before the date the change became effective, and must honor all student enrollment contracts signed before the date of the change.

Payments to eligible students

Before the change in ownership, structure, or governance takes place, the former owner should make sure that all students receive any FSA payments already due them for the current payment period and that all records are current and comply with federal regulations. If the school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change takes place.

The school loses its approval to participate in the FSA programs when the change takes place. Generally, a school may:

- use Pell Grant or Campus-Based funds that it has received or request additional Pell Grant or Campus-Based funds from the Department to satisfy any unpaid commitment made to a student from the date the school's participation ended until the scheduled completion date of the payment period; and
- credit a student's account with the proceeds of a second or subsequent disbursement of an FFEL or Direct Loan to satisfy any unpaid commitment made to the student under the FFEL or Direct Loan Program from the date participation ends until the scheduled completion of that period of enrollment. (The proceeds of the first disbursement of the loan must have been delivered to the student or credited to the student's account prior to the end of the participation.)

The school must notify all new students that no federal aid funds can be disbursed until the school's eligibility is established and a new PPA signed by the Department is received.

The school may not award the FSA program funds beginning on the date that the change becomes effective. If the school's prospective owners wish the school to participate in one or more of the FSA programs, the school must submit a materially complete application to the Department.

The school can apply for preacquisition review (described in the previous section) and temporary provisional approval after the change in ownership (described in the next section).

Mailing address for supporting documents

U.S. Department of Education
School Eligibility Channel
Data Management and Analysis Division
Document Receipt and Control Center
830 First Street, NE
Room 71-I-1
Washington, DC 20002-5402

Phone (to verify receipt only) (202) 377-3161
or (202) 377-3155

Temporary approval cite

Sec. 498(i)(4) of the HEA

Audit cite

34 CFR 668.23

TEMPORARY APPROVAL FOR CONTINUED PARTICIPATION

The Department, at its discretion, may permit a school undergoing a change in ownership that results in a change in control to continue to participate in the FSA programs on a provisional basis if the school meets the following specific requirement.

The school must submit a materially complete application that must be received by the Department no later than 10 business days after the change becomes effective. A materially complete application for the purpose of applying for a temporary approval must include—

- a completed application form;
- a copy of the school’s state license or equivalent that was in effect on the day before the change in ownership took place;
- a copy of the accrediting agency’s approval (in effect on the day before the change in ownership) that granted the school accreditation status including an approval of the nondegree programs it offers;
- financial statements of the school’s two most recently completed fiscal years that are prepared and audited in accordance with the requirements of the Generally Accepted Accounting Principles (GAAP), published by the Financial Accounting Standards Board, and the Generally Accepted Governmental Auditing Standards (GAGAS) published by the U.S. General Accounting Office (submitted via eZ-Audit at <https://ezaudit.ed.gov>);
- audited financial statements for the school’s new owner’s two most recently completed fiscal years that are prepared and audited in accordance with GAAP and GAGAS, or acceptable equivalent information for that owner (submitted via eZ-Audit at <https://ezaudit.ed.gov>); and
- a completed signature page, Section L.

If the application is approved, the School Participation Team will send the school a Temporary Provisional Program Participation Agreement (Temporary PPA). The Temporary PPA extends the terms and conditions of the PPA that were in effect for the school before its change of ownership.

The Temporary PPA expires on the earlier of the—

- date that the Department signs a new program participation agreement;
- date that the Department notifies the school that its application is denied; or
- last day of the month following the month in which the change of ownership occurred unless the school provides the necessary documents described below.

The Department can automatically extend the Temporary PPA

on a month-to-month extension, **if**, prior to the expiration date, the school submits—

- a same day balance sheet showing the school’s financial position on the day the ownership changed, prepared in accordance with GAAP and audited in accordance with GAGAS;
- approval of the change of ownership from the school’s state agency that legally authorizes postsecondary education in that state (if not already provided);
- approval of the change of ownership from the school’s accrediting agency (if not already provided); and
- a default management plan that follows examples provided by the Department, or notification that it is using ED’s plan (see sidebar for exceptions).

Electronic submission required

Changes to previous applications, changes in ownership, reporting, expanding eligibility and certification, and applications for initial certification, recertification, and reinstatement must be submitted to the Department electronically through the Internet (see chapters 2 and 10).

E-App used to report changes

The required notification must be made online through the electronic application found at

<http://www.eligcert.ed.gov>

For a description of the E-App see chapter 2.

SUBSTANTIVE CHANGES AND HOW TO REPORT THEM

A school is required to report changes to certain information on its approved application, as listed in the chart on the following pages. A school may also wish to expand its FSA eligibility and certification. Some of these changes require the Department's written approval before the school may disburse the FSA program funds; others do not.

If a change occurs in an E-App item not listed on the following pages, the school must update the information when it applies for recertification.

When the Department is notified of a change, if further action is needed, it will tell the school how to proceed, including what materials and what additional completed sections of the E-App need to be submitted. If a school has questions about changes and procedures, it should contact the appropriate School Participation Team.

After receiving the required materials (and depending on the circumstances), the Department will evaluate the changes, approve or deny them, and notify the school.

Approval required from accreditor & state agency

For a change requiring written approval from the Department (unless otherwise noted) and for some changes that do not require written approval from the Department, a school must obtain approval from the appropriate accrediting agency and state authorizing agency.

Notification of school closure or bankruptcy

If a school closes or files for bankruptcy, the school must notify the Department within 10 calendar days of either event by sending a letter on the school's letterhead that indicates the date the school closed or plans to close, or the date the school filed for bankruptcy, as appropriate.

Changes requiring prior written approval from ED

All schools must report and wait for written approval before disbursing funds when the following occur (the number in parentheses refers to the number of the question on the E-App):

1. a change in accrediting agency (notify the Department, when you **begin** making any change that deals with your school's institution-wide accreditation) (#15);
2. a change in state authorizing agency (#17);
3. a change in institutional structure (#18);
4. an increase in the level of educational programs beyond the scope of current approval (#26);
5. the addition of nondegree programs beyond the current approval* (#27);
6. the addition of short-term (300-599 clock hour) programs (#27);
7. changes to the FSA programs for which the school is approved (Approvals from your accrediting agency and state authorizing agency are **not** required for this change.) (#27);
8. a change in the type of ownership (#22);
9. a change in ownership (#24); and
10. the addition of a location (#30) (see *Adding Locations* later in this chapter), and when a school —
 - a. is provisionally certified; or
 - b. is on the cash monitoring or reimbursement system of payment; or
 - c. has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in the FSA programs during that year; or
 - d. would be subject to a loss of eligibility under the cohort default rate regulations (34 CFR 668.188) if it adds that location; or
 - e. has been advised by the Department that the Department must approve any new location **before** the school may begin disbursing FSA program funds.

When one of the changes that requires the Department's written approval occurs, a school must notify the Department. The school must apply to the Department for approval of the change via the electronic application within 10 calendar days of the change. As soon as the school has received approvals for the change from its accrediting agency and state authorizing agency, it must send to the Department:

- copies of the approval for the change,
- any required documentation, and
- Section L of the E-App containing the original signature of the appropriate person.

* In most cases, the Department will not approve adding nondegree programs at schools that are subject to the 2-year rule (see "Adding Programs" and sidebar note).

Changes that do not require ED's written approval

Though they need not wait for the Department's approval before disbursing funds, all schools must **report** the following information to the Department.

1. change to name of the school* (#2)
2. change to the name of a CEO, president, or chancellor (#10)
3. change to the name of the chief fiscal officer or chief financial officer (#11)
4. change in the individual designated as the lead program administrator (financial aid administrator) for the FSA programs (#12)
5. change in governance of a public institution (#24)
6. a decrease in the level of program offering (e.g., the school drops all its graduate programs) (#26)
7. change from or to clock hours or credit hours (#27)
8. address change for a principal location* (#29)
9. name or address change for other locations* (#30)
10. the closure of a branch campus or additional location that the school was required to report (#30)
11. the addition of a location unless the school meets the conditions specified on the previous page (34 CFR 600.20(c)(1)) (#30)
12. change to the school's third-party servicers that deal with the FSA program funds (#58)

When one of these changes occurs, a school must notify the Department by reporting the change and the date of the change to the Department via the E-App within 10 calendar days of the change. In addition, a school must send to the address below

- any required supporting documentation, and
- Section L of the E-App containing the original signature of the appropriate person.

Foreign school reporting on the E-App

A **foreign school** must report changes to its postsecondary authorization (#42), degree authorization (#43), program equivalence (#44), program criteria (#45), or to its U.S. administrative or recruiting office (#46).

A **foreign medical school** must report changes to the facility at which it provides instruction (#47), its authorizing entity (#46), the approval of its authorizing entity (#46), the length of its program (#46), or the clinical or medical instruction that it provides in the U.S.

Other changes reported on the E-App

- Change to address for FSA mailings to an address different than the legal street address (#13)
- Change to address for FSA mailings to an additional location that is different than the legal street address (#30)
- Change of Taxpayer Identification Number (TIN) (#6a)
- Change of DUNS number (#6b)
- Change in board members (#20)
- Reporting foreign gifts (see chapter 12) (#69)
- Change to institution's Web site address (#9)
- Change of phone/fax/e-mail of CEO, president, or chancellor (#10)
- Change of phone/fax/e-mail of CFO (#11)
- Change of phone/fax/e-mail of financial aid administrator (#12)

* As soon as it has received approvals for the change from its accrediting agency and state authorization agency, a school must send the Department copies of the approvals for change.

ADDING LOCATIONS

The Eligibility and Certification Approval Report (ECAR) that the Department sends to the school lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the ECAR, a school wishes to add a location at which at least 50% of an educational program is offered, it must notify the Department.

Eligibility of additional locations

For purposes of qualifying as an eligible location, an additional location is not required to satisfy the two-year requirement unless:

1. the location was a facility of another school that has closed or ceased to provide educational programs for a reason other than a normal vacation period or a natural disaster that directly affects the school or the school's students;
2. the applicant school acquired, either directly from the school that closed or ceased to provide educational programs, or through an intermediary, the assets at the location; and
3. the school from which the applicant school acquired the assets of the location is not making payments in accordance with an agreement to repay a liability for a violation of FSA program requirements.

An additional location that falls into one of the aforementioned categories is not required to satisfy the two-year requirement if the applicant school agrees:

1. to be liable for all improperly expended or unspent FSA funds received by the school that has closed or ceased to provide educational programs;
2. to be liable for all unpaid refunds owed to students who received FSA funds; and
3. to abide by the policy of the school that has closed or ceased to provide educational programs regarding refunds of institutional charges to students in effect before the date of the acquisition of the assets of the additional location for the students who were enrolled before that date.

Each site must be legally authorized. To apply for a determination of eligibility for an added location, the school must send the Department the required application sections, a copy of the accrediting agency's notice certifying that the new location is included in the school's accredited status, and a copy of the state legal authorization from the state in which the additional site is physically located.

Mailing address for supporting documents:

U.S. Department of Education
School Eligibility Channel
Data Management and Analysis Division
Document Receipt and Control Center
830 First Street, NE
Room 71-I-1
Washington, DC 20002-5402

Phone (to verify receipt only)
(202) 377-3161 or
(202) 377-3155

Reporting cite

34 CFR 600.21

Disbursing prohibited cite

34 CFR 600.21(d)

Approval required cite

34 CFR 600.20(c)(1)

Disbursing prohibited cite

34 CFR 600.20(f)(3)

Effects of closure of branch or additional location

A school that is considering adding a branch or an additional location should include in its deliberations the effect that a closure of a branch or additional location might have on the school's financial condition.

If a branch or additional location of an institution closes and borrowers who attended the school obtain loan discharges by reason of the closure of the branch or location (or improper ATB or loan certifications), the Department will pursue recovery against the larger institution, its affiliates, and its principals. (Sec.437(c)(1) of the HEA.)

Reporting a new location

All schools are required to report (using the E-App) to the Department adding an additional accredited and licensed location where they will be offering 50% or more of an eligible program if the school wants to disburse FSA program funds to students enrolled at that location.

Schools must not disburse FSA program funds to students at a new location before the school has reported that location and submitted any required supporting documents to the Department. Once it has reported a new licensed **and** accredited location, unless it is a school that is required to apply for approval for a new location (see below), a school may disburse FSA program funds to students enrolled at that location.

Applying for approval of a new location

If a school meets one or more of the following criteria, it must **apply for and wait for approval** before disbursing FSA funds at an additional location where it will be offering 50% or more of an eligible program:

1. The school is provisionally certified;
2. The school is on the cash monitoring or reimbursement system of payment;
3. The school has acquired the assets of another school that provided educational programs at that location during the preceding year, and the other school participated in the FSA programs during that year;
4. The school would be subject to a loss of eligibility under the cohort default rate regulations (34 CFR 668.188) if it adds that location; or
5. The school was previously prohibited by the Department from disbursing FSA program funds without prior approval.

The Department will review the information and will evaluate the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised ECAR and Approval Letter will be issued. The location is eligible as of the date of the Department's determination.

ADDING PROGRAMS

Adding a program — when a school may make eligibility determinations

If a school adds an educational program after receiving its ECAR, there are two cases in which the school itself may determine the program's eligibility, unless the school has been notified in writing that its growth has been restricted. The two cases are when

- the added program leads to an associate, bachelor's, professional, or graduate degree (and the school has already been approved to offer programs at that level); or
- the added program provides at least a 10-week (of instructional time) program of 8 semester hours, 12 quarter hours, or 600 clock hours, and prepares students for gainful employment in the same or related recognized occupation as an educational program that the Department already has designated as an eligible program at the school.

Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals.

ED must approve all other added programs

In all other cases, the eligibility of an added educational program must be determined by the Department before FSA program funds can be awarded. The school must submit the required E-App sections and a copy of approval of the new program from its accrediting agency and state authorizing agency. The Department will evaluate the new program and the school. If the Department approves the additional program, a revised ECAR and Approval Letter is issued for the school, and the school is eligible as of the date of the Department's determination. Only after receiving an Approval Letter may the school begin disbursing FSA funds to students enrolled in the program. For more on program eligibility, see chapters 4 and 8.

Maximum percentages of correspondence courses, students admitted without HS diploma or equivalent, and incarcerated students

The law establishes maximum percentages of correspondence courses, students who are enrolled without a high school diploma or equivalent, and incarcerated students at a participating school. If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted application (which deal with enrollment thresholds in these areas), the school must notify the Department via the E-App. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (See chapters 1 and 8 for additional information.)

Self-determination of program eligibility

If the school's self-determination of eligibility for an educational program is found to be incorrect, the school is liable for all FSA program funds received for the program and all FSA program funds received by or for students enrolled in that program.

If you have added programs that you did not need to report to the Department, when you next apply for recertification, you will need to add those programs to your E-App.

ED approval needed for programs under 600 hours

If the school wishes to add a program that is at least 300 clock hours but less than 600 clock hours, the school must apply for and wait for written approval from the Department before awarding FSA funds to students in the program.

Limitations for schools subject to "2-year rule"

For schools subject to the two-year rule, during the school's initial period of participation in the FSA programs, the Department will not approve adding programs that would expand the school's eligibility beyond the current ECAR. An exception may be considered if the school can demonstrate that the program had been legally authorized and continuously provided for at least two years prior to the date of the request.

In addition, a school subject to the two-year rule may not award FSA funds to a student in a program that is not included in the school's approval documents.

Branch campus defined

A location of an institution that is geographically apart and independent of the main campus of the institution.

ED considers a location of an institution to be independent of the main campus if the location

- 1) is permanent in nature;
 - 2) offers courses in educational programs leading to a degree, certificate, or other recognized educational credential;
 - 3) has its own faculty and administrative or supervisory organization; and
 - 4) has its own budgetary and hiring authority.
- 34 CFR 600.2

CHANGING THE STATUS OF A CAMPUS OR BRANCH

Changing from a non-main campus to a branch campus

If a school wishes to seek approval for a branch campus, the school must submit a completed application with the required supplemental documentation (see list below) on (1) the main campus and (2) the proposed branch campus.

Changing from a branch campus to a freestanding main campus

A branch campus of an eligible proprietary institution of higher education or postsecondary vocational school must be in existence for at least two years (after it is certified in writing by the Department as a branch campus) before seeking to be designated as a main campus or a freestanding school.

Documentation required for approval of a branch campus

The following required supplemental documentation must be submitted for the School Participation Team to make a determination as to whether a non-main campus educational site is an eligible branch campus:

- A statement listing the distance between the main institution and the applicant non-main campus educational site.
- State authorization of the quasi-independent status of the non-main campus educational site from the main institution in any of the following forms: applicable state law, state charter, university system organization document, or state department of education or state board or regents regulations or documentation.
- State authorization (in any of the four forms above) for the non-main educational site to have its own faculty and administrative staff, its own operating budget, and its own authority to hire and fire faculty and staff.
- An official statement from the school describing the hiring authority of the non-main educational site.
- A statement from the main institution's primary accrediting agency indicating that it has accredited both the main institution and the non-main educational site through separate on-site visitations, and that the non-main educational site's accreditation is distinct yet dependent upon the main institution.
- A specific description of the relationship between the main campus of an institution of higher education and all of its branches, including a description of the student aid processing that is performed by the main campus and that is performed at its branches.
- The operating budget of the non-main campus educational site for the current year and the two prior fiscal years.
- Consolidated financial statements for the prior two years showing a breakdown of the applicant's financial circumstances.
- Other documents requested by the School Participation Team.

CHANGES IN ACCREDITATION

If a school decides to change its accrediting agency, it must notify the School Participation Team (SPT) when it begins the process of obtaining accreditation from the second agency. As part of this notice, the school must submit materials relating to its current accreditation and materials demonstrating a reasonable cause for changing its accrediting agency. If a school fails to properly notify the Department, the Department will no longer recognize the school's existing accreditation.

If a school decides to become accredited by more than one accrediting agency, it must submit to the SPT (and to its current and prospective agency) the reasons for accreditation by more than one agency. This submission must be made when the school begins the process of obtaining the additional accreditation. If a school obtains additional accreditation and fails to properly submit to the Department its reasons for the additional accreditation, the Department will not recognize the school's accredited status with either agency.

If the Department ceases to recognize a school's accreditation, the school is no longer eligible to award FSA program funds or take part in other programs under the Higher Education Act of 1965, as amended.

If a school becomes accredited by more than one agency, it must notify SPT which agency's accreditation the school will use for the purpose of determining the school's institutional eligibility for the FSA programs.

Loss of accreditation

If a school loses its primary accreditation, it is ineligible to participate in the FSA programs and must notify the Department within 10 days of the loss of accreditation. (For any dispute involving the termination of accreditation, an accredited or preaccredited school must agree to submit to binding arbitration before initiating any other legal action.) However, if a school's accrediting agency loses its recognition from the Department, the school has up to 18 months in which to obtain accreditation from another recognized agency. Other changes in accreditation may also jeopardize institutional participation.

Change in institution-wide accreditation

If the school decides to change its institution-wide accreditation, it must notify the Department of Education when it begins the accreditation application process with a different agency. (Note that it must also notify the Department when it completes the process.) As part of the notice, the school must submit materials about its current accreditation and materials demonstrating reasonable cause for changing accreditation. If the school fails to notify the Department of the proposed change to its institution-wide accreditation, or if the school does not provide the materials just described, the Department will not recognize the school's existing accreditation. If this happens,

Liability for disbursements if change not approved

If an institution fails to apply for approval or fails to obtain approval of a new location, branch, program, or increase in program offering, and the Department does not approve the new location, branch, program, or increase in program offering, the institution is liable for all FSA program funds it disburses to students enrolled at that location or branch or in that program.

Changing accrediting agencies cite

34 CFR 600.11

or if the school drops its association with its former accreditor before obtaining Department approval of the change, the school would no longer have accredited status, and would no longer be eligible to award federal student financial aid or take part in other FSA programs.

Therefore, when a school secures new institution-wide accreditation it must notify the Department using the online electronic application (E-App). At that time, it must advise the Department which accrediting agency will be its accreditor for purposes of FSA gatekeeping. Only after the Department provides written notice that it recognizes the new accreditor as the institution's primary accreditor should the school drop its association with its prior accreditor.

Changing to accreditation by more than one institution-wide accrediting agency

If the school decides to become accredited by more than one institution-wide accrediting agency, it must notify the Department when it begins the process of obtaining additional accreditation. As part of the notice, the school must report (in question 15 of the E-App) its current institution-wide accrediting agency, the prospective institution-wide accrediting agency, and the reason (in question 69 of the E-App) it wishes to be accredited by more than one agency. If the school obtains the additional institution-wide accreditation and fails to notify the Department of the reason for the additional accreditation, the Department will not recognize the school's accredited status with either agency. This means the school would lose its accredited status and its eligibility to award federal student financial aid or take part in other FSA programs.

Providing Consumer Information

This chapter describes the requirements for the consumer information that a school must provide to students, the Department, and others as well as a summary of the effects of misrepresentation of school information on a school's Federal Student Aid (FSA) participation.

Each year a school must provide to enrolled students a notice containing a list of the consumer information it must disseminate, and the procedures for obtaining this consumer information. **Schools must provide this notice through a one-on-one distribution.**

Schools must also provide a notice (though not an individual notice) of student rights under the Family Educational Rights and Privacy Act (FERPA). (See Chapter 9 for more information about FERPA; see sidebar note for sample notice on the Web.)

The student consumer information requirements are described in Subpart D of the General Provisions (668.41-48).

Those requirements include—

- Financial assistance information and information about the school's academic programs and policies,
- Information on graduation or completion rates, and
- Information about the school's security policies and crime statistics report.

Coeducational schools that have intercollegiate athletic programs are also required to provide information on athletic program participation rates and financial support for those programs. If a school offers athletically-related aid, it must also provide information on graduation or completion rates for its student athletes.

In addition to the information required under the consumer information regulations, schools must distribute drug and alcohol abuse prevention materials, and ensure that students who are borrowing under the FSA loan programs have received appropriate counseling regarding their loan obligation and repayment options.

These requirements are discussed in more detail in the remainder of this chapter. In some cases, a school is only required to make information available upon request, while in others the school must directly distribute the required information. You can find a chart summarizing the consumer information requirements at the end of this chapter.

CHAPTER 6 HIGHLIGHTS

- Basic consumer information requirements
 - financial aid information
 - general information about the school
 - consumer information from ED
- Graduation & completion rates on IPEDS (Student Right-to-Know)
- Athletic participation data (Equity in Athletics)
- Loan counseling
- Drug & alcohol abuse prevention
- Misrepresentation
- Campus security (Clery Act)

Consumer information cites

HEA Sec. 485(f)
20 U.S.C. 1092
34 CFR 668.41-48

Assessing your school's compliance

To assess or school's compliance with the provisions of this chapter, see the FSA Assessment module for "Consumer Information," at

www.ifap.ed.gov/qahome/qaassessments/consumerinformation.html

Sample notice of FERPA rights

You can find a sample notification at ED's FERPA Web site

www.ed.gov/policy/gen/guid/fpco/ferpa/ps-officials.html

Definitions for basic consumer information

34 CFR 668.41(a)
34 CFR 668.47(b)

Basic information includes

Financial assistance information pursuant to 34 CFR 668.42, and
Institutional information pursuant to 34 CFR 668.43
Individual Notice Required

Civil penalty

In addition to limiting, suspending, or terminating the participation of any school that fails to comply with the consumer information requirements, the Department may impose civil fines of up to \$27,500 for each violation.

Civil penalty cite
Sec. 487(c)(3)(B) of the HEA

BASIC CONSUMER INFORMATION REQUIREMENTS

The regulations list basic information about the school and about financial aid that must be available to enrolled and prospective students. If necessary, the information listed below must be provided by your school. However, much of the required information may already be available in brochures and handouts routinely disseminated by the school or in federal publications such as *Funding Your Education Beyond High School*.

Financial aid information

At a minimum, the following information must be provided about financial assistance available at a school:

- the need-based and non-need-based federal financial aid that is available to students;
- the need-based and non-need-based state and local aid programs, school aid programs, and other private aid programs that are available;
- how students apply for aid and how eligibility is determined;
- how the school distributes aid among students;
- the rights and responsibilities of students receiving aid;
- how and when financial aid will be disbursed;
- the terms and conditions of any employment that is part of the financial aid package;
- the terms of, the schedules for, and the necessity of loan repayment and required loan exit counseling; and
- the criteria for measuring satisfactory academic progress, and how a student who has failed to maintain satisfactory progress may reestablish eligibility for federal financial aid.

General information about the school

The school must provide the following minimum information about itself:

- the names of associations, agencies, and/or governmental bodies that accredit, approve, or license the school and its programs, and the procedures by which a student may receive a copy for review of the school's accreditation, licensure, or approval;
- the special facilities and services available to disabled students;
- the costs of attending the school (tuition and fees, books and supplies, room and board, and applicable transportation costs, such as commuting) and any additional costs of the program in which the student is enrolled or has expressed an interest;
- a statement of the requirements for the return of FSA

program funds when a student withdraws from school, information about any refund policy with which the school must comply, and the requirements for officially withdrawing from the school (For more information about the Return of Federal Student aid, see *Volume 5, Chapter 2.*);

- the degree programs, training, and other education offered;
- the availability of a GED program, if the school admits students who do not have a high school diploma or equivalent;
- the instructional, laboratory, and other physical plant facilities associated with the academic programs;
- a list of the faculty and other instructional personnel;
- whom to contact for information on student financial assistance and who for general school issues;
- the terms and conditions under which students receiving federal education loans may obtain deferments; and
- information regarding the availability of FSA program funds for study abroad programs.

The school must have someone available during normal operating hours to help persons obtain consumer information. One full-time employee or several persons may be assigned so that someone is always available (with reasonable notice) to assist enrolled or prospective students and their families. Existing personnel may satisfy this requirement. A school may request a waiver of this requirement if it can demonstrate that a waiver is appropriate. A school should contact their School Participation Team for more information. (See the “Contacts” link on the Financial Aid Professionals portal <fsa4schools.ed.gov.>)

Consumer information from the Department

The Department is required to make available to schools, lenders, and secondary schools descriptions of the FSA programs in order to assist students in gaining information through school sources, and to assist schools in carrying out the FSA program requirements.

We provide information to students and their families through the Student Aid on the Web site and publications such as *Funding Your Education Beyond High School*. Colleges and high schools may order bulk quantities of *Funding Your Education* and other publications for students and borrowers by using our FSAPubs.org web site.

We provide information to financial aid professionals through this *Handbook* and the our Web pages for Financial Aid Professionals <fsa4schools.ed.gov> and Information for Financial Aid Professionals <ifap.ed.gov>.

Explaining verification requirements

A school must give applicants selected for verification a written statement explaining

1. Documents required for verification,
2. Student responsibilities—including correction procedures, deadlines for completing any actions required, and the consequences of missing the deadlines.
3. Notification methods—how your school will notify students if their awards change as a result of verification, and the time frame for such notification.

cite 34 CFR 668.53

Consumer information from the Department

Student Aid on the Web

studentaid.ed.gov

Financial Aid Professionals

fsa4schools.ed.gov

FSA Pubs

Colleges and high schools may order bulk quantities of student/borrower publications such as *Funding Your Education Beyond High School* from the FSAPubs.org Web site. www.FSAPubs.org

Statutory requirement:
Sec. 485 of the HEA

Student Right-to-Know cite

Sec. 485(a) of the HEA
34 CFR 668.45

Student information vs. reporting to ED

Schools should not confuse the requirements and methodologies for providing information to students and other consumers with the requirement for reporting similar information to the Department.

Disseminating completion/graduation rates

Schools must disseminate the information on completion or graduation and, if applicable, transfer-out rates to enrolled and prospective students upon request, through appropriate publications, mailings, or electronic media (for example, school catalogs or admissions literature). Schools are strongly encouraged to provide this information to other interested parties, such as guidance counselors, upon request

Note that your school's graduation rates are also displayed on the IPEDS COOL site:

<http://nces.ed.gov/ipeds/cool>

Reporting rates to IPEDS

The graduation and completion rates are reported through the Web survey site for the Department's Integrated Postsecondary Education Data System (IPEDS).

Survey forms, instructions, FAQs, worksheets, and other information are posted at:

nces.ed.gov/ipeds/web2000/springdataitems.asp

Information can only be reported to this system by the school's designated "keyholder." Schools may change keyholders at any time during the year by contacting:

Jan Plotczuk
202-502-7459
IPEDS Universe Coordinator
Rm. 8122 1990
K Street NW
Washington DC 20006

GRADUATION & COMPLETION RATES (STUDENT RIGHT-TO-KNOW DISCLOSURES)

Student Right-to-Know disclosures must be made by July 1 of each year (see chart at the end of this chapter).

The Student Right-to-Know Act requires schools to disclose:

1. Completion or graduation rates and, if applicable, transfer-out rates for a specific cohort of the general student body. This cohort is of certificate- or degree-seeking, full-time, first-time undergraduate students.
2. For schools that offer athletically related student aid, completion or graduation rates and, if applicable, transfer-out rates of students receiving athletically related student aid, if the school offers athletic aid.

The school must provide student athlete graduation rate information to potential student athletes, their parents, and their high school coaches and guidance counselors upon making an offer of athletic aid.

Schools must make available, to prospective students, no later than July 1, 2007, the rates for the cohort for which the 150% of the normal time for completion elapsed between September 1, 2005 and August 31, 2006.

A school such as a community college is required to calculate and disclose its transfer-out rates only if it determines that its mission includes providing substantial preparation for its students to enroll in another eligible school (such as an eligible four-year school).

In addition to calculating the completion or graduation rates described above, a school **may, but is not required** to calculate:

1. A completion or graduation rate for students who transfer into the school;
2. A completion or graduation rate and transfer-out rate for the students described as exclusions to the requirements in this section.
3. A transfer-out rate (required only if preparing students for transfer is part of the school's stated or implied mission).

However, note that the rates produced by these optional calculations cannot be reported to the IPEDS survey site.

NCES, IPEDS, and Student-Right-to-Know information

Though in some cases the dates by which schools must make consumer and safety information available to students, parents, and high school counselors and coaches are based on the dates by which schools must report that information to the Department, the regulatory requirements are separate. The disclosure requirements arise from the Student-Right-to-Know and Campus Security/Clery Act and the Equity in Athletics Disclosure Act. Schools report similar information to the Department when they fulfill the requirement that they participate in the annual Integrated Postsecondary Education Data System (IPEDS) Survey conducted by the National Center for Education Statistics (NCES).

The NCES survey program at the postsecondary education level provides statistical information used by planners, policy makers, and educators in addressing multiple issues. One major source of this information is the annual Integrated Postsecondary Education Data System (IPEDS) Survey.

The IPEDS system, established as the core postsecondary education data collection program for NCES, is a system of surveys designed to collect data from all primary providers of postsecondary education. The IPEDS system is built around a series of interrelated surveys that collect school-level data in such areas as – school characteristics, enrollments, program completions, staffing patterns, faculty salaries, finances, and financial aid.

Information on NCES and IPEDS is available at

<http://www.nces.ed.gov/IPEDS>

Reporting completion or graduation and transfer-out rates to the Department

To calculate completion or graduation and transfer-out rates, a school must identify a group of students each year (a cohort) and review the performance of that cohort over time to determine the percentage of those students who complete their programs or transfer out of the school. The same snapshot approach is used to determine rates for both the general student body cohort and those rates related to students receiving athletically related student aid.

Your school must report its completion or graduation rates every spring to the Department through the IPEDS Web site (see sidebar).

Disclosing and reporting information on completion or graduation rates for the general student body cohort

The information on completion, graduation rates and, if applicable, transfer-out rates must be made available by the July 1 immediately following the 12-month period ending August 31 during which the expiration of 150% of normal time took place for the group of students on which the school bases its completion and transfer-out rate calculation.

IPEDS/GRS Deadline

The deadline for the Graduation Rate Survey on the IPEDS site also applies to schools that don't offer athletically related student aid.

Waivers

The regulations provide for waiving the disclosure of completion or graduation rate and transfer-out rate calculations (to coaches and guidance counselors only) for the general student body cohort and for athletic data for any school that is a member of an athletic association or conference that has voluntarily published (or will publish) completion or graduation-rate data that the Department determines are substantially comparable to the data required by the regulations.

The NCAA may distribute graduation rate information to all secondary schools in the United States to satisfy the distribution requirements for prospective student athletes' guidance counselors and coaches. This does not relieve the school of its obligation to provide the information to the prospective student athletes and their parents.

The Department will continue to work with interested agencies to help them develop standards that meet these requirements. If in the future the Department determines that another agency's requirements meet the standards of the Student Right-to-Know Act, the Department will inform schools that those rates may be used to satisfy the Student Right-to-Know disclosure requirements.

34 CFR 668.45(e)(1)

Reporting to parents

In cases of separation or divorce, if it is difficult to locate both parents, it is acceptable to provide the required information solely to the parent who acts as the student's guardian.

Schools must disseminate the information on completion or graduation and, if applicable, transfer-out rates to enrolled and prospective students upon request, through appropriate publications, mailings, or electronic media (for example, school catalogs or admissions literature). Schools are strongly encouraged to provide this information to other interested parties, such as guidance counselors, upon request.

Reporting completion/graduation rates for student athletes

Schools that participate in an FSA program and offer athletically related student aid must use the IPEDS Web survey to provide information on completion or graduation rates, transfer-out rates, if applicable, and other statistics for students who receive athletically related student aid to potential student athletes, and to their parents, high school coaches, and guidance counselors.

The definition of athletically related student aid used here and discussed earlier in this chapter is the same definition that is also used for the Equity in Athletics Disclosure Act (EADA) disclosure requirements (as discussed in the next section). The definitions of certificate- or degree-seeking students, first-time undergraduate students, undergraduate students, and normal time are the same as those used for the calculation of completion or graduation and transfer-out rates for a school's general student body cohort (also discussed above).

In addition to the completion rates and transfer-out rates, schools must report

- the number of students, categorized by race and gender, who attended the school during the year prior to the submission of the report, and
- within each sport—the number of those attendees who received athletically related student aid, categorized by race and gender.

Disclosing the rates for student athletes

A school must also provide the report to each prospective student athlete and his or her parents, coaches, and counselor when an offer of athletically related student aid is made to the prospective student athlete.

Schools are not required to provide completion rate information for students who entered before the 1996-1997 academic year. However, if a school has data on students entering prior to the 1996-1997 academic year (as the result of NCAA requirements, for example), the school should report these data in the four-year averages.

Schools that are not yet reporting completion or graduation rates or, if applicable, transfer-out rates because they do not have the

necessary data must still disclose the additional data regarding the number of students who attended the previous year, categorized by race and gender, and the number who attended the previous year and who received athletically related student aid, categorized by race and gender within each sport.

There is a *de minimus* exception to the disclosure requirements for the completion or graduation rates or, if applicable, the transfer-out rates of student athletes. Schools with five or fewer student athletes need not disclose their rates.

Reporting the rates for student athletes

The rates for student athletes must be completed and submitted to the Department together with other Student-Right-to-Know data by the Graduation Rate Survey (GRS) deadline.

Supplemental information

Schools may provide additional information to place their completion or transfer-out rates for both the general student body and those related to athletically related student aid in context. For example, a small school's completion rate may vary greatly from year to year because the school's calculations use a very small cohort. The school may wish to provide prior year's data and an explanation of factors affecting the completion rate.

Equity in Athletics Disclosure Act (EADA)

Equity in Athletics Disclosure Act (EADA) of 1994
Section 485(e) and (g) of the Higher Education Act of 1965
20 U.S.C. 1092
34 CFR 668.47

EADA on the Web

Schools report their EADA data on the Web at the Athletic Disclosure Web Site:

<http://surveys.ope.ed.gov/athletics>

Note that a password and user ID are required for use of this Web site. They are sent by the Department to the chief administrator at the school. For help with this site, contact: eadahelp@westat.com

Prospective students, their families, and the public can view the EADA reports for participating schools on the Web at:

<http://ope.ed.gov/athletics/>

USED's responsibilities

The Department has to ensure that the individual school reports are made available to the public within a reasonable period of time.

EQUITY IN ATHLETICS (PARTICIPATION RATES & SUPPORT FOR ATHLETIC PROGRAMS)

The Equity in Athletics Disclosure Act (EADA) is intended to make prospective students aware of a school's commitment to providing equitable athletic opportunities for its men and women students.

Any coeducational institution of higher education that participates in an FSA program and has an intercollegiate athletic program must prepare an annual EADA report. The report contains participation rates, financial support, and other information on men's and women's intercollegiate athletic programs. Officially, it is *The Report on Athletic Program Participation Rates and Financial Support Data*. It is referred to as the EADA Report:

Disclosure of the report

The EADA requires schools to publish this report by October 15 and make it available upon request to students, prospective students, and the public in easily accessible places. For example, a school may make copies of the report physically available in intercollegiate athletic offices, admissions offices, or libraries, or by providing a copy to every student in his or her electronic mailbox.

The EADA Report must be summarized, and its availability described in the **one-on-one disclosure** to all students and prospective students required of the school.

A school must provide the report promptly to anyone who requests the information. For example, a school may not refuse to provide a copy of the report to the news media, and the school may not require an individual requesting the information to come to the school to view the report. A school may not charge a fee for the information.

Schools must submit their Equity in Athletics reports to the Department via the Athletic Disclosure website annually within 15 days of making them available to students, prospective students, and the public.

Contents of the Equity in Athletics/EADA Report

A school must first designate its reporting year. A reporting year may be any consecutive 12-month period of time. For its designated reporting year, a school must report:

1. the number of male and female full-time undergraduate students that attended the school (undergraduate students are those who are consistently designated as such by the school);
2. the total amount of money spent on athletically related student aid (including the value of waivers of educational expenses aggregately) for: (a) men's teams and (b) women's teams;
3. the ratio of athletically related student aid awarded to male athletes to athletically related student aid awarded to female athletes (see the definition of athletically related student aid under Definitions);
4. the expenses incurred by the school for—
 - all sports,
 - football,
 - men's basketball,
 - women's basketball,
 - all other men's sports except football and basketball, and
 - all other women's sports except basketball

Expenses not attributable to a particular sport, such as general and administrative overhead, must be included only in the total expenses for all sports.

A school also may report those expenses on a per capita basis for each team and may report combined expenditures attributable to closely related teams, such as track and field or swimming and diving. Those combinations must be reported separately for men's and women's teams.

5. total recruiting expenses aggregately for (a) all men's teams and (b) all women's teams—
6. total annual revenues for— (a) all sports combined, (b) all men's teams, (c) all women's teams, (d) football, (e) men's basketball, (f) women's basketball, (g) all men's sports other than football and basketball, and (h) all women's sports other than basketball;
7. in its total revenues and men's or women's combined revenues, as applicable – revenues not attributable to a particular sport such as untargeted alumni contributions to athletics, investment income, and student activities fees;

8. individually by team or by average—
 - a. the annual school salary of non-volunteer head coaches for all offered sports of (1) men's teams and (2) women's teams—this must include the number of persons and full-time equivalent positions used to calculate each average;
 - b. the annual school salary of non-volunteer assistant coaches for all offered sports of (1) men's teams and (2) women's teams. This must include the number of persons and full-time equivalent positions used to calculate each average;

If a coach had responsibility for more than one team and a school does not allocate that coach's salary by team, the school must divide the salary by the number of teams for which the coach had responsibility and allocate the salary among the teams on a basis consistent with the coach's responsibilities for the different teams.

9. a listing of the varsity teams that competed in intercollegiate athletic competition and for each team, the following data—
 - a. total number of participants as of the day of the first scheduled contest of the reporting year for the team, number of those who participated on more than one varsity team, and number of other varsity teams on which they participated;
 - b. total operating expenses (expenditures on lodging and meals, transportation, officials, uniforms, and equipment) attributable to the team;
 - c. whether the head coach was male or female, was assigned to the team on a full-time or part-time basis, and, if assigned on a part-time basis, whether the head coach was a full-time or part-time employee of the school (The school must consider graduate assistants and volunteers who served as head coaches to be head coaches for the purposes of this report.);
 - d. the number of assistant coaches who were male and the number of assistant coaches who were female, and, within each category, the number who were assigned to the team on a full-time or part-time basis, and, of those assigned on a part-time basis, the number who were full-time and part-time employees of the school (The school must consider graduate assistants and volunteers who served as head coaches to be head coaches for the purposes of this report.); and
 - e. an unduplicated head count of the individuals who were listed as participants on at least one varsity team, by gender.

DL On-line Counseling

Students can take online counseling at the Direct Loan Web Site at www.dl.ed.gov
A DL school can sign up to receive regular reports with the names of students who have completed on-line counseling. (Log in to the COD Web site and then select the Direct Loan Servicing Online School site.)

Providing borrower information

A Direct Loan School should mail updated borrower information to
U.S. Department of Education
PO Box 5609
Greenville, TX 75403-5609

Staying in touch with the Direct Loan Servicer

If they keep their PIN numbers handy, Direct Loan borrowers can manage their loans online by going to: www.dl.ed.gov to check account balances, change address, estimate repayments, or print out forms (deferment, forbearance, electronic debit account).

Alternative entrance counseling approaches

The Direct Loan regulations describe how a school may adopt alternative approaches as a part of its quality assurance plan — see 34 CFR 685.304(a)(4)

LOAN COUNSELING

Before a first-time FFEL, or Federal Direct Loan borrower takes out a loan, the school must ensure that entrance counseling is conducted—individually or in a group with other borrowers. Initial counseling must include: an explanation of the use of an MPN; the importance of the repayment obligation; a description of the consequences of default; providing sample repayment schedules; familiarization with a borrower’s rights and responsibilities as well as other terms and conditions. Loan (exit) counseling must also be provided before the borrower completes his or her course of study or otherwise leaves the school. There are similar requirements for the Perkins loan program (see Volume 6 – Campus-Based Programs).

Loan counseling is particularly important because new students often have little or no experience with repayment and managing debt. Your school must ensure that the student receives comprehensive entrance and exit counseling, even though the counseling may be given by a consultant, servicer, lender, or guarantor (usually on the Web), or online on the Direct Loan Web site. First-time Stafford borrowers must receive entrance counseling before the first disbursement of the loan, and all students who are graduating or withdrawing from school must receive exit counseling. If the counseling is given electronically, you’ll need to make sure that the student receives written counseling materials for any required information that is not provided in the electronic counseling presentation. Your school is also responsible for making knowledgeable staff available to answer student questions.

The following pages list the elements of entrance and exit counseling that are either required by regulation or recommended. However, there are many ways to deliver this information and to reinforce it through continuing contacts with your student borrowers. You have an opportunity at each disbursement to remind students about the importance of academic progress, planning for future employment, and staying in touch with the holder of the loan.

The Direct Loan Program and many FFEL guaranty agencies, lenders, and other organizations offer online counseling through the Web, videos, pamphlets, and other counseling materials. Your school may choose to rely on Web counseling services, if those services provide all of the information required by regulation.

If your staff are conducting in-person counseling sessions, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic manner. We also recommend the use of written tests. Moreover, the regulations require (for any form of counseling) that someone with expertise in the FSA programs be available shortly after the counseling to answer borrowers’ questions about those programs.

Regardless of the counseling methods your school uses, you must be sure to document that the student participated in and completed entrance and exit counseling. You can usually also get confirmation

that the student has completed the online counseling session through a printout, electronic message, or other means.

The chart at the end of this section summarizes information to be covered as a part of entrance and exit counseling sessions. The arrows indicate those elements that must be covered in both entrance and exit counseling.

Providing borrower information at separation

The personal and contact information collected at the time of exit counseling must be provided to the guaranty agency or Direct Loan Servicing Center within 60 days. A student authorizes his or her school to release information to lenders as part of the promissory note the student signs as part of the loan application process. No further permission is needed.

Exit counseling follow up

If the student borrower drops out without notifying your school, you must confirm that the student has completed online counseling, or mail exit counseling material to the borrower at his or her last known address. The material must be mailed within 30 days of your learning that a borrower has withdrawn or failed to participate in an exit counseling session.

If you're mailing these exit materials, you're not required to use certified mail with a return receipt requested, but you must document in the student's file that the materials were sent. If the student fails to provide the updated contact information, you are not required to take any further action.

Counseling for correspondence and study abroad students

As an alternative for correspondence programs, or study abroad programs that are approved by the U.S. school for credit, you may send the borrower written counseling materials within 30 days after the borrower completes the program, with a request that the borrower provide the contact and personal information that would ordinarily have been collected through the counseling process.

Web-based counseling sites can be particularly useful for borrowers who are participating in off-campus programs such as school's year-abroad program, correspondence study, and online programs.

If the borrower has not previously received a Stafford loan at that school, the school must document that the student has completed online entrance counseling that meets FSA requirements, or provide entrance counseling information by mail before releasing loan proceeds.

Loan counseling in regulations

FFEL: 34 CFR 682.604 (f) and (g)

DL: 34 CFR 685.304

Perkins: 34 CFR 674.16(a)

Availability of grant aid

The General Provisions require that you inform students about the availability of grant aid before awarding loans.

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Disclosure & counseling for Perkins Loans

The Perkins Loan regulations require that borrowers receive similar information. You can read more about the Perkins requirements in Volume 6 – "The Campus-Based Programs."

Direct Loan counseling materials

Direct Loan schools can order counseling materials, such as the Direct Loan Entrance Counseling Guide and the Direct Loan Exit Counseling Guide from the FSA PUBS Web site at <www.fsapubs.org>

Default Management Plan

Additional ideas for loan counseling are given in the "Sample Default Management and Prevention Plan."

* Financial literacy—schools should provide borrowers with information concerning the income potential of occupations relevant to their course of study, counseling at various stages of enrollment, interactive tools to manage debt, repayment options, and school contact information. Schools can offer this information through a variety of media such as counseling, classes, publications, e-tutorials, electronic newsletters to email accounts, and adding the information to award letters.

* At-Risk Students— schools should identify and provide special counseling for "at-risk" students (such as students who withdraw prematurely from their educational programs, borrowers who do not meet standards of satisfactory academic progress, or both). The most recent sample default plan was issued as an attachment to GEN-05-14

See attachment to GEN-05-14, or go to collection of "Default Rate Materials" on the IFAP Web site.

Entrance Counseling

Before a first disbursement may be made to a first-time Stafford borrower, the student must receive entrance counseling that explains the loan obligation. The counseling must be conducted in person, by audiovisual presentation, or by interactive electronic means.

Required elements of entrance counseling • • • • •

The Direct Loan and FFEL regulations require that certain information be included in entrance counseling. Some of this information is included in the Borrower's Rights and Responsibilities statement that must accompany the MPN, but you should review and elaborate on these points as a part of the counseling presentation.

- **Reinforce the importance of repayment.** The regulations also require that entrance counseling emphasize ... the seriousness and importance of the repayment obligation. The lender or Direct Loan Servicing Center (DLSC) sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does not relieve the borrower of his or her obligation to make payments. (Direct Loan borrowers are encouraged to set up electronic debiting of a bank account to repay their loans—electronic debiting is also available through many FFEL lenders.)
- **Describe the consequences of default.** The regulations require that entrance counseling describe the likely consequences of default, including adverse credit reports, federal offset, and litigation. We also recommend that you tell the borrower of the charges that might be imposed for delinquency or default, such as the lender's or guarantor's collection expenses (including attorney's fees). Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.
- **Explain the use of the Master Promissory Note.** If relevant at your school, explain the use of the multi-year feature of the MPN, and the borrower confirmation process. You should advise students to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN. In addition, you should inform borrowers of their right to sign a new promissory note for each loan and opt out of the multi-year feature of the MPN.
- **Stress that repayment is required, regardless of educational outcome or subsequent employability.** Entrance counseling information must explain that the student borrower is obligated to repay the full loan even if he or she doesn't finish the program, can't get a job after graduating, or is dissatisfied with the school's educational program or other services.
- **Provide sample monthly repayment amounts.** The student must receive sample monthly repayment amounts for different levels of indebtedness, or for the average indebtedness of Stafford borrowers at your school or in the same educational program at your school.

Other suggestions for entrance counseling • • • • •

In addition to the required elements above, counselors often include some of the following information in their sessions. (Some of these items are included in the sample Default Prevention and Management Plan.)

- **Review terms and conditions of the loan.** As a part of entrance counseling, tell the borrower the current interest rate on his/her loan(s), the applicable grace period, and the approximate date the first installment payment will be due.

Often a student loan is the borrower's first experience in obtaining a loan of any kind, so it helps to clearly explain basic loan terminology to ensure that a borrower understands the process and knows who holds his/her loan. For instance, define terms such as loan servicer, the use of contractors to service the loan, and the process of selling loans to other lenders or to secondary markets. (A loan servicer is a corporation that administers and collects loan

payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

- **Review repayment options.** Explain that the exact repayment schedule will not be provided until loan repayment begins. Tell the student that certain fees (the origination fee and, for FFEL, an insurance fee) will be subtracted from the loan amount before the loan is disbursed but that repayment of the full loan amount is required. Review the availability of different repayment plans (standard, extended, graduated, income-sensitive/contingent), as well as loan consolidation. Stress that a borrower must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice.
- **Discuss how to manage expenses (budgeting).** It would also be helpful to include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount of student aid that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student's earning potential in his or her chosen career, and with required information about anticipated monthly payments and overall indebtedness.
- **Reinforce the importance of communicating change of status, etc. to the lender.** The counseling should stress the student's obligation to keep the lender (or the Direct Loan Servicing Center) informed about address changes, or changes in enrollment. (Failure to tell the lender about their responsibility to notify the lender or the DLSC is one of the most common reasons why a loan goes into default.) The borrower should always know the most current name and address of the lender, the loan servicer, and the guarantor of the loan.

The student is required to inform the lender when he or she graduates, changes schools, drops below half time, or withdraws from school. The borrower also must tell the DLSC or the lender if his/her address changes (including changes in the permanent address while in school). The student should also be reminded of the importance of notifying the holder of the loan in the event of a name change (including the change of a last name through marriage) or a change in Social Security Number.

- **Review deferments, forbearance, etc.** The borrower should have a general understanding of the deferment, forbearance, and cancellation options, and how to apply for them. The counseling should stress that the borrower needs to contact the lender or DLSC if he or she is having difficulty in repaying the loan, as the lender or DLSC may be able to suggest options that would keep the loan out of default. Inform borrowers that information about deferments and forbearance is contained in their promissory notes.
- **Review Borrower's Rights and Responsibilities.** The student must receive a statement of Borrower's Rights and Responsibilities with the MPN. This may be provided by the Direct Loan Program or the FFEL lender, but it's a good idea to review the information on the statement with the borrower to make sure that he or she is familiar with that information.
- **Remind borrowers of the refund and other policies affecting withdrawals.** The borrower should be aware of the school's academic progress policy and refund policy, and how the return of FSA funds will affect loan repayment.
- **Reinforce the importance of keeping loan records.** This would be a good time, if your school has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note and notices showing when the student received loan payments or his/her account was credited. The student should keep the loan repayment schedule provided by the lender or DLSC when repayment begins, as well as records of loan payments—including canceled checks and money order receipts. The student should keep copies of any requests for deferment or forbearance, or any other correspondence with the loan holder or DLSC.
- **Reminder about exit counseling.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled at least half time.

Exit Counseling

Your school must ensure that students receive exit counseling before they leave school. Counseling may be provided in person, (individually or in groups), or using audiovisual materials. As with entrance counseling, exit counseling is offered on the Web by many guarantors, lenders, and by the Direct Loan Program.

Student borrowers should be advised to complete online exit counseling or sign up for a counseling session (if offered at your school) shortly before graduating or ceasing at least half-time enrollment. As with entrance counseling, knowledgeable financial aid staff at the school must be reasonably available to answer questions from student borrowers. One of a borrower's obligations is to participate in an exit counseling session.

Direct Loan schools can use the program's Web site to confirm which of their students have completed online exit counseling: www.dl.ed.gov Similar online counseling services are provided by guarantors in the FFEL program

Required elements of exit counseling •

Some of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies. The following information must be provided as a part of exit counseling:

- **Review information from entrance counseling.** Several topics that were covered in entrance counseling must be reviewed during exit counseling: the consequences of default and the importance of the repayment obligation, the use of the Master Promissory Note, and the obligation to repay the loan even if the borrower drops out, doesn't get a job, or is otherwise dissatisfied with the quality of the school's educational programs and services.
- **Provide an average anticipated monthly repayment amount.** The borrower must be given an estimate of the average anticipated monthly payments based on his/her indebtedness (or on the average indebtedness of Stafford borrowers at your school, or in the same program at your school). We recommend giving the borrower a sample loan repayment schedule based on his/her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment. For instance, it would show the varying monthly amounts expected in a graduated repayment plan. Note that the lending organization is not required to send the repayment schedule to the borrower until the grace period. Direct Loan borrowers who use the Online Exit Counseling Session (www.dlsvic.ed.gov) can view repayment schedules based on their account balances (using their PIN numbers), select a repayment plan, and update demographic data.

In Direct Loans, a school may request that the Servicing Center send the repayment schedule information to the financial aid office 30, 60, or 90 days before the student completes the program. If the school chooses this option, it accepts the obligation to deliver this repayment information to the borrower either in the exit counseling session or by mailing it to the borrower.

- **Review repayment options.** The counseling must review the options for loan repayment, such as the standard, extended, graduated, and income-contingent/income-sensitive plans. The option of consolidating loans must also be discussed. Both the Direct Loan Program and the FFEL Program offer Consolidation Loans. Direct Consolidation Loans are available from the U.S. Department of Education. FFEL Consolidation Loans are available from participating lenders such as banks, credit unions, and savings and loan associations.

Drug and alcohol prevention cites

Drug-Free Schools and Communities Act
(Public Law 101-226)
Drug-Free Workplace Act of 1988 (Public Law
101-690)
34 CFR 84 Government-Wide Requirements
for Drug-Free Workplace
34 Part 86 Drug and Alcohol Abuse
Prevention
34 CFR 668.14(c)

DRUG AND ALCOHOL ABUSE PREVENTION INFORMATION

A school that participates in the FSA programs must provide information to its students, faculty, and employees to prevent drug and alcohol abuse.

In addition, a school that participates in the Campus-Based programs must have a drug-free awareness program for its employees that includes a notice to its employees of unlawful activities and the actions the school will take against an employee who violates these prohibitions. The drug-free awareness program for school employees is discussed in more detail in Chapter 3 of this Volume.

Information to be included in drug prevention materials for students

A school must provide the following in its materials:

- information on preventing drug and alcohol abuse;
- standards of conduct that clearly prohibit, at a minimum, the unlawful possession, use, or distribution of drugs and alcohol by students and employees on the school's property, or as part of the school's activities;
- a description of the sanctions under local, state, and federal law for unlawful possession, use, or distribution of illicit drugs and alcohol;
- a description of any drug and alcohol counseling, treatment, or rehabilitation programs available to students and employees;
- a description of the health risks associated with the use of illicit drugs and alcohol; and
- a clear statement that the school will impose sanctions on students and employees for violations of the standards of conduct (consistent with local, state, and federal law) and a description of these sanctions, up to and including expulsion, termination of employment, and referral for prosecution.

Distribution of materials to all students and employees

The school may include this information in publications such as student or employee handbooks, provided that these publications are distributed to each student and employee. Merely making drug prevention materials available to those who wish to take them is not sufficient. The school must use a method that will reach every student and employee, such as the method used to distribute grade reports or paychecks.

The school must distribute these materials annually. If new students enroll or new employees are hired after the initial distribution for the year, the school must make sure that they also receive the materials. (For more information on the requirement to implement an anti-drug abuse program and evaluate it, see chapter 3.)

MISREPRESENTATION

Under the General Provisions regulations the Department may fine, limit, suspend, or terminate the participation of any school that substantially misrepresents the nature of its educational program, its financial charges, or the employability of its graduates.

Definition of misrepresentation

Misrepresentation is any false, erroneous, or misleading statement made to a student or prospective student, to the family of an enrolled or prospective student, or to the Department. This includes disseminating testimonials and endorsements given under duress.

Substantial Misrepresentation is any misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person's detriment.

Misrepresentation of the educational program includes, among other things, false or misleading statements about the school's accreditation or the school's size, location, facilities, or equipment. Misrepresentation of financial charges includes, among other things, false or misleading statements about scholarships provided for the purpose of paying school charges. To be considered a scholarship, a grant must actually be used to reduce tuition charges made known to the student before the scholarship was offered to the student. (The tuition charges must be charges that are applied to all students whether or not they are receiving a scholarship.) It is also considered misrepresentation if the school gives false or misleading information as to whether a particular charge is a customary charge for that course at the school.

Misrepresentation includes making any false or misleading statements about the employability of the school's graduates.

The regulatory provisions concerning misrepresentation are listed in the chart on the following page.

Misrepresentation cites

34 CFR Subpart F
 34 CFR 668.71
 Misrepresenting educational program cite
 34 CFR 668.72
 Misrepresenting financial charges cite
 34 CFR 668.73
 Employability of graduates cite
 34 CFR 668.74

Prospective student

Any individual who has contacted an eligible institution for the purpose of requesting information about enrolling at the institution or who has been contacted directly by the institution or indirectly through general advertising about enrolling at the institution.

Misrepresentation

Nature of educational program

Misrepresentation by a school of the nature of its educational program includes, but is not limited to, false, erroneous, or misleading statements concerning:

- the particular types, specific sources, nature, and extent of its accreditation;
- whether a student may transfer course credits earned at the school to any other school;
- whether successful completion of a course of instruction qualifies a student for acceptance into a labor union or similar organization or receipt of a local, state, or federal license or a nongovernment certification required as a precondition for employment or to perform certain functions;
- whether its courses are recommended by vocational counselors, high schools, or employment agencies, or by governmental officials for government employment;
- its size, location, facilities, or equipment;
- the availability, frequency, and appropriateness of its courses and programs to the employment objectives that it states its programs are designed to meet;
- the nature, age, and availability of its training devices or equipment and their appropriateness to the employment objectives that it states its programs and courses are designed to meet;
- the number, availability, and qualifications, including the training and experience, of its faculty and other personnel;
- the availability of part-time employment or other forms of financial assistance;
- the nature and availability of any tutorial or specialized instruction, guidance and counseling, or other supplementary assistance it will provide its students before, during, or after the completion of a course;
- the nature and extent of any prerequisites established for enrollment in any course; or
- any matters required to be disclosed to prospective students under 34 CFR 668.43 (institutional information) and 34 CFR 668.46 (campus security information).

Nature of financial charges

Misrepresentation by a school of the nature of its financial charges includes, but is not limited to, false, erroneous, or misleading statements concerning

- offers of scholarships to pay all or part of a course charge, unless a scholarship is actually used to reduce tuition charges that are applied to all students whether or not receiving a scholarship and are made known to the student in advance; or
- whether a particular charge is the customary charge at the school for a course.

Employability of graduates

Misrepresentation by a school regarding the employability of its graduates includes, but is not limited to, false, erroneous, or misleading statements

- that the school is connected with any organization or is an employment agency or other agency providing authorized training leading directly to employment;
- that the school maintains a placement service for graduates or will otherwise secure or assist its graduates to obtain employment, unless it provides the student with a clear and accurate description of the extent and nature of this service or assistance; or
- concerning government job market statistics in relation to the potential placement of its graduates.

CAMPUS SECURITY

The Department is strongly committed to enforcing the provisions of the Campus Security Act of 1990 requiring a school to compile and distribute an annual campus security report. In its continuing effort to assist schools in fully complying with the Crime Awareness and Security Act of 1990, the Department has developed *The Handbook for Campus Crime Reporting* (see sidebar for links to the Handbook and the Survey Web site). The *Handbook* defines the categories of crime and procedures for reporting them, as well as the requirements for timely warnings and maintenance of a daily crime log.

Compiling & reporting campus security policies and crime statistics

Each year in the late summer, a letter and a certificate from the U.S. Department of Education are sent to the institution's president or chief executive officer. The certificate includes the User ID and password needed to access the Campus Crime and Security Survey Web site.

Distribution of the annual security report

By October 1 of each year, a school must publish and distribute its annual security report. It must be distributed to all **enrolled students and current employees** in one of two ways—directly by publications and mailings, including giving each individual a copy, or direct mailing to each individual through the U.S. Postal Service, campus mail, or electronic mail, or a combination of these methods.

If the school chooses to fulfill this requirement by posting the annual security report on an Internet or Intranet Web site, an **individual notice must be distributed to each student and current employee** that includes:

- a statement of the report's availability,
- a list and brief description of the information contained in the report,
- the exact electronic address (URL) of the Internet or Intranet Web site at which the report is posted, and
- a statement saying the school will provide a paper copy upon request.

Institutions may use the sample notice from the *Handbook for Campus Crime Reporting* to inform students and employees of the availability of the annual security report:

Upon request, a school must provide its annual campus security report to a prospective student or prospective employee. In order to ensure that a prospective student or employee can request the report, the school must provide them with notice of the report's availability. The notice must include a brief description of the report. If a prospective student or employee requests it, the school must provide a hard copy of the report.

Reporting campus crime data

Schools are required to submit a Web-based statistical report to ED on an annual basis. The survey data is collected through the Department's Campus Crime and Security Web site (requires password & User ID): surveys.ope.ed.gov/security

Important - Do not send your annual security report to ED

→ More detailed information on campus crime reporting and the Annual Security Report are provided in the *Handbook for Campus Crime Reporting*, which is available at www.ed.gov/admins/lead/safety/campus.html

- Campus Crime Help Desk telephone number—(800) 435-5985
- Campus Crime e-mail address—CampusSecurityHelp@Westat.com.
- For questions about the web survey - CrimeHandbookQuestions@ed.gov

Clery/Campus Security Act

In 1990, Congress enacted the *Crime Awareness and Campus Security Act* (Title II of Public Law 101-542), which amended the Higher Education Act of 1965. The act was amended in 1992, 1998 and 2000. The 1998 amendments renamed the law the *Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act*.

HEA Sec. 485(f)
20 U.S.C. 1092(f)
34 CFR 668.46

Sample notice of availability of Annual Security Report

A copy of [name of institution's] *Annual Security Report*.

This report includes statistics for the previous three years concerning reported crimes that occurred on-campus; in certain off-campus buildings or property owned or controlled by [name of institution]; and on public property within, or immediately adjacent to and accessible from, the campus. The report also includes institutional policies concerning campus security, such as policies concerning sexual assault, and other matters. You can obtain a copy of this report by contacting [name of office] or by accessing the following web site [address of web site].

— From *Handbook for Campus Crime Reporting*

Help prevent financial aid/scholarship fraud

Every year, millions of high school graduates seek creative ways to finance the markedly rising costs of a college education. In the process, they sometimes fall prey to scholarship and financial aid scams. On November 5, 2000, Congress passed the College Scholarship Fraud Prevention Act of 2000 (CSFPA). The CSFPA enhances protection against fraud in student financial assistance by establishing stricter sentencing guidelines for criminal financial aid fraud. It also charged the Department, working in conjunction with the Federal Trade Commission (FTC), with implementing national awareness activities, including a scholarship fraud awareness site on the ED Web site.

You can help prevent financial aid/scholarship fraud by, in your consumer information, alerting students to the existence of financial aid fraud, informing students and their parents of telltale pitch lines used by fraud perpetrators, and by providing appropriate contact information.

According to the FTC, perpetrators of financial aid fraud often use these telltale lines

- The scholarship is guaranteed or your money back.
- You can't get this information anywhere else.
- I just need your credit card or bank account number to hold this scholarship.
- We'll do all the work.
- The scholarship will cost some money.
- You've been selected by a 'national foundation' to receive a scholarship' or 'You're a finalist' in a contest you never entered.

To file a complaint, or for free information, students or parents should call

1-877-FTC-HELP (1-877-382-4357)

or visit: <http://www.ftc.gov/scholarshipscams>

School Disclosure Requirements

Recipients	What They Receive	How It Must Be Provided	When It Must Be Provided
<p>Currently enrolled students and current employees</p>	<p>The institution's annual campus security report in its entirety (pursuant to 668.46)</p>	<p>Through publications, mailings, or electronic media sent directly to individuals. If a school chooses to post its annual security report to a Web site it must send each individual a notice through U.S. mail, campus mail, or directly to an e-mail address that</p> <ol style="list-style-type: none"> 1. provides a brief summary of the information required to be disclosed; 2. provides the Internet or Intranet Web site address where the information can be found; 3. states that, upon request, the individual is entitled to a paper copy; and 4. informs the individual how to request a paper copy. 	<p>The school must prepare and make available its security report annually by October 1.</p>
<p>Currently enrolled students</p>	<p>Notice about the availability of the following</p> <ol style="list-style-type: none"> 1. information on financial assistance available to students enrolled in the school (pursuant to 34 CFR 668.42); 2. information on the school (pursuant to 34 CFR 668.43); 3. the institution's completion or graduation rate, and, if applicable, its transfer-out rate (pursuant to 34 CFR 668.45); 4. information about students' rights under FERPA (pursuant to 34 CFR 99.7); and 5. information about athletic program participation rates and financial support (EADA) (pursuant to 34 CFR 668.47). <p>The notices must be sufficiently detailed to allow students to understand the nature of the disclosures and make an informed decision whether to request the full reports.</p>	<p>A school must provide direct individual notice to each person.</p> <p>A school may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an e-mail address.</p> <p>The individual notice provided to enrolled students must</p> <ol style="list-style-type: none"> 1. provide a brief summary of the information required to be disclosed; 2. provide the Internet or Intranet Web site address where the information can be found; 3. state that upon request the student is entitled to a paper copy; and 4. inform the student how to request a paper copy. 	<p>Annually, a school must provide notice to each enrolled student. Immediately, upon request, the school must provide the full reports.</p> <p>The school must prepare its completion or graduation rate, and, if applicable, its transfer-out rate report by July 1, immediately following the point in time at which the 150% point for the cohort has elapsed.</p> <p>Institutions must prepare and make available information about athletic program participation rates and financial support (EADA) by October 15.</p> <p>Information on the school and its financial assistance programs must be current.</p>
<p>Everyone who requests information about employment at the school</p>	<p>A notice about the availability of the annual campus security report. The notice must include a list of the information from the institution's annual security report to which employees and prospective employees are entitled. The list must include brief descriptions of the required disclosures. The descriptions should be sufficient to allow employees and potential employees to understand the nature of the disclosures and make an informed decision whether to request the full report.</p>	<p>In response to an inquiry about employment, a school must provide direct individual notice to each prospective employee. A school may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an e-mail address.</p> <p>If the school makes the information available by posting it to its Web site, then the notice provided must</p> <ol style="list-style-type: none"> 1. identify the information required to be disclosed; 2. provide the Internet or Intranet address where the information can be found; 3. state that, upon request, individuals are entitled to a paper copy; and 4. inform individuals how to request a paper copy. 	<p>The school must prepare its report annually by October 1.</p> <p>Immediately, upon request, the school must provide the full report.</p>

School Disclosure Requirements (continued)

Recipients	What They Receive	How It Must Be Provided	When It Must Be Provided
Prospective students	<ol style="list-style-type: none"> 1. Information on financial assistance available to students enrolled in the school (pursuant to 34 CFR 668.42); 2. Information on the school (pursuant to 34 CFR 668.43); 3. Information about students' rights under FERPA. 4. Notice about the availability of the institution's annual campus security report (pursuant to 34 CFR 668.46). The notice must include: <ol style="list-style-type: none"> a. a list of the information in the report; b. brief descriptions of the required disclosures that are sufficient to allow students to understand the nature of the disclosures and make an informed decision whether to request the full report (please see the NPRM of 8/10/99 page 43583 for an example); and c. an opportunity to request a copy. 5. The institution's completion or graduation rate, and, if applicable, its transfer-out rate (pursuant to 34 CFR 668.45). 6. Information about athletic program participation rates and financial support (pursuant to 34 CFR 668.47). 	<p>Directly to prospective students through appropriate publications, mailings, or electronic media a school must provide individual notice of the availability of items 1 through 6.</p> <p>Upon request, institutions must provide their complete report on completion, graduation and, if applicable, transfer-out rates.</p> <p>Upon request, a school must provide a copy of its full annual security report to a prospective student.</p> <p>If provided electronically, notices and reports must be sent directly to an e-mail address.</p>	<p>Prior to a prospective student's enrolling or entering into any financial obligation with a school, the school must provide its report on completion, graduation, and transfer-out rates.</p> <p>Notice about the availability of the other reports should be included in the materials a school provides to prospective students.</p> <p>Immediately, upon request, the school must provide its security report on a direct, individual basis.</p>
Prospective student-athletes and their	<p>A school that is attended by students receiving athletically related student aid must produce a report on the completion and graduation rates of student athletes pursuant to 34 CFR 668.48.</p>	<p>The information must be provided directly to the respective parties. It may be provided in writing (on paper) or through electronic mail but not simply by posting it to a Web site.</p> <p>If the NCAA provides an institution's completion and graduation rates of student athletes to high school coaches and counselors, the school is deemed to be in compliance with that portion of this requirement.</p>	<p>The school must provide the report at the time it makes an offer of athletically related student aid to a prospective student athlete.</p> <p>Annually by July 1, institutions that are attended by students receiving athletically related student aid must produce the report and make it available.</p>
Faculty, students, and employees	<p>Drug and alcohol prevention information pursuant to Public Law 101-226.</p>	<p>Schools must use a method that ensures that the information will reach every student, faculty member, and employee.</p>	<p>The school must ensure that students who enroll and employees who are hired after the initial distribution for the year, also receive the information.</p>
The general public	<p>A school that participates in any FSA program and has an intercollegiate athletic program must provide a report on athletic program participation rates and financial support (EADA) (pursuant to 34 CFR 668.47).</p>	<p>Through appropriate publications, mailings, or electronic media.</p>	<p>Annually, for the preceding year, the school must prepare the report and make it available by October 15.</p>

Written Agreements Between Schools

Two or more schools may enter into a consortium or contractual agreement so that a student can continue to receive Federal Student Aid (FSA) funds while studying at a school or organization other than his or her “home” school. (The home school is the one that will grant the student’s degree or certificate.) This chapter discusses the specific requirements for such agreements.

Under a consortium or contractual agreement (including those for study-abroad programs), the home school must give credit for courses taken at the other schools on the same basis as if it provided the training itself. The underlying assumption of such an agreement is that the home school has found the other school’s or organization’s academic standards to be equivalent to its own, and a completely acceptable substitute for its own instruction.

A home school may decline to give credit for courses in which a student earns a grade that is not acceptable at the home school even though the host school has a policy of accepting that grade for its resident students. In addition, even though grades received through consortium or contractual agreements do not have to be included in the calculation of the student’s grade point average (GPA), they must be included when calculating the quantitative component (the percentage of credits earned vs. attempted) of a student’s satisfactory academic progress.

If not written for an individual student or group of students, agreements between schools can go on indefinitely. These agreements do not have to be renewed unless the terms of the agreement change.

Definitions

Consortium agreement — a written agreement between two or more eligible schools.

Contractual agreement — a written agreement between an eligible school and an ineligible school.

Home school — the school where the student is enrolled in a degree or certificate program.

Host school — the school where the student is taking part of his or her program requirements through either a consortium or contractual agreement.

Two plus two program — a partnership between a two-year and four-year school that facilitates a student’s completing the last two years of the student’s four-year degree.

CHAPTER 7 HIGHLIGHTS

- Consortium agreement
- Contractual agreement
- Study abroad/domestic exchange

■ Related information

- Program Eligibility, Volume 2, Chapter 4
- “Regular Student in an Eligible Program,” Volume 1, Chapter 1

Arrangements between institutions cite

34 CFR 668.5

Assessing your school’s compliance

To review your school’s compliance with the provisions of this chapter, see Activities 4 and 5 in the FSA Assessment module for “Institutional Eligibility,” at

ifap.ed.gov/qahome/qaassessments/institutionalelig.html

Consortium agreement cite

34 CFR 668.5

CONSORTIUM AGREEMENT

A consortium agreement can apply to all FSA programs. Under a consortium agreement, students may take courses at a school other than the *home* school and have those courses count toward the degree or certificate at the home school. A student can only receive FSA assistance for courses that are applicable to the student's certificate or degree program.

Elements of a consortium agreement

A consortium agreement can be a blanket agreement between two or more eligible schools, or it can be written for a specific student. Such an agreement is often used when a student takes related courses at neighboring schools or when a student is enrolled in an exchange program with another eligible school for a term or more. A school could have

- one agreement for each student;
- a separate agreement with each host school; or
- a blanket agreement with a group of schools.

In a consortium agreement there is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school. Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting or state agency standards. The Department does not dictate the format of the agreement (which can be executed by several different offices) or where the agreement is kept. However, the following information should be included in all agreements:

- the school that will grant the degree or certificate;
- the student's tuition, fees, and room and board costs at each school;
- the student's enrollment status at each school;
- the school that will be responsible for disbursing aid and monitoring student eligibility; and
- the procedures for calculating awards, disbursing aid, monitoring satisfactory progress and other student eligibility requirements, keeping records, and returning funds in the event the student withdraws.

Usually, the home school is responsible for disbursing funds, but if the student is enrolled for a full term or academic year at the host school, it may be easier for the host school to monitor the student's eligibility and make payments.

When there is a written arrangement between eligible schools, any of the schools participating in the written arrangement may make FSA calculations and disbursements without that school being considered a third-party servicer. This is true even if the student is not currently taking courses at the school that is calculating and disbursing the aid.

The school that disburses an FSA award is responsible for maintaining information on the student’s eligibility, how the award was calculated, what money has been disbursed, and any other documentation associated with the award (even if some of that documentation comes from other schools). Moreover, the school paying the student must return FSA funds if required (for example, in refund/return or overpayment situations). For details on how agreements affect Federal Pell Grant calculations, see *Volume 3 – Calculating Awards and Packaging*.

CONTRACTUAL AGREEMENT

Provided the limitations in the following paragraphs are adhered to, an *eligible* institution may enter into a *contractual agreement* with an *ineligible school or organization* under which the ineligible school or organization provides part of the educational program of students enrolled at the eligible school.

Eligible schools are prohibited from entering into contracts with ineligible schools or organizations if the ineligible school or organization

- has had its eligibility to participate in the FSA programs terminated by the Department; or
- has voluntarily withdrawn from participation in the FSA programs under a termination, show-cause, suspension, or similar type proceeding initiated by the school’s state licensing agency, accrediting agency, guarantor, or by the Department.

Limitations on contractual agreements

Under a contractual agreement, the eligible school is always the home school. The home school performs all the aid processing and disbursement functions for its students attending the ineligible school or organization. The home school is responsible for maintaining all records necessary to document student eligibility and receipt of aid (see chapter 9).

For schools in a contractual agreement, there is a limit on the portion of the program that can be offered by the ineligible school. If both the home and ineligible schools are owned or controlled by the same individual, partnership, or corporation, no more than 25% of the educational program can be provided by the ineligible school. If the two schools are separately owned or controlled, the ineligible school can provide up to 50% of the educational program. However, in the case of separately owned schools, if the contracted portion is more than 25% of the program, the home school’s accrediting agency or state agency (in the case of a public postsecondary vocational institution) must determine and confirm in writing that the agreement meets its standards for contracting out education services.

Arrangements with a study abroad organization cite

34 CFR 668.5

Eligibility of students in a study abroad program cite

34 CFR 668.39

Types of study-abroad programs

Study abroad program configurations include:

A home school sends students to a study abroad program at an eligible or ineligible foreign (host) school.

→ The home school must have a consortium or contractual agreement with the foreign school.

A home school allows a student to complete a portion of the student's program at an eligible host school in the United States and that host school offers a study abroad program in conjunction with either an eligible or ineligible foreign school.

→ The home and host schools in the United States must have a consortium agreement.

→ The host school in the United States must have a consortium or contractual agreement with the foreign school.

A home school has a written arrangement with a study abroad organization that represents one or more foreign schools instead of a separate agreement directly with each foreign school that its students are attending.

For purposes of administering the FSA programs, the written agreement between the eligible institution and the study abroad organization must adequately describe the duties and responsibilities of each entity and meet the requirements of the regulations.

A variant of the study abroad program occurs when a home school sends faculty and students to a foreign site. This does not represent a consortium or contractual study abroad program. Rather, the foreign site is considered an additional location under 34 CFR 600.32.

STUDY ABROAD OR DOMESTIC EXCHANGE PROGRAMS

A study abroad program must be part of a written contractual or consortium agreement between two or more schools. The home school must be located in the United States. The study abroad program does not have to be a required part of the eligible program at the home school in order for the student to be eligible to receive FSA funds. However, the credits earned through the study abroad or exchange program must be acceptable toward graduation in the student's program by the home school.

When there is a written arrangement between eligible schools, any of the schools participating in the written arrangement may make FSA program calculations and disbursements without that institution being considered a third-party servicer. This is true even if the student is not taking courses at the schools that is calculating and disbursing the aid.

Students enrolled in study abroad programs with costs of attendance higher than those of the home school should have those costs reflected in the cost of attendance on which their aid is based. This may result in a student being eligible for additional FSA funds, including a higher Pell award, not to exceed the Pell award maximum.

Students in approved study abroad programs are entitled to FSA

Some eligible students have had problems receiving FSA program funds for study abroad or domestic-exchange programs because neither the student's home school nor the school the student was temporarily attending documented that the student was enrolled in an eligible program of study. These circumstances have caused otherwise eligible students to be denied financial assistance at both schools.

The law states that a student participating in a study abroad program approved by the home school is eligible for FSA funds, regardless of whether the program is required for the student's regular, eligible program of study, as long as

- the student is an eligible regular student enrolled in an eligible program at the home school; and
- the eligible school approves the program of study abroad for academic credit.

The Program Participation Agreement (PPA) requires participating schools to establish procedures that ensure that its students participating in study abroad programs receive the FSA funds to which they are entitled.

Distance Education

In this chapter, we discuss the applicability of the FSA program requirements to programs offered through distance education. Two types of distance education are defined in the regulations: correspondence and telecommunications programs. Telecommunications programs are treated in the same way as traditional residential programs. Correspondence programs are subject to certain restrictions: no more than 50% of a school's programs may be offered through correspondence study, and no more than 50% of a school's regular students may be enrolled in correspondence programs.

Distance Education refers to any mode of instruction in which there is a separation, in time or place, between the instructor and student.

ED's eligibility regulations define two types of distance education:

- correspondence courses (including some courses offered on video cassettes), and
- telecommunications courses offered via television, audio or computer (including the Internet).

Schools use distance education to respond to students' needs for alternatives to the schedules and locations at which courses traditionally have been offered. The availability of new technologies including the Internet have spurred significant growth in the number and types of distance education programs schools offer.

A school may not refuse to provide FSA funds to a student because he or she is enrolled in correspondence or telecommunications courses unless the courses are not part of an eligible program.

CHAPTER 8 HIGHLIGHTS:

- Telecommunications Courses
 - Television, audio, or computer transmission through open broadcast, closed circuit, cable, microwave, or satellite.
 - Audio and computer conferencing.
 - Video cassettes or disc recordings if that course is delivered to students physically attending classes at the school providing the course during the same award year.
 - Regular and substantive interaction between students and the instructor.
- Correspondence Courses
 - Definition of correspondence course
 - School eligibility: limits on correspondence courses and correspondence students

Correspondence & telecommunications course definitions

34 CFR 600.2

*** NEW * Change in treatment of telecommunications courses**

Under the Higher Education Reconciliation Act of 2005 (HERA), courses offered by telecommunications are no longer considered correspondence courses, and students enrolled in telecommunications courses are no longer considered to be correspondence students. As a result, for an otherwise eligible institution, the 50% limitation on telecommunications courses and telecommunications enrollment no longer applies. The 50% limitations continue to apply to correspondence courses and students.

Based on the HERA changes, the definition of “correspondence course” was revised and a new definition of “telecommunications course” was added to 34 CFR 600.2 in the Federal Register of August 9, 2006.

*** NEW * Accreditation for distance education**

The Department reminded schools in September 2006 that distance education programs must be evaluated by an accrediting agency that is recognized by ED for the purpose of evaluating distance education. This letter included specific instructions on notifying ED if the school intended to seek new accreditation, and updating the E-APP to reflect changes to the school's accreditation. GEN-06-17

Telecommunications & correspondence study at foreign schools

A program offered by a foreign school in whole or in part by telecommunications, by correspondence, or as a direct assessment program is not an eligible program. 34 CFR 600.51(d)

TELECOMMUNICATIONS COURSES * HERA CHANGES *

Telecommunications programs at domestic schools are considered eligible FSA programs if they have been accredited by an accrediting agency recognized by the Department for accreditation of distance education. They are not subject to the rules that apply to correspondence coursework, which are discussed in the next section.

A telecommunications course is one that is offered principally through the use of one or more technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between these students and the instructor, whether asynchronously or in “real-time.”

These technologies include:

- Television, audio, or computer transmission through open broadcast, closed circuit, cable, microwave, or satellite, and
- audio and computer conferencing.

A course taught through video cassettes or discs is also considered a telecommunications course, but only if the course is delivered to students physically attending classes at the school providing the course during the same award year and if another technology is employed to support interaction between the students and the instructor.

Distance courses that do not qualify as a telecommunications course are considered to be correspondence courses. Programs offered at foreign schools in whole or in part through telecommunications are not eligible programs for FSA purposes.

CORRESPONDENCE COURSES * HERA CHANGES *

Unlike telecommunications courses, which are now treated in the same way as all other eligible programs, some restrictions apply to correspondence courses.

Definition of “correspondence course”

A correspondence course is a home-study course provided by a school under which the school provides instructional materials, including examinations on the materials, to students who are not physically attending classes at the school. When a student completes a portion of the instructional materials, the student takes the examinations that relate to that portion of the materials and returns the examinations to the school for grading.

- If a course is part correspondence and part residential training, the course is considered to be a correspondence course.
- If a school adds telecommunications technology, such as electronic delivery of course materials or an online discussion board, to a correspondence course, the school must ascertain the predominant method of instruction (correspondence or telecommunications), keeping in mind that a telecommunications course must use technology to support regular and substantive interaction between students and the instructor. The school must apply the rules for the predominant method, in administering its participation in the FSA programs.
- A course that is delivered in whole or in part through the use of video cassettes or video discs is a correspondence course unless the school also delivers comparable instruction to students attending resident classes at the school during the same award year.

School eligibility: limits on correspondence courses and correspondence students

If a school offers more than 50% of its courses by correspondence, the school loses its eligibility to participate in the FSA. Similarly, if 50% or more of a school’s students are enrolled in its correspondence courses, the school loses its eligibility to participate in the FSA programs.

Note that the 50% limits apply to the school, not to its individual programs. An educational program composed entirely of correspondence courses could still be an eligible program if no more than 50% of the school’s courses were offered through correspondence, and the program met other eligibility requirements.

This limitation may be waived for a 2-year associate or 4-year baccalaureate degree program if the school can demonstrate to the Department that students enrolled in correspondence courses received no more than 5% of the total FSA program funds awarded

Correspondence courses & institutional eligibility

34 CFR 600.7(a)(1)(i) and (ii)
HEA Sec. 102(a)(3)(A) and (B)

Videocassettes and discs example

A school offers an English 101 course via video cassette and computer conferencing. English 101 is also offered to students physically attending classes at the school during the same award year. In this case this course would be considered a telecommunications course.

The school also offers Art History 302 via video cassette. Art History 302 is **not** offered to students physically attending classes at the school during this award year. In this case this course would **not** be considered a telecommunications course for this award year. It is considered a correspondence course.

A combined correspondence and residential program example

A school offers a truck driving program. The first part of the program is offered via correspondence. After completing the correspondence portion of the program the student has to attend a residential site where he or she actually learns how to drive trucks.

This program is considered a correspondence program.

A school is the sum only of its eligible programs

Some postsecondary institutions offer programs that are eligible for FSA as well as programs that are not FSA-eligible. For FSA program purposes, we consider an eligible institution is the sum of its “eligible programs.”

In order to minimize the effect on its institutional eligibility of offering programs solely by correspondence that do not lead to a degree, a school might choose to identify those programs as not part of its FSA eligible programs.

A program (and students enrolled therein) that was so identified would not be considered part of the school in these two formulas.

Attestation required cite

34 CFR 600.7(g)(2)

to its students in the award year. Also note that the limitations on correspondence courses and correspondence students do not apply to a school that mainly provides vocational adult education or job training (as defined under section 3(3)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act of 1995).

The school’s correspondence course calculation and correspondence student calculation must be attested to by a independent auditor.

Exceptions and other considerations

Some participating institutions contract with distance education providers that are not eligible to participate in the FSA programs. These participating institutions must ensure that they do not exceed the limitations on contractual arrangements (see chapter 7.)

Note that correspondence students enrolled in certificate programs are not eligible for FSA funds. For a full discussion of when a school may pay a student for correspondence study, see *Volume 1, Chapter 1*. Also see *Volume 3, Chapter 2* for limitations on the cost of attendance for correspondence students and *Volume 4, Chapter 2* for the timing of disbursements to correspondence students.

Calculating the percentage of correspondence courses

- If a school offers a course both by correspondence and residential training, the course counts twice, as a correspondence course and as a residential course. Thus, it would count as one in the numerator and as two in the denominator.
- Regardless of how many sections of a course or program are offered during the award year (as a residential or as a correspondence course), the course is counted only once under each type.
- A program not offered in courses or modules counts as one correspondence course.

Using the latest complete award year, the formula for determining the percentage of correspondence courses is as follows:

$$\frac{\text{number of school's correspondence courses}}{\text{total number of school's courses}} = \% \text{ of correspondence courses}$$

Calculating the percentage of correspondence students

- All enrolled regular students must be counted. (A regular student is “a person enrolled for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by the school.”)
- A school must use a straight head count of enrolled students, including full-time and part-time students and students who don’t receive aid as well as FSA recipients.
- If a student withdrew from the school and received a full refund the student is not counted.

Using the latest complete award year, the formula for determining the percentage of enrolled students is as follows:

$$\frac{\text{number of regular students enrolled in the school's correspondence courses}}{\text{number of regular students enrolled in all of the school's courses}} = \% \text{ of correspondence students}$$

Recordkeeping and Disclosure

Schools must maintain detailed records to show that FSA funds are disbursed according to statutory and regulatory requirements. These records must be made available to program reviewers from the Department and other authorized individuals or organizations in the course of audits, program reviews, or investigations. Schools are also responsible for safeguarding the privacy of personal information in these records.

The General Provisions regulations require schools to maintain records related to their participation in the FSA programs. These records must be made available by schools to representatives of the Department and other specified individuals or organizations in the course of audits, program reviews, investigations, or other authorized reviews.

In addition to the general institutional recordkeeping requirements discussed here, a school must also comply with all program-specific recordkeeping requirements contained in the individual FSA program regulations.

This chapter also describes the rules governing disclosure, including a discussion of the Family Educational Rights and Privacy Act (FERPA). FERPA restricts the disclosure of student records to other parties and requires the school to give a student the opportunity to review his or her records.

REQUIRED RECORDS

A school must keep comprehensive, accurate program and fiscal records related to its use of FSA program funds. The importance of maintaining complete, accurate records cannot be overemphasized. Program and fiscal records must demonstrate the school is capable of meeting the administrative and fiscal requirements for participating in the FSA programs. In addition, records must demonstrate proper administration of FSA program funds and must show a clear audit trail for FSA program expenditures. For example, records for each FSA recipient must clearly show that the student was eligible for the funds received, and that the funds were disbursed in accordance with program regulations.

CHAPTER 9 HIGHLIGHTS

- Required records
 - program records
 - fiscal records
 - loan program records
- Record maintenance
 - record retention periods
 - acceptable formats
 - special requirements for SARs and ISIRs
- Access to records & personnel
 - location & timely access
 - reasonable access to personnel
 - FSA recipient information
- Privacy of student & parent information (FERPA rules)
- Related information
 - Ability to Benefit, Volume 1 Chapter ?

FSA Assessment module

To assess your compliance with the provisions of this chapter see Activity 2 under "Fiscal Management" at ifap.ed.gov/qa/home/qaassessments/fiscalmanagement.html

Recordkeeping cite

34 CFR 668.24

Program records

A school must establish and maintain on a current basis any application the school submitted for FSA program funds. A school must also maintain on a current basis program records that document:

- the school's eligibility to participate in the FSA programs,
- the FSA eligibility of the school's programs of education,
- the school's administration of the FSA programs,
- the school's financial responsibility,
- information included in any application for FSA program funds, and
- the school's disbursement of FSA program funds.

Program records a school must maintain

The program records that a school must maintain include, but are not limited to:

- ✓ Program Participation Agreement
- ✓ Application portion of the FISAP
- ✓ Accrediting and licensing agency reviews, approvals, and reports
- ✓ State agency reports
- ✓ Audit and program review reports
- ✓ Self-evaluation reports
- ✓ Other records, as specified in regulation, that pertain to factors of financial responsibility and standards of administrative capability

Fiscal records

A school must keep fiscal records to demonstrate its proper use of FSA funds. A school's fiscal records must provide a clear audit trail that shows that funds were received, managed, disbursed, and returned in accordance with federal requirements. Schools are required to account for the receipt and expenditure of all FSA program funds in accordance with generally accepted accounting principles.

A school must establish and maintain on a current basis:

- financial records that reflect each FSA program transaction, and
- general ledger control accounts and related subsidiary accounts that identify each FSA program transaction and separate those transactions from all other school financial activity.

Fiscal records a school must maintain

The fiscal records that a school must maintain include, but are not limited to:

- ✓ Records of all FSA program transactions
- ✓ Bank statements for all accounts containing FSA funds
- ✓ Records of student accounts, including each student's institutional charges, cash payments, FSA payments, cash disbursements, refunds, returns, and overpayments required for each enrollment period
- ✓ General ledger (control accounts) and related subsidiary ledgers that identify each FSA program transaction (FSA transactions must be separate from school's other financial transactions)
- ✓ Federal Work-Study payroll records
- ✓ FISOP portion of the FISAP
- ✓ Records that support data appearing on required reports, such as:
 - Pell Grant Statements of Accounts
 - GAPS cash requests and quarterly or monthly reports
 - FSA program reconciliation reports
 - Audit reports and school responses
 - State grant and scholarship award rosters and reports
 - Accrediting and licensing agency reports
 - Records used to prepare the Income Grid on the FISAP

Loan program records

There are special record keeping requirements in the Direct and FFEL loan programs. A school must maintain

- A copy of paper or electronic loan certification or origination record, including the amount of the loan and the period of enrollment.
- The cost of attendance, estimated financial assistance, and estimated family contribution used to calculate the loan amount (and any other information that may be required to determine the borrower's eligibility, such as the student's Federal Pell Grant eligibility or ineligibility).
- The date(s) the school disbursed the loan funds to the student (or to the parent borrower), and the amount(s) disbursed. (For loans delivered to the school by check, the date the school endorsed each loan check, if required.)

Loan program record cite

34 CFR 668.24, 34 CFR 682.610, and
34 CFR 685.309(c)

- Documentation of the confirmation process for each academic year in which the school uses the multi-year feature of the Master Promissory Note. This may be part of the borrower's file, but acceptable documentation can also include a statement of the confirmation process that was printed in a student handbook or other financial aid publication for that school year. The documentation may be kept in paper or electronic form. There is no retention limit for this documentation; you must keep it indefinitely because it may affect the enforceability of loans.

A school must keep records relating to a student or parent borrower's eligibility and participation in the Direct Loan or FFEL program for three years after the end of the award year in which the student last attended the school. A school must keep all other records relating to the school's participation in the Direct Loan or FFEL program for at least three years after the end of the award year in which the records are submitted.

Records of the school's administration of the FSA programs

A school must maintain the records that pertain to its administration of FSA program funds (listed on the chart on the following page).

In addition, participants in the:

- Perkins Loan Program must follow procedures in Section 674.19 for documenting the repayment history for each borrower for that program (see Volume 6 – Campus-Based Programs); and
- FWS Program must follow procedures established in Section 675.19 for documentation of work, earnings, and payroll transactions for the program (see Volume 6 – Campus-Based Programs).

Records of the school's administration of the FSA programs

A school must maintain records for each FSA recipient that include, but are not limited to:

- ✓ The Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine a student's eligibility for FSA program funds
- ✓ Application data submitted to the Department, lender, or guaranty agency by the school on behalf of the student or parent
- ✓ Documentation of each student's or parent borrower's eligibility for FSA program funds (e.g., records that demonstrate that the student has a high school diploma, GED, or the ability to benefit)
- ✓ Documentation of all professional judgment decisions
- ✓ Financial aid history information for transfer students
- ✓ Cost of attendance information
- ✓ Documentation of a student's satisfactory academic progress (SAP)
- ✓ Documentation of student's program of study and the courses in which the student was enrolled
- ✓ Data used to establish student's admission, enrollment status, and period of enrollment
- ✓ Required student certification statements and supporting documentation
- ✓ Documents used to verify applicant data, and resolve conflicting information
- ✓ Documentation relating to each student's or parent borrower's receipt of FSA program funds, including but not limited to:
 - The amount of the grant, loan, or FWS award; its payment period; its loan period, if appropriate; and the calculations used to determine the amount of grant, loan, or FWS award;
 - The date and amount of each disbursement of grant or loan funds, and the date and amount of each payment of FWS wages;
 - The amount, date, and basis of the school's calculation of any refunds/returns or overpayments due to or on behalf of the student; and
 - The payment of any refund/return or overpayment to the FSA program fund, a lender, or the Department, as appropriate.
- ✓ Documentation of and information collected at any initial or exit loan counseling required by applicable program regulations

In addition, a school must maintain records that include, but are not limited to:

- ✓ Reports and forms used by the school in its participation in an FSA program, and any records needed to verify data that appear in those reports and forms
- ✓ Documentation supporting the school's calculation of its completion or graduation rates, and transfer-out rates (see chapter 6).

Records cite

34 CFR 668.24

34 CFR 668.27

Retaining FISAP records

Schools must keep the Fiscal Operations Report (FISAP) and any records necessary to support their data (e.g., the source data for the income grid) for three years from the end of the award year in which the FISAP is submitted.

The most current FISAP, which will contain 2004-2005 data, must be submitted during the 2005-2006 award year, will request 2006-2007 funds, and has a submission date of October 2005. Because this FISAP will be submitted during the 2005-2006 award year, records must be kept until at least June 30, 2009, three years from the last day of the 2005-2006 award year.

Retaining records for a branch that closes

If an additional location or branch of a school closes and borrowers who attended the school obtain loan discharges by reason of the closure of the location or branch (or improper ATB or loan certifications), the Department will pursue recovery against the larger institution.

If a school has an additional location or branch that closes, the school might want to maintain its loan records beyond the end of the three-year record retention requirement in order to respond to the Department or to refute borrower claims of eligibility for discharge.

RECORD RETENTION PERIODS

Schools must retain all required records for a minimum of three years from the end of the award year. However, the starting point for the three-year period is not the same for all records. For example, some Campus-Based program records must be kept for three years from the end of the award year in which the funds were awarded and disbursed.

Different retention periods are necessary to ensure enforcement and repayment of FSA loans. Perkins Loan repayment records, including cancellation and deferment records, must be kept for three years from the date that the loan was assigned to the Department, cancelled, or repaid. Perkins original promissory notes and original repayment schedules must be kept until the loan is satisfied or needed to enforce the obligation (for more information, see Volume 6 – Campus-Based Programs). Records relating to a borrower’s eligibility and participation in the FFEL and Direct Loan programs must be kept for three years from the last day of the award year in which the student last attended the school.

There are also additional record retention requirements that apply to schools granted waivers of the audit submission requirements.

The chart on the next page illustrates the required minimum retention periods for records under the various FSA programs.

A school may retain records longer than the minimum period required. Moreover, a school may be required to retain records involved in any loan, claim, or expenditure questioned in any FSA program review, audit, investigation, or other review, for more than three years (see chapter 12 for information on program reviews and audits). If the three-year retention period expires before the issue in question is resolved, the school must continue to retain all records until resolution is reached.

RECORD MAINTENANCE

Acceptable formats

A school must maintain all required records in a systematically organized manner. Unless a specific format is required, a school may keep required records in:

- hard copy
- microform
- computer file
- optical disk
- CD-ROM
- other media formats

Record retention requirements for the Institutional Student Information Record (ISIR) are discussed later in this chapter. All other record information, regardless of the format used, must be retrievable in a coherent hard copy format (for example, an easily understandable printout of a computer file) or in a media format acceptable to the Department. The requirement providing for other media formats

Minimum Record Retention Periods

FSA Program

	End of the award year in which the report was submitted	End of the award year for which the aid was awarded	End of the award year in which the student last attended	The loan is satisfied or the documents are needed to enforce the obligation	The date on which a loan is assigned to the Department, cancelled, or repaid
Campus-based, Pell, ACG/SMART		3 YEARS			
<i>Except:</i>					
• Fiscal Operations Report (FISAP) and supporting records	3 YEARS				
• Perkins repayment records (after 12/87, includes original repayment schedule, though manner of retention remains same as promissory note)					3 YEARS
• Perkins original promissory notes (before 12/87, included original repayment schedule)				UNTIL	
FFEL and Direct Loans					
• Records related to borrower's eligibility and participation			3 YEARS		
• All other records, including any other reports or forms	3 YEARS				

acceptable to the Department allows for the use of new technology as it is developed. The Department will notify schools of acceptable media formats; schools should not apply for approval of a media format.

Any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be maintained in its original hard copy or in an imaged media format. This includes tax returns, verification statements, and Student Aid Reports (SARs) used to determine eligibility, and any other document when a signature seal, etc., contained on it is necessary for the document to be used for the purposes for which it is being retained.

A school may maintain a record in an imaged media format only if the format is capable of reproducing an accurate, legible, and complete copy of the original document. When printed, the copy must be approximately the same size as the original document.

Please note that promissory notes that are signed electronically, must be stored electronically and the promissory note must be retrievable in a coherent format.

Closed-school records

If a school closes, stops providing educational programs, is terminated or suspended from the FSA programs, or undergoes a change in ownership that results in a change of control, it must provide for the retention of required records. It must also provide for access to those records for inspection and copying by the Department. For a school that participates in the FFEL Program, the school must also provide access for the appropriate guaranty agency.

Safeguarding electronic records

As schools begin developing plans for using electronic recordkeeping in administering other FSA programs, they should keep in mind the safeguards required for electronic certification in the FWS program. Those safeguards include:

- password protection,
- password changes at set intervals,
- access revocation for unsuccessful log-ins,
- user identification and entry point tracking,
- random audit surveys with supervisors, and
- security tests of the code access.

Requirements for electronic promissory notes

34 CFR 668.24(d)(3)(i) through (iv).

Special requirements for SARs and ISIRs

Special maintenance and availability requirements apply for SARs and ISIRs used to determine eligibility. It is essential that these basic eligibility records be available in a consistent, comprehensive, and verifiable format for program review and audit purposes.

Because the SAR is a hard copy document, it must be maintained and available in its original hard copy format or in an imaged media format. The ISIR, an electronic record, must be maintained and available in its original format (*e.g.*, as it was archived using EDExpress software supplied to the school). A school that uses EDExpress has the ability to preserve the ISIR data that it has maintained during the applicable award year by archiving the data to a disk or other computer format.

EXAMINATION OF RECORDS

Location

A school must make its records available to the Department at a location of the institution designated by the Department. These records must be readily available for review, including any records of transactions between a school and the financial institution where the school deposits any FSA funds.

A school is not required to maintain records in any specific location. For example, it may be more appropriate for a school to maintain some records in the financial aid office while maintaining others in the business office, the admissions office, or the office of the registrar. The responsible administrator in the office maintaining the records should be aware of all applicable record retention requirements.

Cooperation with agency representatives

A school that participates in any FSA program, and the school's third-party servicers, if any, must cooperate with the agencies and individuals involved in conducting any audit, program review, investigation, or other review authorized by law. This cooperation must be extended to the following individuals and their authorized representatives: an independent auditor, the Secretary of the Department of Education, the Department's Inspector General, and the Comptroller General of the United States. A school must also provide this cooperation to any guaranty agency in whose program the school participates, and to the school's accrediting agency.

Timely access

A school must cooperate by providing timely access to requested records, pertinent books, documents, papers, or computer programs for examination and copying by any of the agents listed above. The records to which timely access must be provided include, but are not limited to, computerized records and records reflecting transactions with any financial institution with which the school or servicer deposits or has deposited any FSA program funds.

FSA recipient information

If requested by the Department, a school or servicer must provide promptly any information the school or servicer has regarding the last known address, full name, telephone number, enrollment information, employer, and employer address of a recipient of FSA program funds who attends or attended the school. A school must also provide this information, upon request, to a lender or guaranty agency in the case of a borrower under the FFEL Program.

Reasonable access to personnel

A school must also provide reasonable access to all personnel associated with the school's or servicer's administration of the FSA programs so that any of the agents listed above may obtain relevant information.

A school or servicer has not provided reasonable access to personnel if the school or servicer

- refuses to allow those personnel to supply all relevant information,
- permits interviews with those personnel only if the school's or servicer's management is present, or
- permits interviews with those personnel only if the interviews are tape-recorded by the school or servicer.

Resources for developing a FERPA policy

Anyone involved in developing a school's policy or anyone who would like a copy of the Department's model notification for postsecondary schools, may review and download the notification from the Family Policy Compliance Office Web site at www.ed.gov/policy/gen/guid/fpc/index/html

"Sole Possession" Records

The term education record does not include records that are kept in the sole possession of the maker of the record (often called sole possession records). Sole possession records are

- used as a memory or reference tool,
- not accessible or revealed to any other person except a temporary substitute for the maker of the record, and
- typically maintained by the school official unbeknownst to other individuals.

Records that contain information taken directly from a student or that are used to make decisions about the student are not sole possession records.

PRIVACY OF STUDENT INFORMATION (FERPA RULES)

The Family Educational Rights and Privacy Act (FERPA) sets limits on the disclosure of personally identifiable information from school records, and defines the rights of the student to review the records and request a change to the records.

With exceptions such as those noted in this section, FERPA generally gives postsecondary students the right—

- to review their education records
- to seek to amend inaccurate information in their records
- to provide consent for the disclosure of their records

These rules apply to all education records the school keeps, including admissions records (only if the student was admitted) and academic records as well as any financial aid records pertaining to the student. Therefore, the financial aid office is not usually the office that develops the school's FERPA policy or the notification to students and parents, although it may have some input.

Student's & parents' rights to review educational records

A school must provide a student with an opportunity to review his or her education records within 45 days of the receipt of a request. A school is required to provide the student with copies of education records, or make other arrangements to provide the student access to the records, if a failure to do so would effectively prevent the student from obtaining access to the records. While the school may not charge a fee for retrieving the records, it may charge a reasonable fee for providing copies of the records, provided that the fee would not prevent access to the records.

FERPA responsibilities & student rights

A school is required to —

- ✓ annually notify students of their rights under FERPA;
- ✓ include in that notification the procedure for exercising their rights to inspect and review education records; and
- ✓ maintain a record in a student's file listing to whom personally identifiable information was disclosed and the legitimate interests the parties had in obtaining the information (does not apply to school officials with a legitimate educational interest or to directory information).

A student has the right to —

- ✓ inspect and review any education records pertaining to the student;
- ✓ request an amendment to his/her records; and
- ✓ request a hearing (if the request for an amendment is denied) to challenge the contents of the education records, on the grounds that the records are inaccurate, misleading, or violate the rights of the student.

While the rights under FERPA have transferred from a student's parents to the student when the student attends a postsecondary institution, FERPA does permit a school to disclose a student's education records to his or her parents if the student is a dependent student under IRS laws.

Note that the IRS definition of a dependent is quite different from that of a dependent student for FSA purposes. For IRS purposes, students are dependent if they are listed as dependents on their parent's income tax returns. (If the student is a dependent as defined by the IRS, disclosure may be made to either parent, regardless of which parent claims the student as a dependent.)

Prior written consent to disclose the student's records

Except under one of the special conditions described in this section, a student must provide written consent before an education agency or school may disclose personally identifiable information from the student's education records.

The written consent must—

- state the purpose of the disclosure,
- specify the records that may be disclosed,
- identify the party or class of parties to whom the disclosure may be made, and
- be signed and dated.

If the consent is given electronically, the consent form must—

- identify and authenticate a particular person as the source of the electronic consent, and
- indicate that person's approval of the information contained in the electronic consent.

The FERPA regulations include a list of exceptions where the school may disclose personally identifiable information from the student's file without prior written consent. Several of these allowable disclosures are of particular interest to the financial aid office, since they are likely to involve the release of financial aid records.

Disclosures to school officials

Some of these disclosures may be made to officials at your school or another school who have a legitimate interest in the student's records. Typically, these might be admissions records, grades, or financial aid records. Disclosure may be made to:

- other school officials, including teachers, within the school whom the school has determined to have legitimate educational interests.
- to officials of another postsecondary school or school system, where the student receives services or seeks to enroll.

Subpoena cites

20 U.S.C. 1232g(b)(1)(J)(i) and (ii), (b)(2)(B);
20 U.S.C. 1232g(b)(4)
34 CFR. 99.31(a)(9)
34 CFR 99.32

Ex-parte orders & terrorism

"Terrorism" and "drimes of terrorism" are defined in
18 U.S. Code 2331 and 2332b(g)(5)(B)

Patriot Act Changes

A Dear Colleague Letter on changes made to FERPA by the 2001 Patriot Act is posted in PDF format at
www.ed.gov/policy/gen/guid/fpco/pdf/hterrorism.pdf

Issued April 12, 2002 by ED's Family Policy Compliance Office
Web site: www.ed.gov/offices/OM/fpco
E-mail: FERPA@ED.Gov

Third-party housing records

Whether the rent is paid to the third party by the school on behalf of the student or directly by the student, a student housing facility owned by a third party that has a contract with a school to provide housing for the school's students is considered "under the control" of the school. Therefore, records (maintained by either the third-party or the school) related to the students living in that housing are subject to FERPA.

FERPA sources

The relevant law is the Family Educational Rights and Privacy Act of 1974. Do not confuse FERPA with the Privacy Act of 1974 that governs the records kept by government agencies, including the application records in the federal processing system.

The Department's Family Policy Compliance Office maintains an on-line library of FERPA guidance at:
www.ed.gov/policy/gen/guid/fpco/ferpa/library/index.html

FERPA also affects the disclosure of records that are created and maintained by campus law enforcement units (for law enforcement purposes). This topic is discussed in the Handbook for Campus Crime Reporting, available as a downloadable PDF file from EDPUBS <www.edpubs.org>.

FERPA citations

34 CFR 99.10-12 Right of parent/student to review records
34 CFR 99.20-22 Right of parent/student to request amendment to records or hearing
34 CFR 99.30 When prior consent required to disclose information
34 CFR 99.31 When prior consent not required to disclose information
34 CFR 99.32 Recordkeeping requirement
34 CFR 99.33 Limitations on redisclosure
34 CFR 99.34 Disclosure to other agencies/institutions
34 CFR 99.35 Disclosure for federal/state program purposes

If your school routinely discloses information to other schools where the student seeks to enroll, it should include this information in its annual privacy notification to students. If this information is not in the annual notice, the school must make a reasonable attempt to notify the student at the student's last known address

Disclosures to government agencies

Disclosures may be made to authorized representatives of the U.S. Department of Education for audit, evaluation, and enforcement purposes. "Authorized representatives" includes employees of the Department—such as employees of the Office of Federal Student Aid, the Office of Postsecondary Education, the Office for Civil Rights, and the National Center for Education Statistics—as well as firms that are under contract to the Department to perform certain administrative functions or studies. In addition—

- Disclosure may be made if it is in connection with financial aid that the student has received or applied for. Such a disclosure may only be made if the student information is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.
- A school may release personally identifiable information on an F, J, or M nonimmigrant student to U.S. Immigration and Customs Enforcement (formerly the Immigration and Naturalization Service) in compliance with the Student Exchange Visitor Information System (SEVIS) program without violating FERPA.

Disclosures in response to subpoenas or court orders

FERPA permits schools to disclose education records, without the student's consent, in order to comply with a lawfully issued subpoena or court order.

In most cases, the school must make a reasonable effort to notify the student who is the subject of the subpoena or court order before complying, so that the student may seek protective action. However, the school does not have to notify the student if the court or issuing agency has prohibited such disclosure.

A school may also disclose information from education records, without the consent or knowledge of the student, to representatives of the U.S. Department of Justice in response to an ex parte order issued in connection with the investigation of crimes of terrorism.

Documenting the disclosure of information

Except as noted below, school must keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This record must be maintained in the student's file as long as the educational records themselves are kept.

For instance, if student records are requested by Department reviewers in the course of a program review, the school must document in each student's file that the student's records were disclosed to representatives of the Department. The easiest way for the school to do this is to photocopy a statement to this effect and include it in each student's file. A statement such as the following would be appropriate for a review of the FSA programs conducted by a Department regional office.

These financial aid records were disclosed to representatives of the U.S. Department of Education, Region __, on (Month/Day/Year) to determine compliance with financial aid requirements, under 34 CFR Part 99.31(a)(4).

When redisclosure is anticipated, the additional parties to whom the information will be disclosed must be included in the record of the original disclosure. For instance, to continue the example for an FSA program review, the following statement might be added:

The School Eligibility Channel may make further disclosures of this information to the Department's Office of Inspector General, and to the U.S. Department of Justice, under 34 CFR 99.33(b). Schools should check with the program review staff to find out if any redisclosure is anticipated.

There are some exceptions to this requirement. A school does not have to record instances where the request is made by:

- The parent or eligible student.
- A school official who has a legitimate educational interest.
- A party with written consent from the parent or eligible student.
- A party seeking directory information.
- Certain court orders or subpoenas.

Privacy of health records (HIPAA) and FERPA

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) sets standards for the confidentiality of health records applies to health care providers, private benefit health plans, and health care clearinghouses. It does not apply to other types of organizations whose receipt or maintenance of health records is incidental to their normal course of business.

Your schools' Disability Services office normally obtains and maintains health records for each student who applies for services or waivers. So, the receipt and maintenance of health records by students services' units is well established.

Note: In most cases, a student receiving a waiver from a school's academic progress policy would also have applied for services from your school's Disability Services office. Since most financial aid offices are not used to handling medical records, you may find it more practical to have the Disability Services office maintain the record, and reference that record in your file in the financial aid office. (Of course, you will have to ensure that the record maintenance requirements are complied with.)

For more information on HIPAA, see the U.S. Department of Health & Human Services: www.hhs.gov/ocr/hipaa/ HIPAA regulations are published as: 45 CFR Parts 160, 162, and 164

FERPA & crime records

There are two different FERPA provisions concerning the release of records relating to a crime of violence. One concerns the release to the victim of any outcome involving an alleged crime of violence (34 CFR 99.31(a)(13)). A separate provision permits a school to disclose to anyone the final results of any disciplinary hearing against an alleged perpetrator of a crime of violence where that student was found in violation of the school's rules or policies with respect to such crime or offense (34 CFR 99.31(a)(14)).

Information security requirements

- Federal Trade Commission regulations: 16 CFR 313.3(n) and 16 CFR 314.1-5
- Financial Services Modernization Act of 1999 (also known as the Gramm-Leach-Bliley Act or GLB Act)
Pub. L. No. 106-102
Sections 501 and 505(b)(2)
- US Code: 15 U.S.C. 6801(b), 6805(b)(2).

Effective dates

Your school was required to implement an information security program that meets these requirements no later than May 23, 2003.

The FTC regulations include a “grandfathering” provision for contracts made with nonaffiliated third parties to perform services for your school or functions on your school’s behalf; this provision expired on May 24, 2004.

Reporting security breaches to students and ED

Schools are strongly encouraged to inform their students and the Department of any breaches of security of student records and information. The Department considers any breach to the security of student records and information as a demonstration of a potential lack of administrative capability.
(See Chapter 10, Administrative Capability)

Safeguarding electronic records

As schools begin developing plans for using electronic recordkeeping in administering other FSA programs, they should keep in mind the safeguards required for electronic certification in the FWS program.

Those safeguards include:

- password protection,
- password changes at set intervals,
- access revocation for unsuccessful log-ins,
- user identification and entry point tracking,
- random audit surveys with supervisors, and
- security tests of the code access.

ESTABLISHING & MAINTAINING AN INFORMATION SECURITY PROGRAM

The Federal Trade Commission has ruled that most colleges are subject to the provisions of the Financial Services Act’s Security Provisions (also known as the Financial Services Modernization Act). In the regulation, the commission created a definition of financial institutions that includes most colleges on the basis of the financial relationships they have with students, donors, and others. Consequently, colleges must draft detailed policies for handling financial data covered by the law, such as parents’ annual income, and must take steps to protect the data from falling into the wrong hands.

Financial institutions, including postsecondary institutions, are required to have adopted an information security program by May 23, 2003, under the FTC rule. For specific requirements, see the box on “FTC Standards for Safeguarding Customer Information” on the following pages.

Thus, while schools have maximum flexibility in choosing a system that provides for electronic requests for release of personally identifiable information, they must ensure that their systems provide adequate safeguards.

FTC Standards for Safeguarding Customer Information

Postsecondary educational institutions participating in the FSA programs are subject to the information security requirements established by the Federal Trade Commission (FTC) for financial institutions.

Customer information that must be safeguarded

These requirements apply to all customer information in your school's possession, regardless of whether such information pertains to students, parents, or other individuals with whom your school has a customer relationship, or pertains to the customers of other financial institutions that have provided such information to you.

Customer information means any record containing *nonpublic personal information* (see definition .) about a customer of a financial institution, whether in paper, electronic, or other form, that is handled or maintained by or on behalf of you or your affiliates.

* Definition of "nonpublic personal information":
Personally identifiable financial information; and any list, description, or other grouping of consumers (and publicly available information pertaining to them) that is derived using any personally identifiable financial information that is not publicly available.

Establishing & maintaining an information security program

As a financial institution covered under these information security requirements, your school must develop, implement, and maintain a comprehensive *information security program*.

* Definition of "information security program": the administrative, technical, or physical safeguards you use to access, collect, distribute, process, protect, store, use, transmit, dispose of, or otherwise handle customer information

The information security program must be written in one or more readily accessible parts and contain administrative, technical, and physical safeguards that are appropriate to the size and complexity of the school, the nature and scope of its activities, and the sensitivity of any customer information at issue.

The safeguards shall be reasonably designed to achieve the following objectives:

- Insure the security and confidentiality of customer information,
- Protect against any anticipated threats or hazards to the security or integrity of such information, and
- Protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Required elements of an information security program

Designated coordinators. Your school must designate an employee or employees to coordinate its information security program.

Risk Assessment. Your school must identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction, or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks.

At a minimum, the school's risk assessment should include consideration of risks in each relevant area of your operations, including:

- Employee training and management,
- Information systems, including network and software design, as well as information processing, storage, transmission, and disposal, and
- Detecting, preventing, and responding to attacks, intrusions, or other systems failures.

Safeguards & Testing/Monitoring. Your school must design and implement information safeguards to control the risks you identify through risk assessment, and regularly test or otherwise monitor the effectiveness of the safeguards' key controls, systems, and procedures.

Evaluation & Adjustment. Your school must evaluate and adjust its information security program in light of the results of the required testing and monitoring, as well as for any material changes to your operations or business arrangements or any other circumstances that it has reason to know may have a material impact on your school's information security program.

Overseeing service providers. A service provider is any person or entity that receives, maintains, processes, or otherwise is permitted access to customer information through its provision of services directly to your school. Your school must take reasonable steps to select and retain service providers that are capable of maintaining appropriate safeguards for the customer information at issue and require your service providers by contract to implement and maintain such safeguards.

Effective dates

Your school was required to implement an information security program that meets these requirements no later than May 23, 2003.

The FTC regulations include a "grandfathering" provision for contracts made with nonaffiliated third parties to perform services for your school or functions on your school's behalf; this provision expired on May 24, 2004.

Sources:

FTC regulations: 16 CFR 313.3(n) and 16 CFR 314.1-5

Gramm-Leach-Bliley Act: Sections 501 and 505(b)(2)

US Code: 15 U.S.C. 6801(b), 6805(b)(2).

Administrative Capability

To participate in the Federal Student Aid (FSA) programs, a school must demonstrate that it is administratively capable of providing the education it promises and of properly managing the FSA programs. This chapter discusses the requirements a school must meet to demonstrate its administrative capability.

REQUIRED ELECTRONIC PROCESSES

The regulations require that a school be able to use the FSA electronic processes in order to be considered administratively capable of participating in the FSA programs.

In order for a school to exchange data with the FSA Systems, it must have Internet access through its network or through an Internet Service Provider. Your school will also need to enroll in the Student Aid Internet Gateway (SAIG) and establish a data mailbox. In the past, most schools have prepared data records in a software package such as EDEXpress and transmitted the records as batch files to the SAIG mailbox. The Department's systems send edited records back to the SAIG mailbox, where the school downloads the records and uses its software to update the records in its own database.

Schools must use COD's common record format (complying with the published schema for the corresponding award year to send and receive origination and disbursement data for Pell Grants, ACG/SMART grants, and Direct Loans. This common record format uses Extensible Markup Language (XML).

To create and edit student records, your school may use the Department's EDEXpress software, or develop its own software, or rely on a third-party software vendor. If you are not using EDEXpress software to prepare your records, it is your responsibility to ensure that the software you use is capable of generating COD records in XML format.

As an alternative, you can now create and edit student records directly on many of our Web sites, such as COD, CPS, and NSLDS. When creating and editing records on the Web, you do not use PC software and you do not have to transmit the changes through your SAIG mailbox.

CHAPTER 10 HIGHLIGHTS

- Required electronic processes
- Administrative requirements for the financial aid office
 - Coordinating official
 - Consistency of information
 - Adequate staffing
 - Checks & balances, and separation of function
- Reporting to NSLDS, DLSC, & guarantors
 - Reporting enrollment status to NSLDS
 - Reporting borrower separation information to guarantor or DLSC
 - Transfer monitoring through NSLDS
- Satisfactory academic progress
- Cohort default rates
- Withdrawal rates
- Debarment & suspension certification
- Related information
 - Crimes against FSA programs, Chapter 1
 - General Participation Requirements, Chapter 3
 - Financial Standards, Chapter 11

Administrative capability cite

34 CFR 668.16

FSA Assessmentst module

To assess your school's compliance with the provisions of this chapter see the FSA Assessment modules on "Automation," "Default Prevention & Management, and "Satisfactory Academic Progress" at: ifap.ed.gov/qahome/fsaassessment.html

Summary of required electronic processes

To be in compliance the administrative capability requirements of 34 CFR 668.16(o), a school must –

- use the E-App to submit and update the school’s eligibility information: www.eligcert.ed.gov
- enroll in the Student Aid Internet Gateway (SAIG): www.fsawebenroll.ed.gov
- use *FAA Access* or its SAIG mailbox to exchange FAFSA or ISIR data with the Department’s Central Processing System: <http://www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp> or www.saigportal.ed.gov
- use the COD Website or its SAIG mailbox to exchange award and disbursement data for Pell Grants, ACG/SMART grants, and Direct Loans: cod.ed.gov or www.saigportal.ed.gov
- use the eCampus-Based (eCB) System to file the FISAP application and report (see Volume 6): www.cbfsap.ed.gov
- submit to the National Student Loan Data System (NSLDS) the school’s Federal Perkins Loan data, student enrollment records, FSA program overpayments, and NSLDS Transfer Student Monitoring records: <https://www.nslsdfap.ed.gov/secure/logon.asp>
- electronically submit the school’s annual compliance and financial statement audits, and any other required audits: ezaudit.ed.gov
- use the Default Management Web site to receive its draft and official cohort default rate data electronically: ifap.ed.gov/DefaultManagement
- use the Information for Financial Aid Professionals (IFAP) Web site to review Dear Colleague Letters, announcements, or Federal Registers: ifap.ed.gov

Electronic processes cite

34 CFR 668.16 (o)

DCL GEN-04-08, September 2004

Federal Register, 09-14-2004, 55418-55420

Systems help

For help with questions about specific systems, such as application processing and software (CPS.SAIG), COD, and NSLDS, see the “Contacts” page on the Financial Aid Professionals portal:
fsa4schools.ed.gov

Information for Financial Aid Professionals (IFAP) & the Financial Aid Professionals (FAP) portal

Program information such as Dear Colleague/Partner letters, announcements, and Federal Registers, previously mailed to participating institutions, is now communicated, for the most part, through our IFAP Web site (ifap.ed.gov). One of the most useful features of this Web site is its notification service, which sends you daily or weekly e-mails that summarize recent postings to IFAP. (Go to “Member Services” on IFAP and select Subscription Options after you’ve registered.)

Even if you use a third-party servicer to manage your student aid activities, you are responsible for knowing about all new requirements posted on IFAP.

You may also find it useful to bookmark the Financial Aid Professionals portal (fsa4schools.ed.gov). The FAP portal has links to all major FSA Web sites and services, as well as the most recent IFAP postings and an ongoing calendar of financial aid deadlines and events. The “Contacts” link on the FAP portal is particularly useful as a comprehensive reference to all FSA call centers and customer service offices.

System Configurations

From time to time ED modifies the minimum system requirements schools must meet in order to participate in the Department's electronic processes. The Technical Specifications Table in the next section lists the minimum configurations required beginning in the 2005-2006 award year. When reviewing these specifications, a school should be aware that its system requirements (processor speed, RAM, hard-drive storage, etc.) will depend on which FSA functions the school uses, the number of records processed, and school database interfaces.

Although all of the designated electronic processes can be performed using the minimum configuration, we strongly recommend the optimal configuration, particularly in cases where a school sends or receives 4,000 or more records in an XML document (batch). This is because the new XML file formats used by EDExpress and COD (and in the future by CPS) are larger and require greater storage and computing power. For the same reason, we would encourage a school to consider moving away from "Dial-up" and instead use a high-speed Internet connection. Doing so will significantly reduce both transmission time and transmission interruptions.

	Minimum Configuration	Optimal Configuration
IBM or Fully IBM-compatible PC	1.2 GHz Processor	2.8 GHz/333 MHz Processor
	512 MB RAM	1 GB RAM
	60 GB Hard Drive	80 GB Hard Drive
	48x CD-ROM Drive (CD-RW recommended)	48x CD-ROM Drive (CD-RW recommended)
	Windows compatible keyboard and mouse	Windows compatible keyboard and mouse
Monitor and Video Card	Capable of Super Video Graphics Adapter (SVGA) resolution (800x600) or higher	Capable of Super Video Graphics Adapter (SVGA) resolution (800x600) or higher
Internet Connection	56 Kbps Modem (meets or is upgradable to V.90 standard)	High speed Internet connection (e.g., DSL, cable)
Printer	Laser printer capable of printing on standard paper (8.5" x 11")	Laser printer capable of printing on standard paper (8.5" x 11")
Operating System	Windows 2000 or Windows XP Professional recommended	Windows 2000 or Windows XP Professional recommended

Coordinating official—definition of capable individual

An individual is “capable” if he or she is certified by the state in which the school is located, if state certification is required. Other factors affecting capability include the individual’s successful completion of FSA program training provided or approved by the Department, and previous experience and documented success in FSA program administration.

Death of a student

If a student dies during the award year, the school isn’t required to resolve conflicting information.

Discrepant tax data

Because conflicting data often involve tax information, FAAs must have a fundamental understanding of tax issues that can affect need analysis. You should know

- whether an individual is required to file a tax return;
- an individual’s correct filing status; and
- only one person can claim another as an exemption.

Publication 17 of the IRS, *Your Federal Income Tax*, is a useful resource for the aid office. You can view it on the Web at

www.irs.gov

or you can order a copy from the IRS at

800-829-3676

For additional information on resolving tax issues, please see: the *Application and Verification Guide*.

ADMINISTRATIVE REQUIREMENTS FOR THE FINANCIAL AID OFFICE

Coordinating official

A participating school must designate a capable individual to administer the FSA programs and to coordinate aid from these programs with all other aid received by students attending the school. To properly package and most effectively use the various types of student assistance (federal, school, state, private, etc.), the coordinating official must be aware of all aid received by students attending the school, regardless of the source. When creating a student’s financial aid package, in order to ensure that a student’s aid does not exceed his or her need, an aid administrator must include aid the student is receiving from external sources as well as institutional aid and FSA program assistance. Therefore, **a school’s operations must be administered in a way that ensures all the information the school receives that might affect a student’s FSA eligibility is communicated to the coordinating official and to the financial aid office.**

Consistency of information & conflicting information

A school must have a system of identifying and resolving discrepancies in all FSA-related information received by any school office. *A school must resolve discrepancies for all students, not just those selected for verification.* Resolution includes determining what information is correct, and documenting the school’s findings in the student’s file.

Such a system must include a review of—

- all student aid applications, need analysis documents, MRRs, POPs from COD, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant,
- the Student Aid Report/ISIR for a student—even if a school has previously verified the information on a student’s SAR/ISIR, the school must review all information on subsequent SARs/ISIRs, and resolve discrepancies,
- any documents, including any copies of state and federal income tax returns, that are normally collected by the school to verify information received from the student or other sources, and
- any other information submitted or normally available to the school regarding a student’s citizenship, previous educational experience, documentation of the student’s social security number, or other factors relating to the student’s eligibility for funds under FSA programs.

For instance, if a student receives veterans benefits through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student’s aid application and are counted as a resource for the Campus-Based programs and estimated financial assistance for the Direct Loan and FFEL programs.

Other examples include—

- a school's admissions or registrar's office must provide the aid office with any information it has that might affect a student's eligibility such as the student's enrollment in an ineligible program, or enrollment in summer classes immediately preceding a fall term of enrollment; and
- a school's business office must inform the aid office whenever it receives information about a student receiving an outside scholarship.

There is a distinction between how long you need to be alert for conflicting information and how long you have to actually resolve a conflict. Even if the processing year has ended, you must continue to resolve conflicting information unless—

- all aid for period of enrollment has been disbursed, and
- at the time of disbursement, there was no conflicting information, and
- the student is no longer enrolled at the school (and is not intending to reenroll).

You may not ignore a document in your files unless a student is no longer enrolled. If you have conflicting information in your files, you must resolve it as expeditiously as possible. If you become aware of conflicting information for a student who is no longer enrolled, and there is aid to be disbursed, you must resolve the conflict before making the late or postwithdrawal disbursement.

If aid (that the school was unaware of) is received after the end of a period of enrollment for a student who is intending to reenroll, that aid must be treated as estimated financial assistance for either the period of enrollment just completed, or for the subsequent period of enrollment. (See the discussion of estimated financial assistance and packaging in *Volume 3, Chapter 7*.)

Remember, if any office at your school has information that might affect a student's eligibility for FSA funds, it must provide that information to the school's designated coordinating official. That individual in turn must forward it to the financial aid office where procedures must be in place to ensure that any conflicting information is resolved and documented before the student receives any (or any additional) FSA funds.

Examples of conflicting information

Conflicting information may include information related to a student's eligibility such as—

- citizenship status,
- accuracy of SSN,
- default or overpayment status,
- changes in student's academic status (including grade level progression),
- COA elements,
- other student financial assistance or resources, and
- inconsistent information used in calculating the student's EFC

Conflicting information does not include such things as –

- a household size that differs from number of exemptions on a tax return;
- dependency under IRS rules vs. ED definition of dependency;
- a roster of candidates for an outside scholarship, as opposed to a list of recipients;
- privacy protected information, such as information from professional counselors, chaplains, doctors, etc.;
- assumptions made by the CPS;
- a FAFSA filed using estimated income; and
- a student who has an expired INS document, but secondary confirmation match is successful.

Sources of conflicting information

- unsolicited tax returns or schedules,
- information provided by the student to the financial aid office,
- supplemental financial aid applications,
- other offices within the school,
- offices at other educational institutions (not just aid offices),
- ED,
- scholarships and information from outside sources,
- state agencies such as Voc. Rehab., WIA, State Scholarship Agencies, etc.,
- tips from outside sources,
- transcripts from other postsecondary institutions,
- SARs or ISIRs,
- verification,
- C Flags,
- Reject Codes, and
- Comment Codes.

Separation of function

For further guidance on the separation of functions, contact the appropriate School Participation Team (see “Contacts” on the Financial Aid Professional portal).

Family defined

A member of an individual’s family is a parent, sibling, spouse, child, spouse’s parent or sibling’s, or child’s spouse.

Definition of control cite

34 CFR 600.31(b)

Ownership interest cite

34 CFR 668.15(f)

OIG Referrals

Department regulations (34 CFR 668.16(g)) require a school to refer to the Department’s Office of Inspector General (OIG) any credible information indicating that an applicant for Federal Student aid may have engaged in fraud or other criminal misconduct in connection with his or her application. Commonly falsified items include false claims of independent student status, false claims of citizenship, use of false identities, forgery of signatures of certifications, and false statements of income.

Remember that fraud is the intent to deceive as opposed to a mistake. If you suspect such intent on the part of a student, report it to the OIG by phoning 1-800-MISUSED.

Schools must also refer to the OIG any third-party servicer who may have engaged in fraud, breach of fiduciary responsibility, or other illegal conduct involving the FSA Programs.

It is always appropriate for a financial aid administrator to consult with a school’s legal counsel prior to referring suspected cases of fraud or misconduct to an agency outside of the school. Additional information on IG referrals is available in *Volume 1 — Student Eligibility*.

Counseling

Schools must provide adequate financial aid counseling to all enrolled and prospective students and their families. In addition, schools must also provide entrance and exit counseling for student borrowers in the Perkins, FFEL, and Direct Loan programs. For a complete discussion of loan counseling requirements, see chapter 6 in this volume, and *Volume 6 – Campus-Based Programs* (for Perkins disclosure requirements).

Adequate staffing

To manage a school’s aid programs effectively, the aid administrator must be supported by an adequate number of professional and clerical personnel. The number of staff that is adequate depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school’s application for approval to participate in the FSA programs.

System of checks and balances

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of authorizing payment and disbursing or delivering funds so that no one person or office exercises both functions for any student receiving FSA funds. Small schools are not exempt from this requirement even though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well, but not both authorization and disbursement. These two functions must be performed by individuals who are not members of the same family and who do not together exercise substantial control over the school. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affect both authorization and disbursement.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority (or the ability) to perform both functions. In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar’s office. Finally, your system should only allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes.

SATISFACTORY ACADEMIC PROGRESS

An eligible school must have a policy and a procedure for measuring the academic progress of its students. A school must have a satisfactory academic progress policy that, for an FSA recipient, is the same as or more strict than the school's standards for a student enrolled in the same educational program who is not receiving assistance under an FSA program.

Qualitative component

The school's academic progress policy must include a **qualitative component** consisting of grades or comparable factors that are measurable against a norm.

A school must include in its written policies information about the following if it allows for

- a. course repetitions where only the most recent grade is counted; or
- b. course repetitions where both credits and grades from previous attempts are deleted; or
- c. course repetitions where only the highest grade is counted.

A school can exclude grades for prior attempts (repeat/delete) when calculating a student's GPA, but it must include the credits from all attempts when calculating the maximum time frame (discussed in the next section on the *quantitative* component).

Satisfactory progress references

School policy:
34 CFR 668.16(e),
Student eligibility:
34 CFR 668.32(f),
34 CFR 668.34

For a discussion of applying SAP standards to individual students, please see Volume 1 – Student Eligibility

"C" average required after 2 years

A student enrolled in an program of study of more than 2 academic years must, once the student has been enrolled for two academic years, have a "C" average or its equivalent, **or have an academic standing consistent with the institution's requirement for graduation.** If your school does not use letter grades, it must define the equivalent of a "C" average.

While a student must achieve the required standard by the end of the student's second year, the school must review progress in segments no longer than one institutional academic year.

See *Volume 1, Chapter 1* for more information on satisfactory academic progress.

Graduated Qualitative Standard Examples

Guerrero University requires students to have a 2.0 GPA to graduate. A student who has completed 30 semester hours or less must have a 1.6 GPA, and a student who has completed 31 to 60 semester hours must have a 1.8 GPA. Students who have completed more than 60 semester hours must have a 2.0 GPA. In her first year at Guerrero University, Emma takes 28 semester hours, and her GPA is 1.9. Because her GPA is higher than 1.6, she meets this component of Guerrero's satisfactory progress standards.

Owen is also attending Guerrero, and has been attending part time. At the end of his second year at Guerrero, he's taken 24 semester hours, and his GPA is 1.7. Owen also satisfies a second part of Guerrero's satisfactory progress standards, because his GPA is higher than 1.6. Although Owen has less than a C average or equivalent at the end of his second academic year (Guerrero considers 2.0 to be the equivalent of a C average), he's still making satisfactory progress because he meets the standards required by Guerrero for a student with less than 31 semester hours. However, if his GPA doesn't improve by the time he completes those 31 hours, he'll no longer be making satisfactory progress.

Maximum time frame for graduate programs

The 150% maximum time frame does not apply to graduate programs. However, an eligible school offering graduate programs must develop, disseminate, and consistently apply a policy defining the maximum timeframe graduate students have to complete their programs.

Calendar Time Quantitative Standard Example

Lem Community College has a 900-clock-hour program that normally takes 8 months to complete. Lem allows a maximum time frame of 12 months to complete the program. Lem divides this time frame into increments of 4 months (which is half the published length of the program). In order to complete the entire program within 12 months, the student must complete at least 300 clock hours in each increment. Lem's satisfactory progress standards therefore require the student to attend 300 clock hours within the first 4 months (the first increment), 600 clock hours by the end of the second increment (after 8 months), and 900 hours by the end of the 12-month maximum time frame.

Quantitative component

The school's academic progress policy must also include a **quantitative component** that consists of a maximum time frame in which a student must complete his or her educational program. (For an undergraduate program, the time frame must be no longer than 150% of the published length of the educational program.) A student who is maintaining a high GPA by withdrawing from every course he attempts after the first year could meet a qualitative standard but wouldn't be progressing towards graduation. Therefore, an academic progress policy must also include a quantitative measure.

To ensure that a student makes sufficient progress throughout the course of study, your school's academic progress policy must divide the maximum time frame into equal evaluation periods called *increments*. An increment can't be longer than half the program or one academic year, whichever is less. For example, for a 700-clock-hour program, an increment must not exceed 350 clock hours. For a 2,000-clock-hour program, an increment must not exceed 900 clock hours if the school defines the academic year as 900 clock hours. Increments generally coincide with payment periods.

Your school must establish a schedule designating the *minimum amount of work* that a student must complete at the end of each increment. This minimum must be sufficient to allow the student to complete the program within the maximum timeframe. Your school's academic progress policy must include provisions to *determine at the end of each increment* whether the student has met the qualitative and quantitative components of the standards or exceeded the maximum time frame.

You don't have to set a fixed number of hours or credits that must be completed in each increment. Instead, you can require the student to complete a certain percentage of the hours or credits she attempts. By setting a percentage rather than a fixed number of hours or credits, you can easily adjust for differences in enrollment status from student to student or from one year to the next.

Your academic progress policy may use a graduated completion percentage for each year of enrollment. For instance, your policy can permit students to complete a lower percentage in the first academic year but require them to complete a gradually increasing percentage in subsequent years. This will ensure that the student completes the program within the maximum time frame.

However, if at any point it's clear the student will not be able to meet the quantitative standard by graduation, the student becomes ineligible for aid (barring a successful appeal by the student consistent with appeal procedures set up by the school).

Other required components

A school must establish specific policies defining the effect of *incomplete course grades, withdrawals, repetitions, and noncredit remedial courses* on satisfactory progress.

- A school must define in its satisfactory academic progress policy the effect of both ESL courses (not part of an ESL program) and remedial courses on both the qualitative and maximum timeframe components.
- A school may establish reasonable rules that address students who initially enroll in specific courses but modify that enrollment within a very limited timeframe. However, a school may not have a policy that excludes courses in which a student has remained past the drop/add period and earned a grade of “W” (or its equivalent) from its calculation of a student’s maximum timeframe.

A school must establish rules for both undergraduate and graduate students who change majors, as well as for students who seek to earn additional degrees.

The policy must include provisions for **consistent application** of the standards to all students within categories (e.g., full-time, part-time, undergraduate, and graduate students), and educational programs established by the school.

Counting all periods of enrollment

Generally the quantitative and qualitative standards used to judge academic progress include all periods of the student’s enrollment. Even periods in which the student did not receive FSA funds must be counted. However, a school may have a policy that for a student who changes majors, it will not include in the calculation of a student’s academic standing the credits attempted and grades earned that do not count toward the student’s new major. This policy must be specified in writing in its policies and procedures.

Similarly, a school must at least count those transfer credits that apply toward the current program (though it may count all credits from the previous school). A school cannot set a maximum time frame based on hours attempted and then have a policy to routinely exclude certain hours attempted, such as hours taken during a summer session, from the academic progress review.

Appeals and probationary/conditional periods

Your school’s academic progress policy must include specific procedures through which a student may **appeal** a determination that the student is not making satisfactory progress;

Your school may permit appeals of adverse academic progress determinations for mitigating circumstances. If you do, your school’s written academic progress policy must explain the mitigating circumstances and the appeals procedures.

Completed program, no degree

A school’s policy can state that a student who has completed all the coursework for her degree or certificate but hasn’t yet received the degree or certificate can’t receive further aid for that program. This restriction can’t simply be a limit on the number of hours completed, for instance, that the student isn’t eligible once she has completed 120 semester hours for a program that requires 120 semester hours. The student must have actually completed the academic requirements for the degree or certificate she is pursuing.

Counting Repeated Courses

If a school has a written policy that allows only the highest or most recent grade to be counted or both credits and grades from previous attempts to be deleted, it may exclude a grade for a prior attempt when considering the qualitative progress standard, but it must count the credits attempted when considering the quantitative SAP standard.

Policy may not exclude all “W” grades

An academic progress policy that excludes all “W” grades from credits attempted is not a reasonable interpretation of a quantitative component established to measure a student’s progress toward the completion of a program.

A student who receives a grade for course participation has attempted to complete the course, and, in this case, the assignment of a “W” grade indicates that the student has failed in that attempt.

Progress policy not affected by nonreceipt of aid during previous periods

Eligibility for FSA funds is predicated on the maintenance of satisfactory academic progress. It is not affected by whether or not a student receives aid during a previous period.

Example: quantitative standard in a 4-year program

Students in Brandt College’s bachelor’s degree program are required to complete 120 credits. Brandt requires all students to enroll in 15 credits each semester. Most students complete the program in four years (eight semesters). Brandt sets a maximum time frame of six years (150% of the published length of four years), and uses a year as an increment. Brandt requires students to successfully complete at least 21 credits by the end of the first year, and an additional 21 credits for each increment after that. Brandt reviews a student’s academic progress once each year, and has a one-year probationary period.

Lydia’s 1st year progress

Credits required	21
1st semester	0
+ 2nd semester	15
= completed credits	15hrs.

Lydia enrolls for her first year at Brandt, and fails all her courses in the first semester. Even if she successfully completes all her courses in the second semester, she won’t be making satisfactory progress at the end of the first increment, because she’ll have completed only 15 credits (15 as opposed to 21 of 30). If she continues into the second year and successfully completes all but one of her courses (27 credits total), she’ll meet the satisfactory progress standards by the end of the second increment (42 credits successfully completed).

Lydia’s 2nd year progress

Credits required	42
previous completed credits	15
2nd year credits	27
= completed credits	42hrs.

Example: quantitative standard in a 1-year program

Sarven Technical Institute has a 24 semester hour program that a full-time student can complete within one year. Because many students attend part time, Sarven decides to use a maximum timeframe based on the length of the program in semester hours attempted. Using the 150% maximum, Sarven’s policy states that a student must complete the program by the time he or she has attempted 36 semester hours. Sarven uses increments of 12 semester hours. In order to successfully complete 24 semester hours within the maximum timeframe, the student must successfully complete 8 semester hours by the end of each increment.

Allen’s 1st increment progress

Credits required	8
1st class credits	4
+ 2nd class credits	0
+ 3rd class credits	4
= completed credits	8 hrs.

Allen enrolls in this program. He enrolls in one class at a time, and each class is worth 4 semester hours. After he has enrolled in 3 classes (12 semester hours), Sarven must check to see if he’s successfully completed enough work in that increment to be making satisfactory progress. Allen completes the first and third course, but fails the second. Because he completed 8 semester hours (2 courses) in this increment, he’s making satisfactory progress.

Example: using percentages for the quantitative standard

A school that offers a 4-year program could allow students a maximum time frame of 6 years to complete the program. Frisson College decides to allow students a maximum time frame of 5 years for its 4-year microbiology program. Frisson uses the semester as the increment for measuring satisfactory progress. In order to allow students to complete the program within the maximum timeframe, Frisson requires students to complete 80% of the work attempted by the end of each increment ($4 \div 5 = .8$).

Two students, Andrew and Malia, are enrolled in this microbiology program. In the first year, both students enroll in 15 credits per semester. At the end of the first semester, Andrew has earned 12 credits and Malia has earned 15 credits. At the end of the second semester, Andrew has earned a total of 21 credits and Malia has earned a total of 30 credits.

To be making satisfactory progress, Andrew and Malia must have completed 80% of the credits attempted by the end of the increment. For the first semester, they must complete 12 credits ($80\% \times 15$ credit hours attempted = 12 credit hours). Because both students successfully completed at least 12 credit hours in their first semester, they both were making satisfactory progress.

By the end of the second semester, they must have completed 24 credits ($80\% \times 30$ credit hours attempted = 24 credit hours). Malia is still making satisfactory progress at the end of the second semester, but because he only completed 21 credits, Andrew is not making satisfactory progress.

In the second year Malia again enrolls for 30 credits, but Andrew only enrolls for 15 credit hours for the year. Andrew successfully completes all these credit hours, so he has earned 36 credits of 45 attempted. Malia completes 51 credits by the end of the second year.

To be making satisfactory progress by the end of the second year, Andrew must have completed 36 credits ($80\% \times 45$ credit hours attempted = 36 credit hours). Therefore, he is once again making satisfactory progress at the end of the second year. After the end of the second year, Malia must have completed 48 credit hours ($80\% \times 60$ credit hours attempted = 48 credit hours). Malia was also making satisfactory progress at the end of the second year.

First Year Progress

Credits required	
completion standard	80%
x credits	30
= completed credits	24hrs.

Second Year Progress

FT student - Malia	
previous attempted credits	30
+ 2nd year credits	30
x completion standard	80%
= completed credits	48hrs.

HT student - Andrew	
previous attempted credits	30
+ 2nd year credits	15
x completion standard	80%
= completed credits	36hrs.

Example: probationary period

As part of its satisfactory progress policy, Lem Community College has a provision for academic probation. The first time a student fails to meet the satisfactory progress standards, she receives a notice from the school and is put on academic probation for one term or payment period. The student can receive aid during this period, but isn't allowed to enroll more than half time. If the student doesn't meet the satisfactory progress standards at the end of the probationary term, she loses eligibility for any subsequent payments until she meets the satisfactory progress standards again. Note that Lem does not have a probationary period that simply requires the student to not attend school for a time; absence does not restore eligibility.

If a student's eligibility is restored as a result of the appeal, the school must reevaluate the student's SAP within one year. A school may establish increments that are shorter than one year.

Academic amnesty/renewal

Some schools have Academic Amnesty/Renewal procedures through which a student can apply to have credits attempted and grades earned in previous semesters excluded from the calculation of the student's grade-point average. The FSA program regulations make no provision for the concept of academic amnesty or academic renewal. Therefore, a school must always include courses applicable to a student's major (whenever taken) in evaluating a student's satisfactory academic progress..

When you approve an appeal for mitigating circumstances you are suspending the academic progress standards for that student. You are not eliminating or disregarding one or more grades or credits attempted in its calculation of a student's academic progress standing. The student's permanent academic record has not been modified. So, when you grant an appeal, you are acknowledging that, because of the documented unusual circumstances, the student continues to be FSA eligible even though he or she falls below your school's academic progress standard.

Your school's policy can also include a limited conditional or probationary period during which a student who doesn't meet your school's SAP standards can continue to receive FSA funds.

Reestablishing academic progress

A school must have a process that contains specific procedures through which a student can reestablish that he or she is maintaining satisfactory progress. They must describe that process in their published information.

The requirement that a student complete a number of credits, or enroll for a number of academic periods without receiving Federal Student Aid, and the requirement that a student interrupt his or her attendance for one or more academic periods may be components of a school's academic progress policy. However, **neither paying for one's classes, or sitting out a semester in themselves affect a student's academic progress standing.** Therefore, neither, by itself or in combination, is sufficient to reestablish the FSA eligibility of a student who has lost his or her eligibility because he or she has failed to satisfy a school's standard of Satisfactory Academic Progress.

Consider a student who loses his or her eligibility for FSA funds because the student fails to satisfy a school's standard of satisfactory academic progress. Other than when an appeal is granted for unusual or mitigating circumstances, a student can reestablish eligibility only by taking action that brings the student into compliance with the qualitative and quantitative components of the school's standard including the maximum time frame.

A discussion of applying a satisfactory academic progress policy to a student's academic history can be found in *Volume 1, Chapter 1*.

SHARING INFORMATION WITH NSLDS, THE DL SERVICING CENTER, AND GUARANTORS

Reporting student enrollment data to NSLDS

All schools participating (or approved to participate) in the FSA programs **must** have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends Roster files electronically to your school (or its designated servicer) through its SAIG mailbox. The file includes all of the school's students who are identified in NSLDS as Stafford (Direct and FFEL) borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at your school—you also must report information for students who received some or all of their FSA loans at other schools but are currently attending your school.

Your school (or servicer) must certify the information and return the Roster file within 30 days of receiving it. You may also go to www.nslsdfap.ed.gov and update information for your students online. You're required to report changes in the student's enrollment status, the effective date of the status and an anticipated completion date. Changes in enrollment to less than half time, graduated, or withdrawn must be reported within 30 days. However, if a Roster file is expected within 60 days, you may provide the data on that roster file.

If the Roster file that you are returning contains records that don't pass the NSLDS Enrollment Reporting edits, you will receive a response file with the records that didn't pass. Within 10 days, you'll need to make the necessary corrections to these records and resubmit them. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes.

If your school reports enrollment data to the NSLDS, it does not have to complete SSCRs received directly from guaranty agencies. (Receiving an SSCR report from a guaranty agency may be an indication that your school has not reported to NSLDS within the last six months.) However, you must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. You must continue to provide loan holders and loan servicers with a borrower's enrollment status and other information needed to locate the borrower for deferment and other repayment purposes.

Enrollment Reporting Requirements

34 CFR 682.610 FFEL
34 CFR 685.309(b) Direct Loans
"Dear Colleague" letter GEN-96-5
"Dear Colleague" letter GEN-96-17
See "NSLDS Reference Materials" on IFAP for NSLDS Newsletters, Updates, and other information

Receiving Roster Files

A school (or its servicer) must sign up to receive Roster Files through www.fsawebenroll.ed.gov/PMEnroll/index.jsp

Updating enrollment information on the Web

You can create or update student enrollment status by using the "Enroll" tab on the NSLDS Web site for aid professionals:

<https://www.nslsdfap.ed.gov/>

Support: **1-800-999-8219**

Enrollment Reporting/SSCR Technical References

For more information on reporting enrollment information to NSLDS, including record layouts, error codes, etc., see the **Enrollment Reporting Guide** (formerly the SSCR User's Guide), which is available online on the ifap.ed.gov site (see NSLDS Reference Materials > NSLDS User Documentation)

If you will be using the SSCR software package for Enrollment Reporting, see the **SSCR Desk Reference**, which includes record layouts, error codes, etc. and is available at: www.fsadownload.ed.gov

Enrollment Status Codes

These codes are listed in the Record Layouts in the SSCR Technical Reference. Data submitted to the Student Loan Clearinghouse uses most of these codes.

A = Approved Leave of Absence
D = Deceased
F = Full time
G = Graduated
H = Half time or more, but less than full time
L = Less than half time
W = Withdrawn (voluntary or involuntary)
X = Never attended
Z = Record not found

Privacy: Sharing student records with Lenders

A student authorizes his or her school to release information to lenders by signing the promissory note as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow as well as locating the borrower. Examples of such information are enrollment status, financial assistance, and employment records.

Loan information from the guarantor

Upon request, the guarantor must inform the school of students in default on FFELs.
34 CFR 682.401(b)(24)

If the lender requests preclaims assistance, the guarantor must inform the school of this request, if the school has requested such notification.

34 CFR 682.404(a)(4)

Sec. 428(c)(2)(H) of the HEA

The guarantor must notify the school when a loan made at that school changes hands, if the school requests such information.

Sec. 428(b)(2)(F) of the HEA

34 CFR 682.401(b)(25)

Updating borrower information at separation

Within 60 days after the exit counseling session, your school must provide the Direct Loan Servicing Center or the guaranty agency that was listed in the borrower's student aid records any updated information about: the borrower's name; address; references; future permanent address; Social Security Number; the identity and address of the borrower's expected employer, the address of the borrower's next of kin, and the borrower's driver's license number and state of issuance.

Sharing information about delinquent/defaulted borrowers

To promote loan repayment, DL schools are encouraged to notify the Direct Loan Servicing Center if they receive new information about a delinquent borrower's location or employment. The Direct Loan Servicing Center sends participating schools a monthly electronic report of all delinquent and defaulted Direct Loan borrowers who took out loans while attending the school. The report, which contains the borrowers' names, addresses, and phone numbers, is organized by the number of days past due so that schools can contact and counsel borrowers to avoid default. The school may also wish to work with borrowers who have defaulted on their Direct Loans to help these borrowers bring their loans out of default.

An FFEL school may make agreements to provide the holders of delinquent loans with information about the delinquent borrower's location or employment. An FFEL school may also try to contact the borrower and counsel him or her to avoid default.

FFEL schools may ask a guaranty agency to provide information about students who were enrolled at the school who have defaulted on their Stafford loans. The guarantor may not charge for this information. The school may also ask the guarantor to notify the school whenever a lender requests default aversion assistance on a loan made at your school, and provide the borrower's name, address, and Social Security Number. (The guaranty agency may charge a reasonable fee for this service.) Your school may only use the information to remind the borrower to repay his or her loan(s).

If you've requested it, the guaranty agency must also notify your school when loans to its students are sold, transferred, or assigned to another holder. (The notification must include the address and telephone number of the new loan holder.) This notification requirement only applies to loans that are in the grace period or in repayment, and only if your school was the last school the borrower attended before the loan entered repayment. (For instance, if a student received several Stafford loans while earning a bachelor's degree at your school, but pursued a master's degree at another school before those loans entered repayment, the guarantor is not required to notify you if the loan is sold.)

Financial Aid History & Transfer Monitoring

A school must consider a student's financial aid history in making FSA program awards. The regulations **require** that schools use NSLDS data to obtain information about a student's financial aid history.

In order to receive students' financial aid history, **your school must register** for the Transfer Student Monitoring Process.

Through the transfer student monitoring process, NSLDS will monitor a transfer student's financial aid history and alert you to any relevant changes — other than the default and overpayment information reported in the postscreening process — that may affect the student's current award(s).

You must send NSLDS identifying information for students transferring to your school so that NSLDS can use transfer monitoring to notify you of changes to the student's financial aid history. You may send information for students who have expressed an interest in attending your school, even if they have not yet formally applied for admission.

You can find a complete discussion of this requirement and the transfer student monitoring process in *Volume 1—Chapter 3*.

Financial aid history cite

34 CFR 668.19

DCL GEN-00-12

DCL GEN-01-09, July 2001 (including July 16, 2001, update)

Transfer student monitoring process

You must verify the eligibility of transfer students for FSA funds. You may either check the student's financial aid history on the NSLDS Web site for professionals, or wait seven days after you've submitted the student's information for monitoring to receive a response from NSLDS.

To begin using the "inform" feature, you must designate a contact on the "School Transfer Profile" page at

www.nslsdfap.ed.gov

The eCDR Process

The official default rates are sent electronically to all domestic schools in the fall of each year. You must enroll in the eCDR process to receive your rates.

If your school is not enrolled, go to:

www.fsawebenroll.ed.gov

On this Web page, choose “Enroll” and then select the radio button for “Modify Existing Services for a Destination Point.”

We will continue to mail default rates to foreign schools until all foreign schools have enrolled in the eCDR Process.

The default rates will continue to be mailed to foreign schools.

Default rates on the Web

The official cohort default rates for all schools participating in the FSA programs are posted on the Web at:

www.ed.gov/offices/OSFAP/defaultmanagement/index.html

Default rates and suspension cite

34 CFR 668.16(m)(1)

Consequences of default cite

34 CFR 668.187

Provisional certification

34 CFR 668.16(m)(2)(i)

Exemption from default plan

HEA: Sec. 487(a)(14)(C)

34 CFR 668.14(b)(15)(B)(ii)

COHORT DEFAULT RATES

Generally speaking, a cohort default rate (CDR) is the percentage of a school’s student borrowers who enter repayment on Stafford loans during a particular fiscal year and who default before the end of the next fiscal year. (There are other criteria and exceptions — see the complete definition in the *Cohort Default Rate Guide*.) In addition, separate CDRs are calculated for a school’s Perkins loans.

Release of draft and official rates for FFEL and DL programs

The Department releases draft default rates in February to allow schools an opportunity to review and correct the data that will be used to calculate their official cohort default rates. In the early fall of each year, the Department issues the official cohort default rates. The rates that will be issued in September 2007, are based on the cohort of students who entered repayment in fiscal year 2005 (the 2005 federal fiscal year runs from October 1, 2004 – September 30, 2005). These rates will be electronically delivered to schools and posted on the Web. If your school is located in the U.S., it is required to be enrolled in the eCDR process for electronic delivery of the rates (see sidebar note for instructions).

Effect of cohort default rates

A school is **not** administratively capable when

- the cohort default rate for Perkins loans made to students for attendance at the school exceeds 15% (see *Volume 6 – Campus-Based Programs* for details), or
- the cohort default rate for Federal Stafford/SLS loans or for Direct Subsidized/Unsubsidized Loans made to students for attendance at the school equals or exceeds 25% for one or more of the three most recent fiscal years or if the most recent cohort default rate is greater than 40%.

In addition to affecting a school’s administrative capability and limiting the school’s participation in the FSA programs, a high default rate may make a school ineligible to participate in the FFEL, Direct Loan, Pell Grant, or Perkins programs or cause the Department to limit, suspend, or terminate a school’s participation in the FSA programs. For detailed information on default requirements refer to the *Cohort Default Rate Guide* (posted on IFAP—see sidebar).

At its discretion, the Department **may** provisionally certify a school that would not be administratively capable solely because of its high default rate.

Default prevention & management plan

New schools are required to implement a default prevention and management plan prior to certification. In addition, a school that undergoes a change in ownership that results in a change in control or a school that changes its status as a main campus, branch campus, or additional location must also implement a default management plan.

Schools applying to participate are exempt from submitting a default plan if—

- the school, including its main campus and any branch campus, does not have a cohort default rate greater than 10%, and
- the new owner of the school does not own and has not owned any other school that had a cohort default rate greater than 10% during the owner’s tenure.

WITHDRAWAL RATES

New schools (schools that seek to participate in an FSA program for the first time) must have an undergraduate withdrawal rate for regular students of no more than 33% for an award year in order to be considered administratively capable.

When calculating the withdrawal rate, all regular, enrolled students must be included. The definition of enrolled does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, is expelled from the school, or receives a refund of 100% of his or her tuition and fees. A student who withdraws from one or more courses or programs but does not withdraw entirely from the school, does not meet the definition of withdrawn. Instead, this action is considered a change in enrollment status (e.g., the student reduced his credit hours from 12 to 6).

Cohort Default Rate Guide

For more technical information on default rates, please refer to the **Cohort Default Rate Guide**. The Guide is updated continuously on the IFAP Web site.

ifap.ed.gov/DefaultManagement/finalcdrg.html

Contacting Default Prevention & Management

Default Prevention & Management responds to questions about FFEL/DL cohort default rates, and reviews FFEL/DL cohort default rate challenges, adjustments, and appeals. It also provides technical assistance and outreach to schools to assist them in lowering their default rates.

Web: ifap.ed.gov/DefaultManagement

Phone: 202-377-4258

Hotline: 202-377-4259

FAX: 202-275-4511

E-MAIL: fsa.schools.default.management@ed.gov

Sample Default Plan

A “Sample Default Prevention and Management Plan.” was issued as an attachment to GEN-05-14. The sample plan is also posted in the collection of “Default Rate Materials” on the IFAP Web site.

“Enrolled” for purposes of withdrawal rates

A student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school.

Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

Debarment and suspension cite

Executive Order 12549
Federal Acquisition Regulations
(48 CFR Part 9, Subpart 9.4)
34 CFR Part 85

Similar debarment and suspension limitations apply to lenders, third-party servicers, loan servicers, and any individuals who provides services described in 34 CFR 668.2 or 682.200 to a FSA recipient whether or not they are employed by the school as described in 34 CFR 600.85.995(b)

Checking debarment/suspension status on-line

The “List of Parties Excluded from Federal Procurement and Nonprocurement Programs” is available for review at a Web site maintained by the General Services Administration.

<http://epls.arnet.gov/>

You should keep a copy of the search results in your records.

DEBARMENT AND SUSPENSION CERTIFICATION

Debarment of school or its principals

In order to protect the public interest, it is the policy of the federal government to conduct business only with responsible individuals. In order to implement this policy, the government takes debarment and suspension actions against individuals whom it determines constitute a current risk to federal agencies. If a school (or its principals) is debarred or suspended by a federal agency, it is prohibited from participating in any FSA program, so long as the agency’s procedures include due process protections that are equivalent to those provided by ED.

The principals of the school include its owners, directors, officers, partners, employees, and any other persons with management or supervisory responsibilities. A principal may also be someone who is not employed by the school but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or Campus-Based funds). For example, a principal may be someone whether or not employed by the school who—

- is in a position to handle Federal funds;
- is in a position to influence or control the use of those funds; or
- occupies a technical or professional position capable of substantially influencing the development or outcome of an activity required to perform the covered transaction.

Before a school may receive FSA funding, it must certify that neither the school nor its employees have been debarred or suspended by a federal agency. (You can find this certification in the Program Participation Agreement and in the Web-based FISAP package available to schools participating in the Campus-Based programs—see Chapter 3.)

Institutions participating in the FSA programs have a fiduciary responsibility to safeguard FSA funds, and ensure those funds are used for the benefit of the students for whom they are intended. We expect participating institutions to thoroughly examine the background of individuals they employ (or are considering employing) in management or supervisory positions. If a school discovers that a person employed in a management or supervisory capacity has been suspended, or debarred by a federal agency, the school must remove that person from such a position or risk losing its FSA eligibility. Moreover, a school may not enter into a relationship (and must terminate an ongoing relationship) with a lender, third-party servicer, or loan servicer the school determines has been debarred or suspended.

Certifying current or prospective employees or contractors

The certification provided by the school is a material representation of fact relied upon by the Department when it enters into a Participation Agreement with the school. Moreover, a school is expected to have knowledge and information normally possessed by a prudent person in the ordinary course of business dealings. Although the Department doesn't dictate how a school must ensure that its principals/employees have not been debarred or suspended by a federal agency, we do hold the school responsible for any information it could reasonably have been expected to know in the course of ordinary operations. In addition, we expect the school to expend a reasonable amount of effort ensuring that it and its employees are in compliance. If the Department learns that a prospective participant knowingly rendered an erroneous certification, in addition to other remedies available, the Department may terminate the participation of the institution.

A school chooses the method and frequency for making a determination about the eligibility of its principals. This might include asking current and prospective employees and contractors, in person or in writing, about their debarment or suspension histories. In addition, a school might also examine the List of Parties Excluded from Federal Procurement and Nonprocurement Programs to find out if an individual or organization is debarred or suspended. A school should discuss with its attorney the procedures appropriate to its circumstances.

The employees who award FSA funds and those who disburse them should be always be included in those whose backgrounds are examined. In addition, employees who participate in other transactions from which the regulations exclude individuals who have been debarred or suspended should be included. A school should consult with its attorney on the individuals it must certify.

The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's FSA eligibility, so long as that person is not involved in any covered transactions.

Lower-tier covered transactions

A school must not enter into lower-tier covered transactions with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. A school must obtain a certification from any lower-tier organization if the amount of the lower-tier transaction is \$25,000 or more. The lower-tier organization must inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

Covered transactions

For purposes of the debarment/suspension rules, covered transactions include:

1. disbursement of FSA funds to a student or borrower;
2. certification by an educational institution of eligibility for an FSA loan,
3. guaranteeing a loan made under an FSA program, and
4. acquisition or exercise of any servicing responsibility for a grant, loan, or work study assistance under an FSA program.

Lower-tier transactions

Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service or with a loan collection or billing agency.

Sample certification statement from lower-tier organization

The Department disseminated the following language in April 1989 as a model that schools may use to obtain the required certification statement from a lower-tier organization.

"The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participating in this transaction by any Federal department or agency.

Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal."

Federal Register, May 26, 1988, page 19211, disseminated in Dear Colleague Letter GEN-89-21.

In this chapter, we discuss the financial standards schools must maintain to participate in the Federal Student Aid (FSA) programs, such as the composite score and refund reserve standards, as well as the criteria for evaluating the past performance of the school and persons affiliated with the school.

In order to participate in the FSA programs a school must demonstrate that it is financially responsible. To provide the Department with the information necessary to evaluate a school's financial responsibility, schools are required to submit financial information to the Department every year. A school must provide this financial information in the form of an audited financial statement as part of a combined submission that also includes the school's compliance audit. For-profit schools have six months from the end of the schools' fiscal year to provide the combined submission; other schools have nine months.

What follows is an overview of the financial responsibility standards. Schools should refer to Subpart L of the Student Assistance General Provisions for complete information.

The Department determines whether a school is financially responsible based on the school's ability to:

- provide the services described in its official publications and statements;
- properly administer the FSA programs in which the school participates; and
- meet all of its financial obligations.

The financial responsibility standards can be divided into two categories: (1) general standards, which are the basic standards used to evaluate a school's financial health, and (2) performance and affiliation standards, which are standards used to evaluate a school's past performance and to evaluate individuals affiliated with the school.

CHAPTER 11 HIGHLIGHTS

- Standards for public schools
- Standards for proprietary or private non-profit schools
 - Composite score
 - Refund reserve standards
 - Returning funds in a timely manner
 - Current in debt payments
- Alternatives to the general standards
 - Letter of credit
 - Zone alternative
 - Provisional certification
- Past performance & affiliation standards
 - Past performance of a school
 - Past performance of persons affiliated with a school

Related information

- General Participation Requirements, Chapter 3
- Administrative Capability, Chapter 10

Financial responsibility cites

Sec. 498(c) of the Higher Education Act
34 CFR 668 Subpart L

School Participation Teams

For information regarding accounting and compliance issues, a school should contact its School Participation Team (see the "Contacts" listing on the Financial Aid Professional Portal www.fsa4schools.ed.gov)

Use of eZ-AUDIT required

Since June 16, 2003, schools have been required to submit their compliance audits, audited financial statements, and letters confirming their status as public schools through the Department's eZ-AUDIT Electronic Financial Reporting System. See chapter 12 for more information on required audit submissions.

Change in ownership

When a change in ownership occurs, the Department applies the standards in 34 CFR 668.15.

GENERAL STANDARDS FOR PUBLIC SCHOOLS

A public school is financially responsible if its debts and liabilities are backed by the full faith and credit of the state or other government entity. The Department considers a public school to have that backing if the school notifies the Department that it is designated as a public school by the state, local, or municipal government entity, tribal authority, or other government entity that has the legal authority to make that designation. The school must also provide the Department with a letter from an official of the appropriate government entity confirming the school's status as a public school. A letter from a government entity may include a confirmation of public school status for more than one school under that government's purview. The letter is a onetime submission and should be submitted as a separate document.

Public schools also must meet the past performance and affiliation standards discussed below, and must submit financial statements prepared in accordance with generally accepted accounting principles (GAAP) and prepared on the accrual basis.

GENERAL STANDARDS FOR PROPRIETARY OR PRIVATE NONPROFIT SCHOOLS

A proprietary or private nonprofit school is financially responsible if the Department determines that—

- the school has a composite score of at least 1.5;
- the school has sufficient cash reserves to make the required refunds, including the return of Title IV funds (these requirements are known as the refund reserve standards);
- the school is meeting all of its financial obligations, including making required refunds, including the return of Title IV funds and making repayments to cover Title IV program debts and liabilities; and
- the school is current in its debt payments.

These requirements are discussed in more detail below.

Even if a school meets all of the general requirements, the Department does not consider the school to be financially responsible if—

- in the school's audited financial statement the opinion expressed by the auditor was adverse, qualified, or disclaimed, or the auditor expressed doubt about the continued existence of the school as a going concern (unless the Department determines that a qualified or disclaimed opinion does not have a significant bearing on the school's financial condition), or
- the school violated one of the past performance requirements discussed below.

Composite score

The composite score standard combines different measures of fundamental elements of financial health to yield a single measure of a school's overall financial health. This method allows financial strength in one area to make up for financial weakness in another area. In addition, this method provides an equitable measure of the financial health of schools of different sizes.

The composite score methodology takes into account the differences between proprietary schools and private nonprofit schools. The variance takes into account the accounting differences between these sectors of postsecondary schools. However, the basic steps used to arrive at the composite score are the same. These steps are described in the chart on the following pages.

Refund reserve standards

One of the standards that a school must satisfy, in order to be considered financially responsible, is that it must have sufficient cash reserves to return Title IV funds when a student withdraws. A school is considered to have sufficient cash reserves if it:

- is located in a state that has a tuition recovery fund approved by the Department and the school contributes to that fund; or
- for its two most recently completed fiscal years, the school made all required returns in a timely manner (see *Volume 5, Chapter 2* for more information on returns, including timely payment).

Returning funds in a timely manner

Unearned funds must be returned no later than 45 days after the date of the school's determination that the student withdrew. ED considers the school to have returned funds, depending upon the method it uses to return them. Specifically, the regulations provide that a school has returned funds when it has:

1. deposited or transferred the funds into the bank account it maintains for federal funds (see sidebar) no later than 45 days after the date it determines that the student withdrew;
2. initiated an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew;
3. initiated an electronic transaction, no later than 45 days after the date it determines that the student withdrew, that informs an FFEL lender to adjust the borrower's loan account for the amount returned; or
4. issued a check no later than 45 days (as supported by the school's records) after the date it determines that the student withdrew.

If a check is used to return unearned funds, the Department requires that the check be endorsed by the bank used by the FFEL lender or ED no later than 60 days after the school's determination that a student withdrew in order to be considered a timely return.

Additional information on composite scores

For complete information on the calculation of the composite score, schools should refer to Appendices A and B of Subpart L in the General Provisions regulations.

The Department issued guidance on the treatment of long-term and other debt in calculating these ratios in DCL-GEN-01-02. That guidance was updated in DCL-GEN-03-08.

Treatment of long-term debt cite

DCL GEN 03-08, July 2003

34 CFR 668, Subpart L, Appendices A & B

Ratios cite

34 CFR 668.171(b)(3)

Tuition Recovery Funds

When a state submits a tuition recovery fund for approval by the Department, the Department will consider the extent to which the recovery fund:

- provides returns to both in-state and out-of-state students;
- complies with FSA requirements for the order of return of funds to sources of assistance; and
- is replenished if any claims arise that deplete the fund.

Refund reserve standard cite

34 CFR 668.173

Returning funds cite

34 CFR 668.172(c).

For withdrawn students, returns funds in a timely manner cite

34 CFR 668.22

Calculating a composite score

The first step in calculating a school's composite score is to determine the school's primary reserve, equity, and net income ratios by using information from the school's audited financial statement. These ratios take into account the total financial resources of the school. The Primary Reserve Ratio represents a measure of a school's viability and liquidity. The Equity Ratio represents a measure of a school's capital resources and its ability to borrow. The Net Income Ratio represents a measure of a school's profitability.

Upon review, some items from a school's audited financial statement may be excluded from the calculation of the ratios. For example, the Department may exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs, from the ratio calculations. (See box below for regulatory list of exclusions.)

All long-term debt obtained for the school's purposes may be included for purposes of the Primary Reserve Ratio calculation. However, it is important to note that the overall level of debt obtained for long-term purposes that can be included in the numerator of the Primary Reserve Ratio is limited under the regulations. It cannot exceed the amount of the school's net property, plant, and equipment.

A strength factor score is then calculated for each ratio using equations established by the Department. A strength factor score reflects a school's relative strength or weakness in a fundamental element

of financial health, as measured by the ratios. Specifically, the strength factor scores reflect the extent to which a school has the financial resources to: 1) replace existing technology with newer technology; 2) replace physical capital that wears out over time; 3) recruit, retain, and retrain faculty and staff (human capital); and 4) develop new programs.

A weighting percentage is applied to each strength factor score to obtain a weighted score for each ratio. The weighting percentages reflect the relative importance that each fundamental element has for a school in a particular sector (proprietary or private nonprofit).

The sum of the weighted scores equals the school's composite score. Because the weighted scores reflect the strengths and weaknesses represented by the ratios and take into account the importance of those strengths and weaknesses, a strength in the weighted score of one ratio may compensate for a weakness in the weighted score of another ratio.

Once a composite score is calculated, it is measured along a common scale from negative 1.0 to positive 3.0 as indicated in the diagram on the next page. This scale reflects the probability a school will be able to continue operations and meet its obligations to students and the Department.

Exclusions

Excluded items. In calculating an institution's ratios, the Secretary—

- (1) Generally excludes extraordinary gains or losses, income or losses from discontinued operations, prior period adjustments, the cumulative effect of changes in accounting principles, and the effect of changes in accounting estimates;
- (2) May include or exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs;
- (3) Excludes all unsecured or uncollateralized related-party receivables;
- (4) Excludes all intangible assets defined as intangible in accordance with generally accepted accounting principles; and

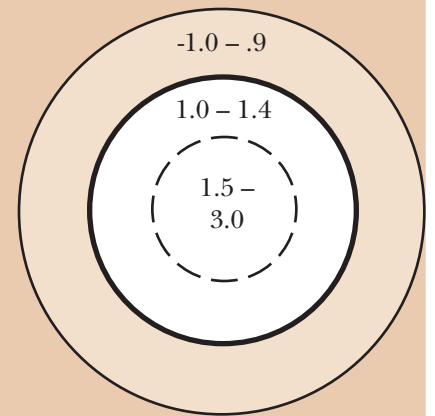
(5) Excludes from the ratio calculations Federal funds provided to an institution by the Secretary under program authorized by the HEA only if—

- (i) In the notes to the institution's audited financial statement, or as a separate attestation, the auditor discloses by name and CFDA number, the amount of HEA program funds reported as expenses in the Statement of Activities for the fiscal year covered by that audit or attestation; and
- (ii) The institution's composite score, as determined by the Secretary, is less than 1.5 before the reported expenses arising from those HEA funds are excluded from the ratio calculations.

34 CFR 172(c)

Composite score scale

- 1.5 to 3.0** Financially responsible without further oversight.
- 1.0 to 1.4** In the “Zone.” The school is considered financially responsible but additional oversight is required.
- 1.0 to .9** Not financially responsible. The school must submit letter of credit of at least 50% of its FSA funding. The school may be permitted to participate under provisional certification with smaller letter of credit—with a minimum of 10% of its FSA funding.



Example: Calculation of a composite score for a proprietary institution*

Calculation of Ratios

$$\text{Primary Reserve Ratio} = \frac{\text{Adjusted equity}}{\text{Total expenses}} = \frac{\$760,000}{\$9,500,000} = 0.080$$

$$\text{Equity Ratio} = \frac{\text{Modified equity}}{\text{Modified expenses}} = \frac{\$810,000}{\$2,440,000} = 0.332$$

$$\text{Net Income Ratio} = \frac{\text{Income before taxes}}{\text{Total revenues}} = \frac{\$510,000}{\$10,010,000} = 0.051$$

Calculation of Strength Factor Score

$$\text{Primary Reserve Strength Factor Score} = 20 \times \text{Primary Reserve Ratio} \\ 20 \times 0.080 = 1.600$$

$$\text{Equity Strength Factor Score} = 6 \times \text{Equity Ratio} \\ 6 \times 0.332 = 1.992$$

$$\text{Net Income Strength Factor Score} = 1 + (33.3 \times \text{Net Income Ratio}) \\ 1 + (33.3 \times 0.051) = 2.698$$

Calculation of Weighted Score

$$\text{Primary Reserve Weighted Score} = 30\% \times \text{Primary Reserve Strength Factor Score} \\ 0.30 \times 1.600 = 0.480$$

$$\text{Equity Weighted Score} = 40\% \times \text{Equity Strength Factor Score} \\ 0.40 \times 1.992 = 0.797$$

$$\text{Net Income Weighted Score} = 30\% \times \text{Net Income Strength Factor Score} \\ 0.30 \times 2.698 = 0.809$$

Composite Score

$$\text{Sum of All Weighted Scores} \quad 0.480 + 0.797 + 0.809 = 2.086 \quad \text{rounded to 2.1}$$

* The definition of terms used in the ratios and the applicable strength factor algorithms and weighting percentages are found in the Student Assistance General Provisions (regulations) (34 CFR 668) Subpart L, Appendix A for proprietary schools and Appendix B, for private nonprofit schools.

Deposit to operating account or separate federal bank account

A school that maintains a separate federal bank account must deposit to that account, or transfer from its operating account to its federal account, the amount of unearned program funds, as determined under the Return of Title IV funds regulations. The date the school makes that deposit or transfer is the date used to determine whether the school returned the funds within the 30-day timeframe permitted in the regulations.

Unless the Department requires a school to use a separate account, the school may use its operating account for FSA purposes. In this case, the school must designate that account as its federal bank account, and have an auditable system of records showing that the funds have been allocated properly and returned in a timely manner. If there is no clear audit trail, the Department can require the school to begin maintaining FSA funds in a separate bank account.

34 CFR 668.163(a)

Making new awards with returned funds

After a school has returned unearned funds to its federal account, provided those funds were originally received from the Department or from an FFEL lender under a process that allows the school to reuse the unearned funds, the school can use the funds to make disbursements to other eligible students.

Compliance thresholds for timely return of funds

The Department provides for a small margin of error in determining that a school has paid all required refunds and returns on time. The Department considers a school to have paid returns in a timely manner if—

- there is less than a 5% error rate in a sample of returns (composed of students for whom the school was required to return unearned funds) examined in a compliance audit conducted under 34 CFR 668.23, an audit conducted by the Office of the Inspector General (OIG), or a program review conducted by the Department or guaranty agency; or
- there are no more than two late returns in the sample (regardless of the number or percentage of late returns in the sample).

In addition, if the reviewer or auditor finds a material weakness or reportable condition in the school's report on internal controls relating to the return of unearned Title IV program funds, the Department considers the school to have not paid Returns in a timely manner.

Letter of credit required when funds are not returned in timely manner

Public schools and schools covered by a state tuition recovery fund that has been approved by the Department are not subject to the letter of credit requirements. If any other school exceeds the compliance thresholds in either of its two most recently completed fiscal years, the school must submit an irrevocable letter of credit acceptable and payable to the Department. The letter of credit must be equal to 25% of the returns the school made or should have made during its most recently completed fiscal year.

A school that is required to submit a letter of credit must do so no later than 30 days after the earlier of the date that:

- the school is required to submit its compliance audit;
- the OIG issues a final audit report;
- the designated department official issues a final program review determination;
- the Department issues a preliminary program review report or draft audit report, or a guaranty agency issues a preliminary report showing that the school did not return unearned funds for more than 10% of the sampled students; or
- ED sends a written notice to the school requesting the letter of credit that explains why the school has failed to return unearned funds in a timely manner.

If the finding in the preliminary report is that the school did not return unearned funds in a timely manner for 10% or fewer of the sampled students, a school would generally be required to submit the letter of credit only if the final report shows that the school did

not return unearned funds in a timely manner for 5% or more of all students for whom returns were required. If the final report indicates that a letter of credit is required, the school would have to submit it no later than 30 days after the final report is issued.

Exceptions to the letter of credit requirement

A school is not required to submit a letter of credit of less than \$5,000. However, to meet the reserve requirement, such a school would need to demonstrate that it has available at all times cash reserves of at least \$5,000 to make required returns.

In addition, a school may delay submitting a letter of credit while it asks for reconsideration of a finding that it failed to return unearned Title IV program funds in a timely manner. A school may request that the Department reconsider its finding if the school submits documents showing that:

- the unearned Title IV program funds were not returned in a timely manner solely because of exceptional circumstances beyond the school's control and that the school would not have exceeded the applicable threshold had it not been for the exceptional circumstances; or
- it did not fail to make timely returns.

A school that submits an appeal, together with all required supporting documents by the date the letter of credit would be due is not required to submit a letter of credit unless the Department notifies the school that its request has been denied.

Current in debt payments

A school is not current in its debt payments if

- it is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements or audit opinion; or
- fails to make a payment in accordance with existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover funds under those obligations.

Address for Letters of Credit

Letters of credit are submitted to:

U.S. Department of Education
School Eligibility Channel
Data Management and Analysis Division
Document Receipt and Control Center
830 First Street, NE
Room 71-I-1
Washington, DC 20002-5402

Alternative standards and requirements cite

34 CFR 668.175

Information to be provided under zone alternative

The school must provide timely information regarding any of the following oversight and financial events—

- Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
- Any event that causes the institution, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audited financial statement;
- Any violation by the institution of any loan agreement;
- Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
- Any withdrawal of owner's equity from the institution by any means, including by declaring a dividend; or
- Any extraordinary losses, as defined in accordance with Accounting Principles Board (APB) Opinion No. 30.

The school may also be required to:

- submit its financial statement and compliance audits earlier than the time specified under §668.23(a)(4); and
- provide information about its current operations and future plans.

Cite: 34 CFR 668.175(d)(2)

ALTERNATIVES TO THE GENERAL STANDARDS

If a school does not meet the general standards for financial responsibility, the Department may still consider the school to be financially responsible or may allow the school to participate under provisional certification if the school qualifies for an alternative standard.

If the Department determines that a school that does not meet one or more of the general standards and does not qualify for an alternative, the Department may initiate a limitation, suspension, or termination action against the school (see chapter 12 for more information).

Letter of credit alternative for new school

A new school (a school that seeks to participate in the FSA programs for the first time) that does not meet the composite score standard (i.e., has a composite score of less than 1.5) but meets all other standards may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50% of the FSA program funds that the Department determines that the school will receive during its initial year of participation.

Letter of credit alternative for participating school

A participating proprietary or private nonprofit school that fails to meet one or more of the general standards or is not financially responsible because it has an adverse audit opinion may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50% of the FSA program funds that the school has received during its most recently completed fiscal year. The school is then considered to be financially responsible.

Zone alternative

A participating school that fails to meet the composite score standard (i.e., has a composite score of less than 1.5) but meets all other standards may demonstrate financial responsibility for up to three consecutive fiscal years if the Department determines that the school's composite score is equal to 1.0 to 1.4 for each of those years and the school meets specific monitoring requirements.

This alternative gives a school the opportunity to improve its financial condition over time without requiring the school to post a letter of credit or participate under provisional certification. Under the zone alternative, a school's operations, including its administration of the FSA programs, are monitored more closely. If a school does not score at least 1.0 in one of the three subsequent fiscal years or does not improve its financial condition to attain a composite score of at least 1.5 by the end of the three-year period, the school must satisfy another alternative standard to continue participating. In addition, if a school fails to comply with the information reporting or payment method requirements, the Department may determine that the school no longer qualifies under this alternative.

Under the zone alternative, a school

- must request and receive funds under the cash monitoring or reimbursement payment methods, as specified by the Department (see *Volume 4, Chapter 3*);
- must provide timely information regarding certain oversight and financial events (see sidebar);
- may be required to submit its financial statement and compliance audit earlier than normally required (see chapter 12 for more information on audit submission deadlines); and
- may be required to provide information about its current operations and future plans.

The school must also require its auditor to express an opinion, as part of the school's compliance audit, on the school's compliance with the requirements of the zone alternative, including the school's administration of the payment method under which the school received and disbursed FSA program funds.

Provisional certification for school not meeting standards

If a participating proprietary or private nonprofit school fails to meet one or more of the general standards or is not financially responsible because it has an unacceptable audit opinion, the Department may permit the school to participate under provisional certification for up to three years.

The Department may permit a school that is not financially responsible to participate under provisional certification if the school is not financially responsible because it:

- does not satisfy the general standards;
- has an unacceptable audit opinion; or
- has a past performance problem that has been resolved.

If the Department permits a school to participate under provisional certification, the Department will require the school:

- to submit to the Department a letter of credit, payable and acceptable to the Department, for a percentage of the FSA program funds received by the school during its most recent fiscal year. (This percentage must be at least 10% and could be as great as 100%.)
- to demonstrate that it has met all of its financial obligations and was current on its debt payments for its two most recent fiscal years.

Moreover, the school must comply with the requirement under the zone alternative that it provide timely information regarding certain oversight and financial events. Finally, a school that is required to post a letter of credit will be placed on heightened cash monitoring or reimbursement.

If a school is still not financially responsible at the end of a period of provisional certification, the Department may again permit provisional certification. However, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's FSA program participation. The same persons may be required to agree to be jointly and severally liable for any FSA program liabilities.

The Department is not required to offer provisional certification to a school. It is an alternative that the Department may choose to offer in exceptional circumstances.

Provisional certification for school where persons or entities owe liabilities

If a school is not financially responsible because the persons or entities that exercise substantial control over the school owe an FSA program liability, the Department may permit the school to participate under provisional certification if:

- the persons or entities that owe the liability repay or enter into an agreement with the Department to repay the liability; in lieu of this, the school may assume the liability and repay or enter into an agreement to repay the liability; and
- the school meets all the general standards of financial responsibility (In addition, the school must demonstrate that it has met all of its financial obligations and was current on its debt payments for its two most recent fiscal years.); and
- the school submits to the Department a letter of credit, payable and acceptable to the Department, for an amount determined by the Department. (This amount must be equal to at least 10% of the FSA program funds received by the school during its most recent fiscal year.)

The school also must comply with the requirements under the zone alternative.

In addition, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's FSA program participation. The same persons may be required to agree to be jointly and severally liable for any FSA program liabilities.

PAST PERFORMANCE AND AFFILIATION STANDARDS

In addition to meeting the numeric standards of financial responsibility and fulfilling all its financial obligations, a school must demonstrate that it properly administers the FSA programs in which it participates. Past actions of the school or individuals affiliated with the school may reveal mismanagement of FSA program funds, thereby demonstrating that a school is not financially responsible. Therefore, in evaluating the way a school administers the FSA programs, the Department considers the past performance of both the school and individuals affiliated with the school.

Past performance of a school

A school is not financially responsible if the school:

- in the last five years, has been subject to a limitation, suspension, or termination action or has entered into an agreement to resolve a limitation, suspension, or termination action initiated by the Department or a guaranty agency;
- in either of its two most recent FSA program reviews or audits, has had findings for the current fiscal year or two preceding fiscal years that required repayment of more than 5% of the FSA program funds received by the school;
- has been cited during the last five years for failing to submit audits as required; or
- has failed to satisfactorily resolve any compliance issues identified in program reviews or audit reports, upheld in a final decision of the Department.

Past performance of persons affiliated with a school

A school is not financially responsible if any person who exercises substantial control over the school (or any members of the person's family alone or together) owes a liability for an FSA program violation or has ever exercised substantial control over another school (or a third-party servicer) that owes a liability for an FSA program violation, unless that person, family member, school, or servicer demonstrates that the liability is being repaid in accordance with an agreement with the Department.

The Department may consider a school that does not meet this requirement to be financially responsible if the school:

- notifies the Department that the individual repaid to the Department an acceptable portion of the liability, in accordance with the regulations;
- notifies the Department that the liability is currently being repaid in accordance with a written agreement with the Department; or
- demonstrates to the satisfaction of the Department: (1) why the person who exercises substantial control should nevertheless be considered to lack that control, or (2) why the person who exercises substantial control and each member of that person's family does not or did not exercise substantial control over the school or servicer that owes the liability.

Notifying the Department of change of control

A school must report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control trigger a review to determine if the school is financially responsible (see chapter 5).

Fidelity bond coverage for employees

In the past, schools were required to maintain fidelity bond coverage for their employees. This is no longer a federal requirement for schools that participate in the FSA programs. However, by state law some schools are still required to maintain fidelity bond coverage. Even if a school is not required to do so, it may choose to maintain fidelity bond coverage to protect itself when losses occur because of a lack of integrity, on the part of the school's employees or officers.

Program Integrity

In this chapter we discuss the responsibilities of schools, accrediting agencies, states, and the Department for ensuring the integrity of the Federal Student Aid (FSA) programs. We present ED’s School Participation Teams, the Quality Assurance Program, the ISIR Analysis Tool, and the Experimental Sites Initiative. We also remind you of a school’s responsibilities when its participation in one or more of the FSA programs ends.

THE DEPARTMENT’S ROLE

One of the Department’s functions is to oversee the FSA programs to help ensure that they are administered properly. Here we discuss the two major types of oversight activities—audits and program reviews.

Program reviews and audits are conducted to identify compliance problems at the school and recommend solutions. If a school is cited in a program review or audit for improperly disbursing FSA program funds, the school must restore those funds as appropriate.

If a school is cited in a program review or audit for other serious program violations, the school may be subject to corrective action and sanctions, such as fines, emergency action, or limitation, suspension, or termination discussed later in this chapter.

FSA AUDIT REQUIREMENTS FOR SCHOOLS

A school that participates in any FSA program, including a participating foreign school, generally must have an independent auditor conduct an annual audit of the school’s compliance with the laws and regulations that are applicable to the FSA programs in which the school participates (a compliance audit), and an audit of the school’s financial statements (a financial statement audit).

While a compliance audit covers the school’s administration of the FSA programs, a financial statement audit provides the Department with information necessary to evaluate a school’s status vis-a-vis the financial standards (see chapter 11).

The type of compliance audit a school or servicer must undergo depends on its type of control: public, for-profit, or nonprofit.

- All for-profit schools must have an FSA compliance audit conducted under the Department’s *FSA Audit Guide (Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institutions Servicers)*.
- Public and nonprofit schools must comply with the Single Audit Act. The Single Audit Act requires these schools to

CHAPTER 12 HIGHLIGHTS

- The Department’s Role
- Audit Requirements
- Access to Records
- Program Reviews
- Case Management
- Corrective actions & sanctions
- Requirements when a school ceases to be an eligible institution
- Requirements when a school’s FSA participation ends
- Loss of eligibility or withdrawal from loan programs
- Quality Assurance Program
- Experimental Sites

FSA Assessments

To assess your school’s compliance with the provisions of this chapter see the FSA Assessment module for “Institutional Eligibility,” at

ifap.ed.gov/qahome/qaassessments/institutionalelig.html

Integrity of the HEA Programs citations

Part H of the HEA
State role cite
Sec. 495 of the HEA
Accrediting agency cite
Sec. 496 of the HEA
Criteria used by ED for recognition of accrediting agencies cite
34 CFR 602

Audit requirements & waiver

HEA: Sec. 487(c)
20 USC 1094
34 CFR 668.23(a)(1) to (5)
Waiver: 34 CFR 668.27

Independent CPA/auditor

An independent certified public accountant or government auditor, except that a government auditor must meet the Government Auditing Standards qualification and independence standard, including standards related to organizational independence..

Audit reference guides

The FSA Audit Guide is available on the Internet at:

www.ed.gov/about/offices/list/oig/nonfed/sfa.html

The Gaps Users Guide is available at gapsweb.ed.gov

The “Blue Book” is posted on IFAP at: ifap.ed.gov

Opportunity to send comments to Small Business Ombudsman

The Small Business and Agriculture Regulatory Enforcement Ombudsman and 10 Regional Fairness Boards were established to receive comments from small businesses about federal agency enforcement actions. The Ombudsman annually will evaluate the enforcement activities and rate each agency’s responsiveness to small business. If you wish to comment on the enforcement actions of the Department of Education, call 1-888-REG-Fair (1-888-734-3247).

have an audit conducted in accordance with the Office of Management and Budget’s (OMB) Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. (Circular A-133 allows an FSA compliance audit under the criteria of the Department’s Audit Guide under limited circumstances.)

The Office of Inspector General (OIG) also conducts audits, usually in cases where there is concern over a school’s administration of the FSA programs. An OIG or other federal audit does not satisfy the requirement that a school have annual compliance and financial statement audits performed by an independent public accountant.

Simultaneous FSA audit submissions

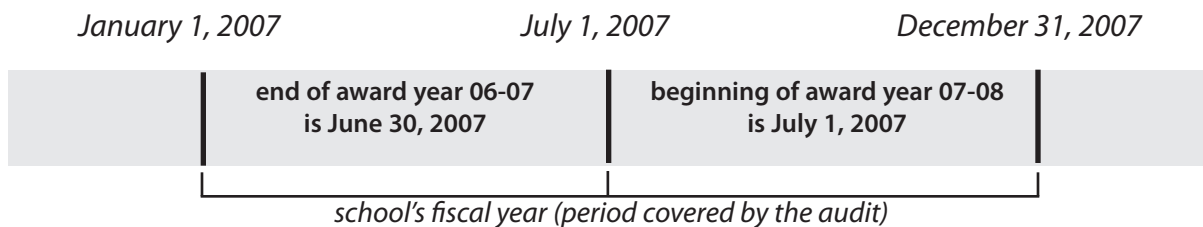
A school that has an audit performed under the FSA *Audit Guide* must submit both the compliance audit and the statement within six months of the end of the school’s fiscal year. Both the compliance audit and the financial statement audit must be performed on a fiscal-year basis. In addition, both audits must be prepared by an independent public accountant in accordance with the Generally Accepted Accounting Principles (GAAP) and audited in accordance with the Generally Accepted Government Auditing Standards (GAGAS). The compliance audit and financial statement audit may be performed by different auditors. However, the audits must be submitted as one package.

In cases where the school’s fiscal year does not coincide with an award year, the school’s compliance audit will cover parts of two award years (see example below).

Waivers of the FSA audit requirement

A school may request a waiver of the annual audit requirement for up to three years if it disburses less than \$200,000 dollars a year in FSA funds (and meets other regulatory conditions). If such a waiver is approved, at the end of the waiver period the school must submit a compliance audit covering each individual fiscal year in the waiver period and a financial statement audit for the last year of the waiver period.

Fiscal Year Not Equal to Award Year Example



State and Accrediting Agency Roles

Accrediting agency role & requirements for recognition

The goal of accreditation is to ensure that education provided by postsecondary educational institutions meets an acceptable level of quality. The Department recognizes agencies that meet established criteria, and such recognition is a sign that an agency has been determined to be a reliable authority on the quality of the institutions or programs the agency accredits.

An accrediting agency can be recognized by the Department for institutional or programmatic accreditation. An institutional accreditation agency accredits an entire institution. A programmatic accrediting agency accredits specific educational programs, departments, or schools within an institution.

An agency must have standards that effectively address the quality of a school or program in the following areas:

- success with respect to student achievement in relation to mission, including, as appropriate, consideration of course completion, state licensing examination, and job placement rates;
- curricula;
- faculty;
- facilities, equipment, and supplies;
- fiscal and administrative capacity as appropriate to the specific scale of operations;
- student support services;
- recruiting and admissions practices, academic calendars, catalogs, publications, grading, and advertising;
- measures of program length and the objectives of the degrees or credentials offered;
- record of student complaints received by, or available to, the agency;
- record of compliance with the school's FSA program responsibilities, based on items such as default rate data and the results of compliance audits and program reviews and any other information that the Department may provide to the agency; and
- any additional accreditation standards the accrediting agency deems appropriate.

There are many additional statutory requirements a national accrediting agency must meet to qualify for recognition. For example, an accreditation agency must

- consistently apply and enforce standards for accreditation that ensure that the education or training offered by an institution or program, including any offered through correspondence or telecommunications, is of sufficient quality to achieve its stated objectives for the duration of the school's accreditation period;
- perform, at regularly established intervals, on-site inspections and reviews of institutions of higher education (that may include unannounced site visits) with particular focus on educational quality and program effectiveness;
- agree to submit any dispute involving the final denial, withdrawal, or termination of accreditation to initial arbitration prior to any other legal action; and
- if it is an institutional accrediting agency, maintain adequate substantive change policies that ensure that any substantive change to the educational mission, program, or programs of an institution after an agency has accredited or preaccredited the institution does not adversely affect the capacity of the institution to continue meeting the agency's standards

Information and a complete list of agencies recognized by the Department can be found at

www.ed.gov/admins/finaid/accred/index.html

Agency standards cite: Sec 496(a)(5) of the HEA; 34 CFR 602.16.

State role

The Higher Education Amendments of 1998, Public Law 105-244 -require that each state (through at least one state agency) must:

- furnish the Department, upon request, with information regarding licensing and other authorization for a school to operate in that state;
- promptly notify the Department of revocations of licensure or authorization; and
- promptly notify the Department of credible evidence that a school has committed fraud in the administration of the FSA programs or has substantially violated a provision of the HEA

Rescinding the waiver

The Department rescinds a waiver if the school:

- disburses \$200,000 or more of FSA program funds for an award year;
- undergoes a change in ownership that results in a change of control; or
- becomes the subject of an emergency action or a limitation suspension, fine, or termination action initiated by the Department or a guaranty agency.

90/10 Disclosure

At the end of the waiver period, **for each individual year in the waiver period**

(in accordance with 34 CFR 668.23(d)(4)), the auditor for a proprietary school must disclose whether the school met the 90/10 requirement of 34 CFR 600.5 and the conditions of institutional eligibility in 34 CFR 600.7 and 34 CFR 600.8(e)(2).

The school must also submit a financial statement audit for the last year of the waiver period.

The regulations do **not** waive the requirement that a school audit its administration of the FSA programs; they waive the requirement that these audits be submitted on an annual basis. Therefore, if a school is granted a waiver for three years, when the waiver period expires and the school must submit its next compliance audit, that audit must cover the institution's administration of the FSA programs since the end of the period covered by its last submitted compliance audit. In that audit, the auditor must audit, and attest to, the institution's annual 90/10 determination for the waived period.

This exception to the annual audit requirement may not be granted for the award year preceding a school's required recertification.

If the Department grants the waiver, the school does not have to submit its compliance or audited financial statement until six months after—

- the end of the third fiscal year following the fiscal year for which the school last submitted a compliance audit and audited financial statement; or
- the end of the second fiscal year following the fiscal year for which the school last submitted compliance and financial statement audits if the award year in which the school will apply for recertification is part of the third fiscal year.

A school's waiver request may include the fiscal year in which that request is made, plus the next two fiscal years. That request may not include an already completed fiscal year.

A school remains liable for repaying any FSA funds it improperly expends during the waiver period. A compliance audit is the vehicle for discovering improper expenditures. Therefore, a school will be required to pay any liabilities when the school eventually submits a compliance audit for the fiscal years in which it made improper expenditures.

Submission dates for FSA audits

A school's or servicer's (discussed under *Audits for third-party servicers*) annual compliance and financial statements audits performed under the *FSA Audit Guide* must be based upon the fiscal year and submitted to the Department within six months after the end of the school's or servicer's fiscal year. (These requirements do not apply to audits performed under the Single Audit Act that are due as specified in OMB Circular A-133.)

Qualifying for waiver

To qualify for a waiver, a school must demonstrate that it

- is not a foreign school;
- disbursed less than \$200,000 in FSA program funds during each of the two completed award years prior to the audit period;
- agrees to keep records relating to each award year in the unaudited period for two years after the end of the regular record retention period for the award year;
- has participated in the FSA programs under the same ownership for at least three award years preceding the school's waiver request;
- is financially responsible under the general requirements of financial responsibility, and does not rely on the alternative standards and requirements of exceptions to participate in the FSA programs;
- is not receiving funds under the reimbursement or cash monitoring system of payment;
- has not been the subject of a limitation, suspension, fine or termination proceeding, or emergency action initiated by the Department or a guaranty agency in the three years preceding the school's waiver request;
- has submitted its compliance audits and audited financial statements for the previous two fiscal years, and no individual audit disclosed liabilities in excess of \$10,000; and
- submits a letter of credit in the amount as determined below, which must remain in effect until the Department has resolved the audit covering the award years subject to the waiver.

For purposes of this section, the letter of credit amount is 10% of the total FSA program funds the school disbursed to or on behalf of its students during the award year preceding the school's waiver request.

Examples of effects of waivers

Example 1: The school is still required to have its administration of the FSA programs audited for the waiver period. If a school is granted a waiver for three years, when the waiver period expires, the next audit must cover the school's administration of the FSA programs since the end of the period covered by its last submitted compliance audit. For example, if a school's fiscal year coincides with an award year (July 1 – June 30), it submits a compliance audit for its fiscal year that ends on June 30, 2004, and then receives a waiver so that its next compliance audit is due six months after the end of its 2006-2007 fiscal year. When it submits that audit, it must cover the 2004-2005, 2005-2006, and 2006-2007, fiscal years.

Example 2: If a school's fiscal year is based on an award year (July 1 – June 30), and the school requests a waiver on May 1, 2004, that waiver request may include its 2003-2004 fiscal year (July 1, 2003 through June 30, 2004) plus its 2004-2005 and 2005-2006 fiscal years. If the school's fiscal year was a calendar year, the school's waiver request could include its calendar 2004 fiscal year plus its 2005 and 2006 fiscal years.

Submission dates cite

34 CFR 668.23(a)(4)

The following chart lists audit due dates and the period the audit must cover for audits due in 2007 and 2008. (The chart provides information for the most common institutional fiscal-year-end dates.)

Audit Submission Due Dates for 2007 and 2008					
<i>School's fiscal year end date</i>	<i>Both audits due</i>	<i>Period audited (financial and compliance)</i>	<i>School's fiscal year end date</i>	<i>Both audits due</i>	<i>Period audited (financial and compliance)</i>
September 30, 2006	March 31, 2007	October 1, 2005 through September 30, 2006	September 30, 2007	March 31, 2008	October 1, 2006 through September 30, 2007
December 31, 2006	June 30, 2007	January 1, 2006 through December 31, 2006	December 31, 2007	June 30, 2008	January 1, 2007 through December 31, 2007
March 31, 2007	September 30, 2007	April 1, 2006 through March 31, 2007	March 31, 2008	September 30, 2008	April 1, 2007 through March 31, 2008
June 30, 2007	December 31, 2007	July 1, 2006 through June 30, 2007	June 30, 2008	December 31, 2008	July 1, 2007 through June 30, 2008

Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the FSA programs. Each subsequent audit must cover the period since the end of the period covered by the preceding audit that is accepted by the Department.

FSA compliance audit submission requirements

Compliance audits must be conducted in accordance with:

- the general standards and the standards for compliance audits contained in the U.S. General Accountability Office's (GAO's) Government Auditing Standards; and
- applicable audit guides from the Department's Office of the Inspector General.

In conducting an audit, a for-profit school or servicer and its auditor should use the Department of Education's latest *FSA Audit Guide*, the accounting and recordkeeping manual for the FSA programs (known as *The Blue Book*), and the *GAPS Users Guide*, as applicable.

The independent auditor or auditing firm the school or servicer uses for its required nonfederal audit may be the same one that usually audits the school's or servicer's fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of FSA funds.

The Department may require a school to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, other federal agencies, or accrediting agencies.

FSA audited financial statement requirements

A school's audited financial statement must cover the school's most recently completed fiscal year. The Department uses the information in a school's audited financial statement to evaluate the school's status vis-a-vis the financial standards (see chapter 11). In addition to a school's audited financial statement, the Department may require that the school submit additional information. For example, the Department may require a school to submit or provide access to the auditor's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, the Department can require a school to submit audited financial statements more frequently than once a year.

Financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP), and audited by an independent auditor in accordance with GAGAS and other guidance contained in OMB Circular A-133, or in audit guides from the Department's Office of the Inspector General, as applicable.

FSA consolidated statements

In some cases, a school's relationship with another entity may cause the Department to require a school to submit additional financial statements both of the school and the entity, such as audited consolidated financial statements; audited full consolidated financial statements; audited combined financial statements; or, under certain circumstances, audited financial statements of one or more related parties. This occurs when the Department determines that the activities or financial health of another entity may impact upon the school's total financial health. So that the Department can make this determination, a school must include in its audited financial statements a detailed description of related entities based on the definition of a related entity in the Statement of Financial Accounting Standards (SFAS) 57. In addition, the description must include all related parties and a level of detail that would enable the Department to readily identify the related party. This information may include, but is not limited to, the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the school, financial or otherwise, regardless of when it occurred.

90/10 Rule cite

34 CFR 600.5 and
34 CFR 668.23(d)(4)

Circular A-133 & the Single Audit Act

Office of Management and Budget (OMB) Circular A-133 was issued pursuant to the Single Audit Act of 1984. The Single Audit Act was amended in 1996—the current requirements are found in Chapter 75 of title 31, U.S. Code.

Circular A-133 is titled “Audits of States, Local Governments, and Nonprofit Organizations” and is applicable to nonprofit postsecondary schools, states, local governments, and Indian tribal governments. For many schools, this is a combined audit of all the federal programs at that school. OMB circular A-133 is available through the OMB Home Page at

www.whitehouse.gov/omb/circulars/index.html

or by calling OMB’s Publication Office at

(202) 395-3080.

Annual financial statement

Section 487(c) of the HEA provides that all schools participating in the federal student aid programs must submit *annual financial statements* to the Department. This applies to all schools, including non-profit schools that are otherwise exempt from submitting annual audited financial statements under the A-133 standards.

Federal Audit Clearinghouse

Non profit and public institutions submit their A-133 audits to—

**Federal Audit Clearinghouse
Bureau of the Census
1201 East 10th Street
Jeffersonville, Indiana 47132**

Required disclosure of 90/10 revenue test

A proprietary school must disclose the percentage of its revenues derived from the FSA programs that the school received during the fiscal year covered by the audit as a footnote to its audited financial statements. The calculation of this percentage and the funds included must be arrived at using the **cash basis of accounting**. A school that converts from a for-profit to a nonprofit status must report its compliance with the 90/10 revenue test for the first year after its conversion. Guidance on footnote disclosures can be found in the *FSA Audit Guide*, in 34 CFR 600.5, and in appropriate accounting references. Information regarding the calculation of this percentage (the 90/10 Rule) is found in chapter 1.

Single Audit Act & A-133 audit guidelines

In lieu of audits performed under the *FSA Audit Guide*, some schools are required to have audits performed under the guidelines of the Single Audit Act (also known as “A-133 Audits” because the guidelines for the audits are provided in OMB Circular A-133). Audits performed under the Single Audit Act satisfy the Department’s audit requirements.

Audits performed under the Single Audit Act have distinct auditing and submission requirements and must be submitted to the Federal Audit Clearinghouse. (A copy of the audit must also be submitted to the Department through the eZ-Audit Web site.) A school submitting an audit under the guidelines of the Single Audit Act must use the submission deadlines established by the Single Audit Act.

Under the requirements of Circular A-133, a school that expends less than \$500,000 of federal funds during a fiscal year is exempt from submitting an annual A-133 audit. (The former criteria of \$300,000 was increased for fiscal years ending after December 31, 2003.) However, a school that spends less than \$500,000 in federal funds is still required to submit a financial statement to the Department within 6 months after the close of its fiscal year. The financial statement does not have to be audited by a CPA, and may be created as compiled or reviewed statements. If the school has prepared a set of audited financial statements for its own use, or for another entity, the school must submit those audited financial statements to the Department no later than 6 months after the end of the institution’s fiscal year.

Circular A-133 permits the submission of program-specific audits if an entity expends funds in only one federal program **and** the program’s regulations do not require a financial statement audit. The FSA program regulations require a financial statement audit. Therefore, **a school may not submit a program-specific audit to satisfy the Department’s audit submission requirements.**

Circular A-133 also now allows an independent auditor to use professional judgment to determine whether certain federal programs must be included in the scope of an audit. An independent auditor

can exclude certain program components, such as FSA program funds, if they fall below a predetermined dollar and risk threshold.

The independent auditor must make an annual assessment of the dollar and risk conditions, determine whether such exclusions are appropriate, and whether any FSA programs must be included within the scope of the audit. You can find additional information on this topic in the latest Compliance Supplement to Circular A-133.

Having the audit performed

The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in chapter 9.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

At the end of the on-site review, the auditor conducts an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but it also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. The exit interview is a good time to resolve any disagreements before the final report is prepared.

The final report is prepared by the auditor and submitted to the school or servicer.

Third party servicers cite

Guidance for audits of third-party servicers is found in the January 2000 Department of Education's "Audit Guide, Audits of Federal Student Aid Programs at Participating Institutions and Institution Servicers."

Citations:

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

34 CFR 668.23(d)(5)

Audits for third-party servicers

A third-party servicer must submit an annual compliance audit. However, if a servicer contracts with only one FSA school and that school's own audit sufficiently covers the functions performed by the servicer, the servicer does not have to submit a compliance audit. If a servicer contracts with several FSA schools, a single compliance audit can be performed that covers its administrative services for all schools. A servicer must submit its compliance audit within six months after the last day of the servicer's fiscal year. The Department may require a servicer to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

In addition to submitting a compliance audit, a servicer that enters into a contract with a lender or guaranty agency to administer any aspect of the lender's or guaranty agency's programs must submit annually audited financial statements. The financial statements must be prepared on an **accrual basis** in accordance with GAAP and audited by an independent auditor in accordance with GAGAS and any other guidance contained in audit guides issued by the Department's Office of the Inspector General.

If the Department determines that, based on audit findings and responses, a third-party servicer owes a liability for its administration of the FSA programs, the servicer must notify each school that it contracts with of the liability. Generally, unless they submit an appeal, schools and servicers owing liabilities must repay those liabilities within 45 days of being notified by the Department.

A school may never use a third-party servicer's audit in place of its own required audit, because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers. (See chapter 3 for more information on third-party servicers.)

eZ-Audit applicability

This requirement applies to any compliance audits or financial statements required under 34 CFR 600.20(a) or (b) to begin or continue participating in the FSA programs, any financial statements required due to a change in ownership resulting in a change in control as provided under 34 CFR 600.20(g), any compliance audits and financial statements required annually under 34 CFR 668.23, and any compliance audits and financial statements required when a school ceases to participate in the FSA programs as provided under 34 CFR 668.26(b).

Information about eZ-audit

Web site: <http://ezaudit.ed.gov>

E-mail contact: fsezaudit@ed.gov

eZ-Audit Help Desk: **877-263-0780**.

Review of FSA audit submissions

For an audit performed under the Department's FSA Audit Guide, the Department reviews the audit report for format, completeness, and to ensure that it complies with the government's auditing standards.

We will use the general information to make an initial determination of whether the audits are materially complete and conducted in accordance with applicable accounting standards. Based on the financial data, we will also make a preliminary determination as to whether your school is financially responsible with respect to the financial responsibility ratios, or in the case of a change in ownership resulting in a change in control, whether the school satisfies the financial ratio requirements under 34 CFR 668.15. Later, the Department will review submissions to determine whether the school must provide additional information or ED should take further action.

Based on the audit findings and the school's or servicer's written explanation, the Department will determine if any funds were spent improperly. Unless the school or servicer has properly appealed the decision, the school or servicer must repay any improperly spent funds within 45 days.

Access to records

Once the audit is complete, the school or servicer must give the Department and the OIG access to all records and documents needed to review the audit. A school that uses a third-party servicer must give the Department and the OIG access to all records and documents needed to review a third-party servicer's compliance or financial statement audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will give the Department and the OIG access to the records and documents related to the audit, including work papers. Cooperation includes providing timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.

Throughout the audit process, and for other examinations such as program reviews and state reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the United States, the appropriate guaranty agency and accrediting agency.

eZ-Audit

eZ-Audit is the Web-based application, launched by the Department on April 1, 2003. It provide a paperless single point of submission for financial statements and audits (i.e., compliance reports). eZ-Audit provides automatic error checking as you enter the data and before submission. In addition, it gives you instant acknowledgment of receipt.

Since June 16, 2003, all schools that participate in the Federal Student Aid Programs have been required to submit financial statements and compliance audits to FSA electronically through the eZ-Audit process (including copies of the A-133 reports that nonprofit and public institutions file with the Federal Audit Clearinghouse).

Nonprofit and public institutions are still required to submit their A-133 audits in writing to the Federal Clearinghouse.

The eZ-Audit process

To access the eZ-Audit Web site you must be a registered user. Each school must select an eZ-Audit Institution Administrator who will be responsible for managing your school's access to the eZ-Audit Web site. This Institution Administrator will receive the user name and password necessary for your school's access, and will be responsible for granting access to others you name as additional users.

Each registered user must sign and retain the eZ-Audit Rules of Behavior. (For registration instructions and to download the Rules of Behavior, please visit <http://ezaudit.ed.gov>).

Once you have obtained your school ID, you will access the appropriate page on the Audit Web site, and —

1. enter general information about your school's compliance audit and financial statement;
2. enter specific financial data directly from its audited financial statement; and
3. attach authentic electronic copies of the audit originals.

After you have entered the required information, you must attach a copy of the audit prepared and signed by the independent auditor. The copy must be in a PDF, non-editable format created using Adobe Acrobat version 5.0 or higher.

Program Reviews

The Department gives priority in program reviews to schools that meet criteria specified in the law as follows

- a school has a cohort default rate in excess of 25% or a rate that places the school in the highest 25% of such schools;
- a school has a default rate in dollar volume that places the school in the highest 25% of such schools;
- a school has a significant fluctuation in Federal Stafford Loan volume, Direct Stafford Loan volume, or Federal Pell Grant awards, that is not accounted for by changes in the programs (significant fluctuations in amounts of aid received by schools are those that do not relate to programmatic changes and added Direct Loans to the list of programs);
- a school is reported to have deficiencies or financial aid problems by the appropriate state agency or accrediting agency;
- a school has high annual dropout rates; and
- it is determined by the Department that the school may pose a significant risk of failing to comply with the administrative capability or financial responsibility requirements.

In addition, the Department is required to:

- establish guidelines designed to ensure uniformity of practice in the conduct of program reviews;
- make copies of all review guidelines and procedures available to all participating schools;
- permit schools to correct administrative, accounting, or recordkeeping errors if the errors are not part of a pattern and there is no evidence of fraud or misconduct; and
- inform the appropriate state and accrediting agency whenever it takes action against a school.

PROGRAM REVIEWS

The Department conducts program reviews to identify possible problems in a school's FSA administration. A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews tend to focus more on regulatory requirements that are specific to the FSA programs. For example, the program review team will examine student records and admissions and records, fund requests and transfers, and records pertaining to due diligence. ED will base penalties arising from a program review on the seriousness of the violations.

Unannounced Program Reviews

Occasionally, it may be necessary for Department officials to perform an unannounced program review. The General Provisions regulations stipulate that Department officials provide a school with a written request for a program review, but do not preclude the Department from providing such a request at the time the reviewers arrive at the school.

In an unannounced program review, the Department reviewers will present a written request to school officials before beginning the review. The school is expected to have its records organized and readily available, without objection to providing access to those records. However, because certain school officials may not be immediately available during the review, the school may be afforded additional time to submit information required in the review. The Department has regulatory authority to take an emergency action if a school denies access to the reviewers performing an unannounced program review. (See discussion under emergency action.) School officials will be informed if an emergency action is to be taken.

Written report

After the Department performs a program review of a school, the program review team prepares a written report. In most instances, this report will be sent to the school within approximately 60 days of the review. The school may respond to this report if it wishes to offer additional information to support its position or if it disagrees with any of the report's conclusions. When the Department has fully considered the school's response and any additional documentation provided by the school, the Department will send a copy of the final program review determination to the school.

The school or servicer must repay the funds within 45 days of the Department's notification of the liability, unless the school or servicer files a written request for review, or makes arrangements with the Department to repay that liability. At its option, the Department may elect to use an administrative offset to collect the funds owed.

Appealing audit and program review determinations

The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a Final Audit Determination Letter and explains the appeals procedures. For a program review, the final determination letter is marked Final Program Review Determination Letter.

If a school or servicer wants to appeal an audit or program review determination, it must appeal, in writing, to the Department official identified in the Determination Letter within 45 days of its receipt of the determination. The school's or servicer's request for review must indicate the findings, issues and facts being disputed; state its position, together with pertinent facts and reasons supporting its position; include all documentation it believes the Department should consider in support of the appeal; and include a copy of the Determination Letter.

If the appeal request is complete and timely, the Department will schedule an administrative hearing before an impartial hearing official. In most cases, an oral hearing will not be required. The school or servicer and the Department must submit briefs with any accompanying materials to the official, and provide the other party with a copy of its submission at the same time. Following a review of the materials submitted, the hearing official issues a decision to the parties. Within 30 days of its receipt of the initial decision, either party may submit a written appeal to the Secretary, explaining why the decision of the hearing official should be overturned or modified.

If the hearing official (or the Secretary) finds that the school or servicer improperly expended funds or otherwise failed to comply with applicable program rules and requirements, the Department will collect the liability owed, if any.

Administrative subpoena authority

The Amendments of 1998 give the Department the authority to issue administrative subpoenas to assist in conducting investigations of possible violations of the provisions of FSA programs. In addition, the law authorizes the Department to request the Attorney General to invoke the assistance of any court of the United States for purposes of enforcing a subpoena if necessary

Administrative subpoena authority cite:
Sec. 490A of the HEA

Access includes the right to copy

records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or the presence of the school's or a servicer's tape recorder.

Access and examination cite
34 CFR 668.24(f)

Appeals cite

34 CFR Part 668 Subpart H

Case Management

Case management is the Department's approach to oversight of schools that participate in the FSA programs. School Participation Management conducts program reviews, reviews compliance audits and financial statements, and provides the Department with a picture of a school's overall compliance through the use of School Participation Teams.

FSA's School Eligibility Channel (SEC) coordinates the case management approach. School Participation Teams are staffed by personnel in the regions and in Washington, DC, and each is assigned a portfolio of schools. Each team is responsible for oversight functions for the schools in its portfolio. These functions include audit resolution, program reviews, financial statement analysis, and recertification. There are Institutional Improvement Specialists for each School Participation Team. Institutional Improvement Specialists are responsible for improving compliance by offering targeted technical assistance and presentations on important FSA topics.

The entire team will evaluate information on the school from a variety of sources to identify any compliance issues at the school. The team can then assess potential risk to the FSA programs and determine appropriate action. Once appropriate actions are decided upon, the case manager assigned to the school ensures that the recommended actions are taken.

School Participation Teams will collect and review information on a school from many sources including, but not limited to

- applications for recertification,
- financial and compliance audits,
- state agencies,
- accrediting agencies and licensing boards,
- student complaints, and
- Department databases.

Possible actions

A School Participation Team may decide to take actions that include, but are not limited to

- reviewing recertification or awarding only provisional certification;
- initiating a program review;
- establishing liabilities;
- developing a strategy for providing technical assistance,
- transferring the school to the reimbursement payment method (see Volume 4 – Processing Aid and Managing FSA Funds);
- requiring a letter of credit; and
- referring the school for an enforcement action.

Actions do not always have to be negative. For example, the School Participation Team can recommend a school for participation in the Quality Assurance Program.

The Department will use a system of risk analysis as well as other tools to identify schools with the greatest need for oversight. The Department will use analysis by various Department data systems to generate a risk score for a school. This will enable the Department to target resources to those schools that present the highest risk to the government.

Case management provides the additional benefit of permitting a school to contact one team that will have all information on the school available in one place. (For a list of phone numbers for the regional School Participation Teams, see the "Contacts" link on the **Financial Aid Professionals** page: fsa4schools.ed.gov)

REVIEWS CONDUCTED BY GUARANTY AGENCIES

The FFEL Program regulations require guaranty agencies to conduct program reviews at postsecondary schools. A guaranty agency must conduct biennial (once every two years) on-site reviews of **at least all schools** for which it is the principal guaranty agency that have a cohort default rate for either of the two preceding fiscal years that exceeds 20%. Schools that the Department requires to take specific default reduction measures and schools where the total amount of loans entering repayment in each of those fiscal years does not exceed \$100,000 are exempted. Alternatively, a guaranty agency may use its own criteria to select schools for the biennial on-site reviews if the Department approves the agency's proposed alternative selection methodology. A program review conducted by a guaranty agency is similar to a Department program review, consisting of an entrance interview, a review of student records, an exit interview, and a written report. However, the guaranty agency's review will focus on how the school meets FFEL-specific requirements, such as

- certification of the loan application;
- maintenance of records supporting the student's loan eligibility;
- processing procedures and payment of loan monies; and
- prompt lender notification when the student changes enrollment status, such as complete withdrawal.

Two copies of the guaranty agency's report are forwarded to the Department, including the school's payment if liabilities were assessed.

Regulations on corrective actions & sanctions

For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions regulations and Section 600.41 of the Institutional Eligibility regulations.

Actions due to program violations or misrepresentation

If a school has violated the FSA program regulations, the Department may (at its sole discretion) allow the school to respond to the problem and indicate how it will correct it. However, if the school has repeatedly violated the law or regulations, or the Department has determined that the violations are egregious, the Department may take an emergency action, fine the school, or initiate a limitation, suspension, or termination of FSA program participation.

Criminal penalties cite

Sec. 490 of the HEA

CORRECTIVE ACTIONS AND SANCTIONS

Sanctions

Sanctions include emergency actions, fines, limitations, suspensions, and terminations (see descriptions on next page). The Department may initiate actions against any school that:

- violates the law or regulations governing the FSA programs, its PPA, or any agreement made under the law or regulations; or
- substantially misrepresents the nature of its educational programs, its financial charges, or its graduates' employability. For details on misrepresentation, see chapter 6.

In addition, the Department has the authority to terminate a school or program that no longer meets the eligibility criteria given in chapter 1.

Similarly, the Department may also sanction a third-party servicer that performs functions related to the FSA programs. Further, the Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all schools or servicers within the group has violated any of the FSA program requirements or has been suspended or debarred from program participation. (See chapters 1 and 3.)

Criminal penalties

The law provides that any person who knowingly and willfully embezzles, misapplies, steals, obtains by fraud, false statement, or forgery, or fails to refund any funds, assets, or property provided or insured under Title IV of the Higher Education Act, or attempts to commit any of these crimes will be fined up to \$20,000 or imprisoned for up to five years, or both. If the amount of funds involved in the crime is \$200 or less, the penalties are fines up to \$5,000 or imprisonment up to one year, or both.

Any person who knowingly and willfully makes false statements, furnishes false information, or conceals material information in connection with the assignment of an FSA program loan or attempts to do so, will, upon conviction, be fined up to \$10,000 or imprisoned for up to one year, or both. This penalty also applies to any person who knowingly and willfully:

- makes, or attempts to make, an unlawful payment to an eligible lender of loans as an inducement to make, or to acquire by assignment, a loan insured under such part.
- destroys or conceals, or attempts to destroy or conceal, any record relating to the provision of FSA program assistance with intent to defraud the United States or to prevent the United States from enforcing any right obtained by subrogation under this part.

Sanctions & Corrective Actions

Emergency action

The Department may take an emergency action to withhold FSA program funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the Department official must determine that:

- The school is misusing federal funds.
- Immediate action is necessary to stop this misuse.
- The potential loss outweighs the importance of using established procedures for limitation, suspension, and termination.

The school is notified by registered mail (or other expeditious means) of the emergency action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all FSA programs and prohibits the school from disbursing FSA program funds or certifying FFEL applications. The action may not last more than 30 days unless a limitation, suspension, or termination proceeding is initiated during that period. In that case, the emergency action is extended until the proceeding, including any appeal, is concluded. The school is given an opportunity to show cause that the action is unwarranted.

Fine

The Department may fine a school up to \$27,500 for each statutory or regulatory violation. In determining the amount of the fine, the Department considers the gravity of the offense, the nature of the violation, and the school's size. The school is notified by certified mail of the fine action, the amount of the fine, and the basis for the action. A school has twenty days from the date of mailing to submit a written request for a hearing or to submit written material indicating why the fine should not be imposed.

Limitation

Under a limitation, the Department imposes specific conditions or restrictions upon a school as it administers FSA program funds. As a result, the school is allowed to continue participating in the FSA programs. A limitation lasts for at least 12 months. If the school fails to abide by the limitation's conditions, a termination proceeding may be initiated.

Suspension

A suspension removes a school from participation in the FSA programs for a period not to exceed 60 days (unless a limitation or termination proceeding has been initiated, or the Department and the school agree to an extension). A suspension action is used when a school can be expected to correct an FSA program violation in a short time.

Corrective action

As part of any fine, limitation, or suspension proceeding, the Department may require a school to take corrective action. This may include making payments to eligible students from its own funds or repaying illegally used funds to the Department. In addition, the Department may offset any funds to be repaid against any benefits or claims due the school.

Termination

A termination ends a school's participation in the FSA programs. A school that has violated the law or regulations governing the FSA programs, its PPA, or any other agreement made under FSA regulations and was terminated from participating in the FSA programs generally may not apply to be reinstated for 18 months.

Possibility of reinstatement

A school requesting reinstatement in the FSA programs must submit a fully completed E-App to the Department and demonstrate that it meets the standards in 34 CFR Part 668. As part of the reinstatement process, the school must show that it has corrected the violation(s) on which its termination was based, including repaying all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. The Department may approve the request, deny the request, or approve the request subject to limitations (such as granting the school provisional certification). If the Department approves the reinstatement request, the school will receive a new ECAR and enter into a new PPA.

Notification requirement

34 CFR 600.40

(d) Except as otherwise provided in this part, if an institution ceases to satisfy any of the requirements for eligibility under this part—

(1) It must notify the Secretary within 30 days of the date that it ceases to satisfy that requirement; and

(2) It becomes ineligible to continue to participate in any HEA program as of the date it ceases to satisfy any of the requirements.

NOTIFYING ED WHEN A SCHOOL'S FSA PARTICIPATION ENDS

A school may stop participating in the FSA programs voluntarily or it may be required to leave involuntarily, as described below. In either situation, there are required closeout procedures to follow (see following section).

In general, a school that ceases to be eligible must notify the School Eligibility Channel within 30 days of its loss of eligibility to participate in the FSA programs. .

Involuntary withdrawal from FSA participation

A school's participation ends in the following circumstances:

- the school closes or stops providing instruction for a reason other than normal vacation periods or as a result of a natural disaster that directly affects the school or its students (see details on next page);
- the school loses its accreditation (see details on next page);
- the school loses its state licensure;
- the school loses its eligibility (see details on next page);
- the school's PPA expires;
- the school's participation is terminated under Subpart G;
- the school's provisional certification is revoked by the Department;
- the school's cohort default rate exceeds allowable limits; or
- the school files a petition for bankruptcy or the school, its owner, or its CEO is responsible for a crime involving FSA funds.

Voluntary withdrawal from FSA participation

For any number of reasons, a school may voluntarily withdraw from participating in one or all of the FSA programs. For instance, a school might wish to withdraw from the Perkins Loan Program to work on lowering high student-loan cohort default rates. To withdraw from one or all of the FSA programs, the school must notify the Department via the electronic application. For more information on these requirements and procedures, contact the appropriate School Participation Team.

A school that withdrew voluntarily (for instance, to lower its default rate) can request to participate again without the waiting period required for a school that was terminated from the program involuntarily or withdrew voluntarily while under a show-cause or suspension order.

Withdrawing from the FSA programs while under a termination order or other sanction — or to avoid being placed under them — is not considered a voluntary withdrawal.

School closes or stops providing instruction

If the school closes its main campus or stops providing instruction on its main campus, its loss of eligibility includes all its locations and programs.

If a school ceases to provide educational instruction in all FSA-eligible programs, the school should make arrangements for its students to complete their academic programs. If the school chooses to enter into a formal teachout arrangement, the school should contact the appropriate School Participation Team for guidance.

School loses primary accreditation

When a school loses its institution-wide accreditation, the Department generally may not certify or recertify that school to participate in any FSA program for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause or after a school has voluntarily withdrawn under a show cause or suspension order. If a school wishes to be reinstated, it must submit a fully completed E-App to the Department.

The Department will not recertify a school that has lost its institution-wide accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. In addition, if a school voluntarily withdrew from accreditation during the last two years under a show cause or suspension order, the Department will not recertify the school unless the original order is rescinded by the accrediting agency. Finally, a school may not be recertified on the basis of accreditation granted by a different accrediting agency during the two-year period.

There are two exceptions to the two-year rule.

1. If the Department determines that loss of institution-wide accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation.
2. If a school's institution-wide accrediting agency loses its Department recognition, the school has up to 18 months to obtain new accreditation.

Note that it is possible for accreditation to be withdrawn from one of the programs at a school without affecting the accreditation (and eligibility) of other programs at the school.

School loses eligibility

A school loses its eligibility to participate in the FSA programs when it no longer meets the requirements of 34 CFR Part 600, certain requirements of Part 668, or when the Department terminates the school under Subpart G of the General Provisions.

Closeout of branch or location

A separate closeout audit is not required if a school closes an additional location or a branch campus because the next due compliance audit for the school must report on the use of FSA program funds at the closed location. However, the school must notify the Department of the additional location or branch closure. See chapter 5 for information on reporting information to the Department.

Recovery of loan discharges when branch/location closes

If an additional location or branch of an institution closes and borrowers who attended the school obtain loan discharges by reason of the closure of the location or branch (or improper ATB or loan certifications), the Department will pursue recovery against the larger institution, its affiliates, and its principals. (20 USC 1087(c)(1).)

CLOSEOUT PROCEDURES

When participation ends

When a school's participation in an FSA program ends—for whatever reason—the school must immediately notify the Department and comply with the following minimum requirements:

- within 45 days of the effective ending date of participation, submit to the Department all financial reports, performance reports, and other reports required by each appropriate FSA program regulation, as well as a dated letter of engagement for an audit by an independent Certified Public Accountant of all FSA program funds received. The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.
- report to the Department on the arrangements for retaining and storing (for the remainder of the appropriate retention period described in 34 CFR 668.24) all records concerning the school's management of the appropriate FSA programs. (See chapter 9.)
- tell the Department how the school will provide for collecting any outstanding FSA program student loans held by the school.
- refund students' unearned FSA student assistance. (See *Volume 5, Chapter 2.*)

Additional closeout procedures

In addition, a school that closes must refund to the federal government or, following written instructions from the Department, otherwise distribute any unexpended FSA funds it has received (minus its administrative cost allowance, if applicable). The school must also return to the appropriate lenders any loan proceeds the school received but has not disbursed to students. If the school's participation in the Leveraging Educational Assistance Partnership (LEAP) Program ends, the school must inform the state and follow the state's instructions.

Unpaid commitments

If a school's participation ends during a payment period (or enrollment period for FFEL programs), but the school continues to provide education in the formerly eligible program until the end of the payment or enrollment period, the school may use the FSA program funds in its possession to—

- satisfy unpaid Pell Grant or Campus-Based program commitments made to students for that payment period or for previously completed payment periods before the school's participation ended;

Note: The school may request additional funds from the Department to meet these commitments.

- satisfy any unpaid FFEL commitments made to students for that period of enrollment by delivering subsequent FFEL disbursements to the students or by crediting them to the students' accounts (only if the first disbursement already was delivered or credited before the school's participation ended);
- use the FSA program funds in its possession to satisfy unpaid Direct Loan commitments made to students for that period of enrollment before participation ended by delivering subsequent Direct Loan disbursements to the students or by crediting them to their accounts (if the first disbursement already was delivered or credited to the students' accounts before the school's participation ended).

Note: The school may request additional funds from the Department to fulfill this commitment.

If you need additional information, contact the School Participation Team for your region (see "Contacts" on the Financial Aid Professional portal, fsa4schools.ed.gov).

LOSS OF ELIGIBILITY OR WITHDRAWAL FROM LOAN PROGRAMS

If a school is notified that it has lost its eligibility to participate in the Direct Loan or FFEL programs and the school does not intend to appeal the decision, it must immediately inform all current and prospective students of its loss of eligibility. The school must also explain that it can no longer certify Stafford and PLUS loans for students or parents. If the school appeals its loss of eligibility within the required timeframe, the school may continue certifying Stafford and PLUS loans during the appeal process. Once a final decision on the appeal is made, the school must take the actions described in the Department's final appeal determination letter.

A student enrolled at a school that loses eligibility or discontinues participation in the Direct or FFEL programs, can continue to receive interest subsidies if the student enrolls and remains enrolled at an eligible school.

If a school plans to withdraw from participation in the Direct Loan and/or FFEL programs, it must notify the appropriate guaranty agency or agencies (for FFEL schools) and the Department (for schools with either loan program) of its decision in writing. Once the effective date of withdrawal has been established, the school is prohibited from disbursing loan funds to the student. However, if your school made a first disbursement to the student before it lost eligibility, it may still be able to make a subsequent disbursement to that student. (See the conditions in 34 CFR 668.26(d).)

Applying to join the QA Program

Schools that are interested in becoming a QA Program participant should contact the QA staff in the School Outreach Division at the following address or e-mail address —

U.S. Department of Education
FSA/ASEDS/SSTC/SOD
Union Center Plaza
830 First Street, N.E.
Washington, DC 20202-5232

qualityassurance@ed.gov

Experimental Sites contact

For further information on the Experimental Sites Initiative, please write the School Outreach Division staff at ExperimentalSites@ed.gov

or visit the Web site at
<https://experimentalsites.ed.gov/exp/index.html>

Regulatory relief citations

Quality Assurance Program
Sec. 487A(a) of the HEA
20 U.S.C. 1094a(a)
Experimental Sites Initiative
Sec. 487A(b) of the HEA
20 U.S.C. 1094a(b)

Current areas of experimentation

- Alternative entrance loan counseling procedures,
- Alternative exit loan counseling procedures,
- Loan fees in cost of attendance,
- Loan proration for graduating borrowers,
- Credit of FSA funds to prior term charges,
- Credit of FSA funds to institutional (non-allowable) charges,
- Overaward tolerance
- Ability to Benefit examinations

QUALITY ASSURANCE PROGRAM

Under the Quality Assurance (QA) Program, participating schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration and delivery of the FSA programs and services. Its mission is to help schools attain, sustain, and advance exceptional student aid delivery and service excellence.

Schools participating in the QA Program are exempt from certain verification requirements. In exchange, they must develop a school-specific verification program based on data gathered and analyzed from QA Program activities. FSA provides a Web-based software application—the ISIR Analysis Tool (which is described in detail on the following pages)—to help schools analyze how well their verification procedures are working. All schools can benefit from using this software tool; however, only schools participating in the QA Program receive the verification flexibility.

EXPERIMENTAL SITES INITIATIVE

If a school believes that it has a better way to administer aspects of the FSA programs than the methods required by statute or regulation, it may apply to be an experimental site. This partnership between ED and schools encourages them to develop and test alternative approaches to streamline procedures and processes, eliminate delays, and remove administrative barriers for students and staff.

Schools participating in this initiative are required to report specific performance data to ED annually on the progress of the experiments. Schools continue to report outcomes such as

- improved cash flow for students,
- expedited financial aid delivery, and
- improved student service; more time for financial aid counseling and less time on unnecessary paperwork.

Concurrently, schools can

- help students remain in school and perform better academically by providing all of their aid at the beginning of the term, when they need it;
- significantly reduce the need for students to borrow short-term loans to meet their financial obligations; and
- realize savings by more efficient use of personnel resources.

For example, in one experiment the school is exempt from the Stafford loan proration requirement for graduating students whose final period of enrollment is less than a full academic year. The school reports that students have lower overall debt upon graduation because they do not have to seek alternative loans with less attractive terms. In addition, the school reports higher retention and graduation rates, and an increase in the efficiency of loan administration.

This Experimental Sites Initiative is providing results that will help ED reform the administration of the FSA programs. The current experiments will continue to collect performance data until the next reauthorization.

FSA Assessments

The FSA Assessments are intended to help all schools examine and improve operations. The assessments can help you

1. Anticipate and address problems;
2. Spot-check the systems you are using to manage information;
3. Prepare for your audit or other review;
4. Maximize the efficiency of your staff in handling their duties; and
5. Revise your approaches according to your campus needs, and do so continually.

To enhance their effectiveness, the FSA Assessments include activities to test compliance and procedures. They also are linked to the latest regulations, Blue Book, Dear Colleague Letters, Federal Registers, and other related documents. Downloadable Microsoft Word documents include the hyperlinks as well.

FSA's partnership with the QA school staff has provided insights into what support from ED is most useful from the financial aid office perspective. Compliance is a requirement, but quality is a choice. For those who are serious about this choice, we provide practical help by making good use of rapidly advancing technology.

FSA Assessments can be found under "Tools for Schools," on the IFAP site (ifap.ed.gov), or under "Self-Assessment Tool" on the Schools Portal (fsa4schools.ed.gov) At the end of each assessment you will find links to

- "Management Enhancements" (for dealing with areas that need improvement), and
- "Effective Practices" (for sharing areas of success with ED and your colleagues).

ISIR ANALYSIS TOOL

The ISIR Analysis Tool is a Web-based application that analyzes FAFSA data reported on the ISIR. A school uses the information to fine tune its own institutional verification procedures.

The ISIR Analysis Tool compares initial and paid-on ISIR transactions to determine if changes in student reported information had an impact on EFC and Pell eligibility. Users import initial and paid-on records from FSA's ISIR Datamart into a database in the ISIR Analysis Tool. Users can construct queries, develop custom formats, and field increments to obtain data from the tool that can help identify problematic areas, zeroing in on specific EFC ranges, data elements, and populations. This data can help a school customize its verification procedures and consumer information provided to students and parents. In addition, the data can identify sections of the FAFSA that may be most confusing to applicants and their families. Such information can help FSA in the development of future FAFSAs as well as improve verification selection criteria through the Central Processing System

The ISIR Analysis Tool provides a full complement of report and analytical capabilities utilizing state-of-the-art Web technology. The reports generated from the ISIR records can help a school identify groups of students for whom CPS edits are missing and develop discretionary verification procedures that focus on students making changes that affect the EFC and Pell eligibility.

To use the ISIR Analysis Tool, your school must enroll in FAA Access to CPS Online. For more information, please refer to www.fsawebenroll.ed.gov

For additional guidance about using the ISIR Analysis Tool, a school should use the resources available at ifap.ed.gov/qamodule/guidance.html.

The FSA Assessments currently available are

- Student Eligibility
- Satisfactory Academic Progress
- FSA Verification
- Institutional Eligibility
- Default Prevention & Management
- Consumer Information
- Fiscal Management
- Return of Title IV Funds
- Perkins Due Diligence
- Perkins Repayment
- Perkins Cancellation
- Perkins Awarding & Disbursement
- Perkins Forbearance & Deferment
- Federal Work-Study
- FSEOG
- Automation

Academic Calendar & Payment Periods

Award limits are generally connected to a period of time. For instance, all of the programs except Federal Work-Study have a maximum amount that can be awarded for an academic year or award year. Measurement of time is important for another reason. In most cases, awards from the Federal Student Aid (FSA) programs must be paid in at least two installments. For most programs, the amount and timing of the payments is based on the academic terms or payment periods in the program.

ACADEMIC YEAR REQUIREMENTS

Every eligible program, including graduate programs, must have a defined academic year. The academic year is used to determine the student's eligibility for loans, Pell Grants, as well as ACG and National SMART grants. The student's academic year status determines, in part, whether they are eligible for first or second-year ACG awards, or a third or fourth-year National SMART grant.

A school may have different academic years for different programs. For example, a school may choose to define the academic year for a term-based program differently from a nonterm program. In some cases the definition *must* be different, such as in the case of a clock-hour program and a credit-hour program. For FSA purposes, the academic year is defined in weeks of instructional time and for undergraduate programs in credit or clock hours. The program's academic year need not coincide with a program's academic calendar.

A school may treat two versions of the same academic program (day and night, for example) as separate programs and define different academic years for each version. If your school establishes separate versions of a program, with different academic years, but allows individual students to take courses from both versions, your school must be able to demonstrate which program the student is actually enrolled in. Generally, to be considered enrolled in a particular program or version of a program, a student must be taking at least 50% of his or her coursework in that program.

A school may have different academic years for different programs, but must use the same academic year definition for **all** FSA awards for students enrolled in a particular program, and for all other FSA program purposes.

CHAPTER 1 HIGHLIGHTS:

Undergraduate Programs and Academic year minimums
 → 30 weeks of instructional time for credit-hour and direct assessment programs, 26 weeks for clock-hour programs
 → 24 semester credits or 36 quarter credits; or 900 clock hours

Academic calendars

- Standard term (semester, quarter, or trimester)
- "Nonstandard" term
- Nonterm

Types of Payment Periods

- Standard and nonstandard term-based credit-hour programs
- Nonterm credit-hour programs
- Clock-hour programs (always nonterm)

Related topics

- Completion requirements for nonterm programs—see Volume 4, Chapter 1.
- Timing of Stafford disbursements for nonterm programs and programs with nonstandard terms of unequal length—see Volume 4, Chapter 1.
- See Volume 5 for discussion of payment periods if student reenters a program after withdrawing.

FSA Assessments

FSA has developed Assessment modules to assist you to 1) Anticipate and address problems, 2) Spot-check the systems for managing information, 3) Prepare for an audit or other review, and 4) Maximize the efficiency of your staff. There are several FSA Assessment modules that will aid you in understanding program requirements and your compliance with FSA program provisions.

The FSA Assessments that are relevant for this Volume can be found at:

FSA Assessment: Fiscal Management (All Programs) <http://ifap.ed.gov/qahome/qassessments/fiscalmanagement.html>

Citations

Award Year: 34 CFR 600.2

Academic Year: 34 CFR 668.3

Payment Period: 34 CFR 668.4

Weeks of instructional time: 34 CFR 668.3(b)

Weeks of instructional time are used in the Pell and Stafford calculations (Chapters 3 and 5 of this Volume).

Note that the Department has not set a regulatory standard for the number of hours of instructional time that make up one day of instruction. This has been left to the reasonable interpretation of schools and their accrediting agencies.

Reductions in academic year length

The law permits schools that provide two-year or four-year associate or baccalaureate degree programs to apply to the Department if they want to establish a full academic year of less than 30 weeks of instructional time. The Department is permitted to grant a reduction in the length of an academic year to no less than 26 weeks of instructional time.

For further details on the information required for submission of such a request, see 34 CFR 668.3 (c).

Weeks of instructional time in an academic year

An academic year for a credit-hour or direct assessment program must be at least 30 weeks of instructional time for a year, and for clock hour programs, 26 weeks of instructional time. In cases where the program uses an academic year that meets the standard for credit hours or clock hours, but the program provides less than the required weeks of actual instructional time, Pell Grant awards and, in some cases, the annual loan limits for Stafford Loans must be prorated.

The number of *weeks of instructional time* are based on the period that begins on the first day of classes in the academic year and ends on the last day of classes or examinations. For all FSA programs, a *week of instructional time* is any period of seven consecutive days in which at least one day of regularly scheduled instruction, examination, or (after the last day of classes) at least one scheduled day of study for examinations occurs. Instructional time does not include periods of orientation, counseling, homework, vacation, or other activity not related to class preparation or examination. Therefore, the weeks of instructional time may be less than the number of calendar weeks that elapse between the first day of classes and the last day of classes or examinations.

Credit/clock hours in an academic year

The law and regulations set the following minimum standards for coursework earned by a full-time student in an academic year in an *undergraduate* educational program (including direct assessment programs):

- 24 semester or trimester credit hours or 36 quarter credit hours for a program measured in credit hours; or
- 900 clock hours for a program measured in clock hours

There is no minimum hours component to the definition of an academic year for *graduate/professional* programs. For purposes of FFEL and DL programs, a loan period certified for an academic year in a graduate or professional program would include the weeks of instructional time in the academic year and the hours a full-time student is expected to complete in those weeks. See Chapter 4 for more details on monitoring annual loan limits.

Counting weeks of instructional time

This graphic illustrates how you would count weeks of instructional time in a program where classes are held Monday through Friday. In our hypothetical year, August 1st is a Sunday, and classes begin on August 23rd and end December 3rd, with examinations held December 6th-10th. Note that the school holds no classes on Labor Day (September 6th) on this calendar, Veterans Day (November 12th), and Thanksgiving break (November 24th-26th). The circles indicate the points at which each of the 15 weeks of instructional time are completed.

August							September							October							November							December						
1	2	3	4	5	6	7				1	2	3	4				1	2	1	2	3	4	5	6				1	2	3	4			
8	9	10	11	12	13	14	5	6	7	8	9	10	11	3	4	5	6	7	8	9	7	8	9	10	11	12	13	5	6	7	8	9	10	11
15	16	17	18	19	20	21	12	13	14	15	16	17	18	10	11	12	13	14	15	16	14	15	16	17	18	19	20	12	13	14	15	16	17	18
22	23	24	25	26	27	28	19	20	21	22	23	24	25	17	18	19	20	21	22	23	21	22	23	24	25	26	27	19	20	21	22	23	24	25
29	30	31					26	27	28	29	30			24	25	26	27	28	29	30	28	29	30					26	27	28	29	30	31	
														31																				

ACADEMIC CALENDARS & TERMS

Schools offer programs with many kinds of academic calendars that differ from the traditional Fall-Spring school year. For purposes of the FSA programs, there are three basic types of academic calendars: standard term, nonstandard term, and nonterm.

Generally, a term is a period in which all classes are scheduled to begin and end within a set time frame. However, if these periods overlap within a program, they may not be treated as a term-based program for Title IV purposes. Term-based programs can have either standard terms or nonstandard terms.

Standard terms: semesters, trimesters, and quarters

Semesters and trimesters are terms that are generally 14 to 17 weeks long. An academic calendar that uses semesters traditionally has two terms, in the fall and spring, and a trimester academic calendar traditionally has three terms, in the fall, spring, and summer. Academic progress is measured in semester credit hours, and full time is at least 12 semester credits.

Similarly, quarter terms are approximately 10 to 12 weeks in length and the academic calendar includes three quarters in the fall, winter, spring, and often a summer term. Academic progress is measured in quarter credit hours, and full time is at least 12 quarter credits.

You may combine shorter terms or modules to meet the requirements of a standard term such as a semester. For example: a program is offered in 8 nonstandard terms, each 6 weeks in length, and students earn 6 quarter credits in each term. The school may choose to combine each consecutive pair of nonstandard terms and consider the program to be offered in 4 quarters.

In certain limited cases for academic programs offered basically in standard terms, a short nonstandard term may be treated as part of one of the standard terms, and the combined terms may be considered to be a single standard term. For example, a program is offered in a calendar consisting of two 15-week semesters and a 4-week intersession. To consider the program as consisting only of semesters, the intersession may be treated as part of one of the two semesters as long as the same treatment is applied for all Title IV purposes to all students enrolled in the program. In addition, hours taken in the intersession must count towards a student's enrollment status for the combined term and costs for the intersession must be appropriately included in the cost of attendance.

Credits and nonstandard terms

Nonstandard terms are terms (where all coursework is expected to begin and end within a set period of time) that are not semester, trimester, or quarter terms. In some cases, the terms may be of unequal length, though it is also possible for terms of equal length to be considered nonstandard. For instance, a school could offer

Typical length of standard terms

For additional information on this topic, this issue was addressed in the preamble to the General Provisions regulations published on November 29, 1996 (Federal Register, Volume 61, No. 231, Page 60581).

Credits and nonstandard terms

Remember, just because progress in a program is measured in semester or quarter credits, this does not necessarily mean that the program is offered in semester or quarter terms. Also, even though a school may label a term as a quarter, semester, or trimester it may be considered a nonstandard term for Federal Student Aid purposes if it does not conform to the Federal Student Aid standards for a semester, trimester, or quarter.

Combining terms examples

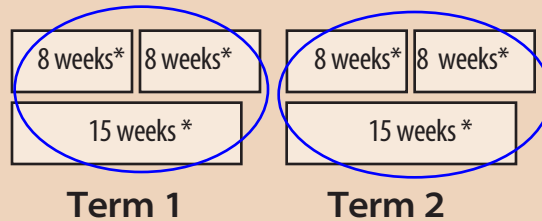
See the example on the next page for guidance on combining concurrent and consecutive terms.

a program with six consecutive 5-week modules, with each module counting as a nonstandard term.

Unlike standard terms, the length of the term is not necessarily associated with the type of credit hours awarded. Some nonstandard terms are the length of a semester (14-17 weeks) but award quarter credits. Others are the length of a quarter (10-12 weeks) but award semester credits.

Combining concurrent terms

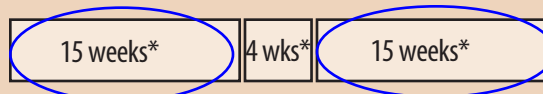
Clark University offers a program in both 15-week terms and 8-week terms. Clark University combined two 8-week terms with a 15-week term to make each semester; each semester provides 16 weeks of instructional time*.



Combining consecutive terms

Lewis College offers a separate degree program in education with a short 4-week* term between two 15-week* semesters. The terms don't overlap.

Lewis College has defined the academic year for this program as 24 semester hours and 34 weeks of instructional time. Lewis College could combine the short term with one of the standard terms and for purposes of FSA programs treat the program as being offered in two semesters:

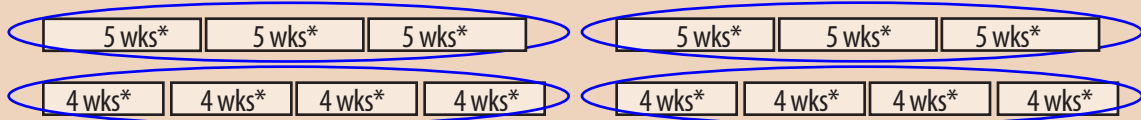


Term 1 (19 weeks) Term 2 (15 weeks)

Lewis College can also choose not to combine the terms. In this case, the program would have a 4-week term and two semesters. For certain Title IV program requirements, this may mean you will treat all terms in a nonstandard manner. For more details on nonstandard terms, see p. 3-3.

Treatment of modules

A school may choose to group modules together and treat the entire period as a term. (For example, grouping three five-week* modules together may create a 15-week* semester; or grouping four one-month modules into a 16-week semester would be acceptable.)



On the other hand, programs that are offered in modules may sometimes be counted as programs measured in nonstandard terms. For example, in a program that offers six 5-week modules, each module could be treated as a nonstandard term. In addition, a school may choose to consider a program that consists of consecutive modules as a nonterm program. Whatever academic calendar your school adopts for a program, you must apply it to all students enrolled in that program and document the program's treatment in your policies and procedures manual.

*Weeks in these examples are weeks of instructional time, as defined earlier in this chapter

Nonterm characteristics

If a program measures progress in clock hours, it is always treated as a nonterm program. A program that measures progress in credit hours is considered to be using a nonterm calendar if it has:

- courses that do not begin and end within a set period of time,
- courses that overlap terms,
- self-paced and independent study courses that overlap terms, or
- sequential courses that do not begin and end within a term.

DEFINITION OF A PAYMENT PERIOD

The definition of a payment period is applicable to all FSA programs except FWS. The common definition is integral to requirements for the administration of FSA program funds. For example, FSA program disbursements (except FWS payments) generally must be made on a payment period basis (for more information, see Volume 4 – Processing Aid and Managing FSA Funds). Note that FFEL and Direct Loan disbursements must still be made in accordance with the specific disbursement rules for those programs (see sidebar).

Under the payment period definition, there are three sets of requirements: one for term-based credit hour programs, one for nonterm credit-hour programs, and one for clock-hour programs.

Payment period cites

- Definition of payment periods: 34 CFR 668.4
- Disburse FSA funds by payment periods: 34 CFR 668.164(b)
 - Pell disbursements by payment period: 34 CFR 690.63
 - Perkins disbursements by payment period: 34 CFR 674.16(b)
 - FSEOG disbursements by payment period: 34 CFR 676.16(a)
 - ACG/National SMART disbursements by payment period: 34 CFR 691.63
 - Direct Assessment payment period: 34 CFR 668.10(a)(3)
 - Disbursing Stafford/PLUS funds by payment period/completion of coursework and calendar midpoint: FFEL: 34 CFR 682.604(c)(6),(7), and (8)
DL: 34 CFR 685.301(b)

TERM-BASED CREDIT HOUR PROGRAMS

Program offered in...	Payment Period is...
• semester terms	• semester
• trimester terms	• trimester
• quarter terms	• quarter
• nonstandard terms	• nonstandard term

Payment periods for nonterm credit-hour programs

Payment periods for programs measured in credit hours without terms vary depending on whether the length of the program in credit hours and weeks of instructional time is:

- one academic year or less
- a multiple of a full academic year
- longer than an academic year with a remainder shorter than or equal to one half of an academic year; or
- longer than an academic year with a remainder shorter than an academic year, but longer than one-half of an academic year.

If you are determining the payment periods for a program for which one of the measures (either credit hours or length of instructional time) is less than an academic year and the other measurement is not, you follow the payment period rules for a program that is less than an academic year.

For all nonterm credit-hour programs, a student must successfully complete both the weeks of instructional time and the credits in a payment period in order to progress to the next period (and be eligible for additional Title IV funds).

If your school is unable to determine when a student has successfully completed half of the credit hours in a program in an academic year, or in the remainder of a program because no credits are awarded until the end of the program, the student is considered to have begun the second payment period of the program, academic year, or remainder of a program at the later of:

- The date the school identifies as the point when the student has successfully completed half of the academic coursework in the program, academic year, or the remainder of the program; or
- The calendar midpoint between the first and last scheduled days of class of the program, academic year, or the remainder of the program.

Payment period for nonterm credit-hour programs where the program is one academic year or less

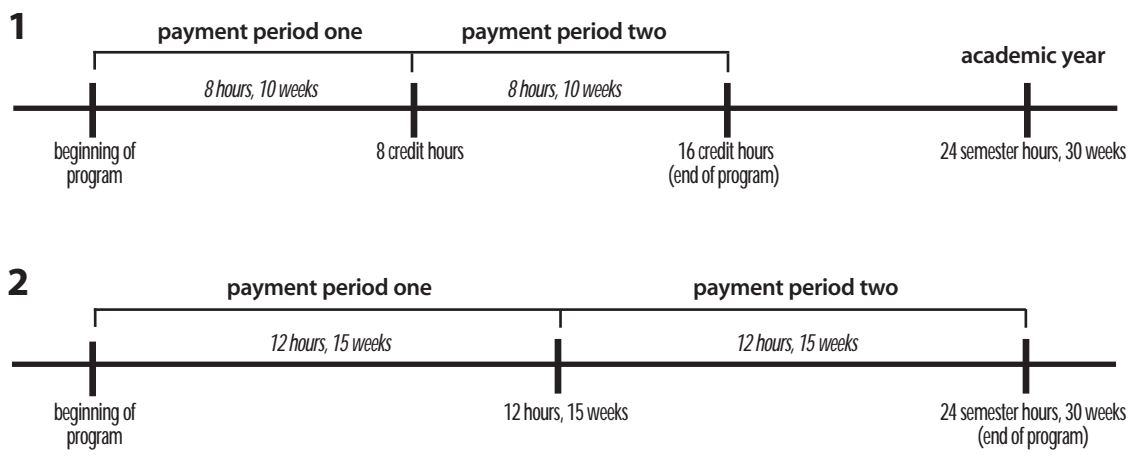
For a student enrolled in an eligible program that is one academic year or less in length, the first payment period is the period of time in which the student successfully completes half the number of credit hours in the program and half the number of weeks of instructional time in the program. The second payment period is the period of time in which the student successfully completes the remainder of the program in both credit hours and weeks of instructional time.

For example, if a program is 16 semester hours and 20 weeks of instructional time, and the academic year is defined as 24 semester hours and 30 weeks of instruction, the first payment period is the period of time needed for the student to successfully complete the first 8 semester hours and 10 weeks of instruction. The second payment period would be the period of time needed for the student to successfully complete the last 8 semester hours and 10 weeks of instruction (see the example that follows). If the program were equal to the academic year (24 semester hours and 30 weeks of instruction), the first payment period would be the period of time needed for the student to successfully complete the first 12 semester hours and 15 weeks of instruction. The second payment period would be the period of time needed for the student to successfully complete the second 12 semester hours and 15 weeks of instruction.

Note: For a program to be considered an academic year in length, both the credit hours and weeks of instructional time must at least meet the program's defined academic year.

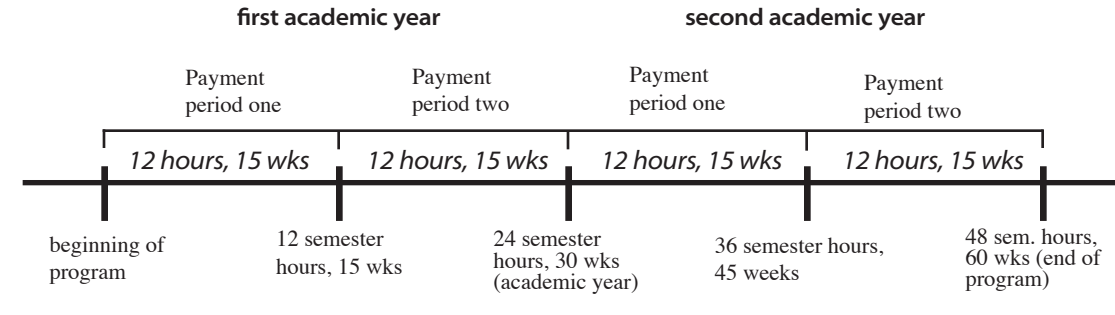
Payment periods for nonterm credit-hour programs that are two or more academic years

One Academic Year or Less Examples



If the program is equal to two or more complete academic years, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student successfully completes half the number of credit hours in the academic year and half the number of weeks of instructional time in the academic year. The second payment period is the period of time in which the student successfully completes the academic year in both credit hours and weeks of instructional time.

Multiple Academic Years Example

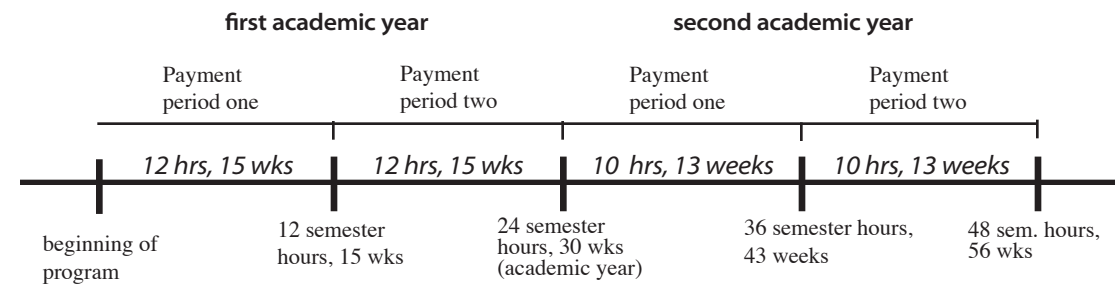


Payment periods for nonterm credit-hour programs that are longer than an academic year with a remaining portion

If the program is longer than an academic year, but has a remaining portion that is not equal to an academic year, in either credit hours or weeks of instructional time or both for the first academic year, the first payment period is the period of time in which the student successfully completes half the number of credit hours in the academic year and half the number of weeks of instructional time in the academic year. The second payment period is the period of time in which the student successfully completes the remainder of the academic year in both credit hours and weeks of instructional time.

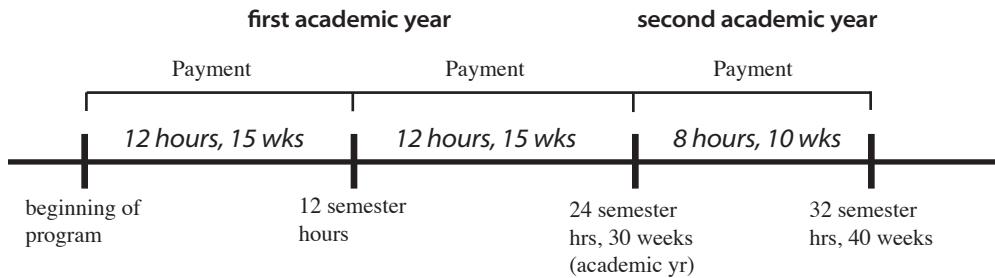
For any remaining portion of an eligible program that is more than one-half an academic year in both weeks of instruction and credit hours but less than a full academic year in length by at least one of these measures, the first payment period is the period of time in which the student successfully completes half the number of credit hours in the remaining portion of the program and half the number of weeks of instructional time remaining in the program. The second payment period is the period of time in which the student successfully completes the remainder of the program in both credit hours and weeks of instructional time.

Remainder Greater Than Half an Academic Year Example



For any remaining portion of an eligible program that is not more than half an academic year in both weeks of instruction and credit hours, the payment period is the remainder of the program. That is, if one measure is less than or equal to half an academic year, there is only one payment period in the remaining portion.

Remainder Equal To or Shorter Than Half an Academic Year Example



Payment periods for programs that measure progress in clock hours

Payment periods for programs measured in clock hours vary depending on whether the length of the program in clock hours is:

- one academic year or less
- a multiple of a full academic year
- longer than an academic year with a remainder shorter than or equal to one half of an academic year or
- longer than an academic year with a remainder shorter than an academic year, but longer than one half of an academic year.

For all nonterm clock-hour programs, a student must successfully complete the clock hours in a payment period in order to progress to the next period (and be eligible for additional Title IV funds).

Payment period for clock-hour programs of an academic year or less

If the program is an academic year or less in length, the first payment period is the period of time in which the student successfully completes the first half of the program, as measured in clock hours. The second payment period is the period of time in which the student successfully completes the second half of the program, as measured in clock hours.

Payment Period for Clock Hour Programs of One Academic Year or Less

First payment period

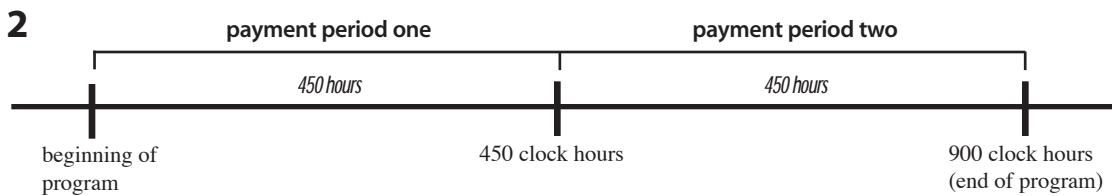
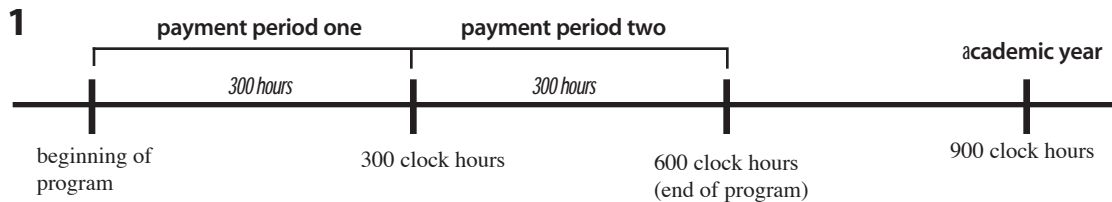
Period in which a student successfully completes first half of the program, as measured in clock hrs

Second payment period

Period in which a student successfully completes remainder of the program, as measured in clock hrs

For example, if a program is 600 clock hours and the clock-hour component of the academic year is defined as 900 clock hours, the first payment period is the period of time needed for the student to successfully complete the first 300 clock hours. The second payment period would be the period of time needed for the student to successfully complete the last 300 clock hours (see example 1 below). If the program were equal to the academic year (900 clock hours), the first payment period would be the period of time needed for the student to successfully complete the first 450 clock hours. The second payment period would be the period of time needed for the student to successfully complete the second 450 clock hours (see example 2 below).

One Academic Year or Less Examples

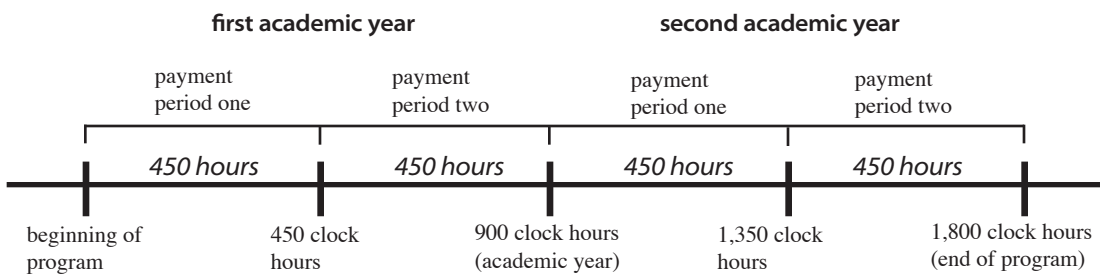


Payment period for clock-hour programs with two or more academic years

If the program is equal to two or more complete academic years, for the first academic year and any subsequent full academic year, the first payment period is the period of time in which the student successfully completes the first half of the academic year, as measured in clock hours. The second payment period is the period of time in which the student successfully completes the second half of the academic year as measured in clock hours.

For example, if a program is 1,800 clock hours and the clock-hour component of the academic year is defined, in part, as 900 clock hours, the first payment period for both the first and any subsequent academic year is the period of time needed for the student to successfully complete the first 450 clock hours. The second payment period would be the period of time needed for the student to successfully complete the next 450 clock hours.

Multiple Academic Years Example



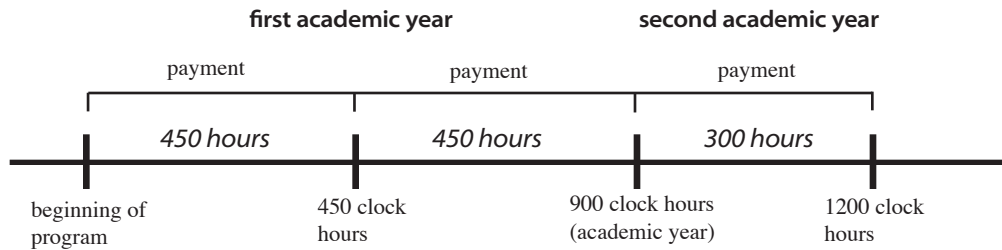
Payment period for clock-hour programs longer than an academic year with a remaining portion

If the program is longer than an academic year, but has a remaining portion of the program that is not equal to an academic year (in clock hours), for the first academic year, and any subsequent full academic year, the first payment period is the period of time in which the student successfully completes the first half of the academic year. The second payment period is the period of time in which the student successfully completes the second half of the academic year.

For the remaining portion of the program, if the remainder is equal to or shorter than one half of an academic year (in clock hours), the payment period is the remaining portion of the program.

For example, if a program is 1,200 clock hours and the clock-hour component of the academic year is defined, in part, as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to successfully complete the first 450 clock hours. The second payment period is the period of time needed for the student to successfully complete the next 450 clock hours. The first, and only, payment period for the second academic year is equal to the remaining portion of the program (300 clock hours).

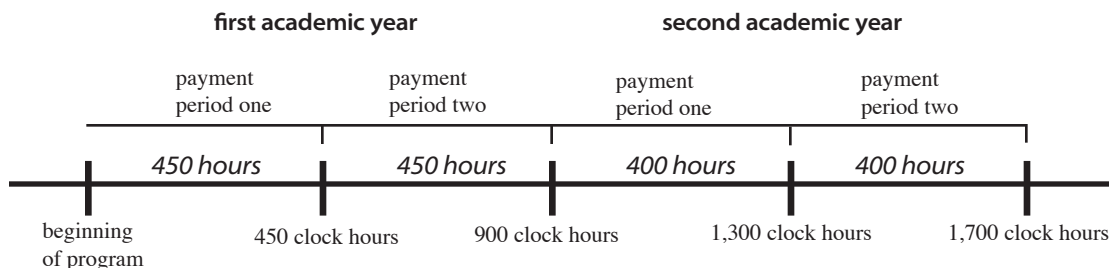
Remainder Equal To or Shorter Than Half an Academic Year Example



If the remaining portion of the program is more than one-half of an academic year but less than a full academic year, in clock hours, for the remaining portion of the program the first payment period is the period of time in which the student successfully completes the first half of the remaining portion of the program, as measured in clock hours. The second payment period is the period of time in which the student successfully completes the second half of the remaining portion of the program as measured in clock hours.

For example, if a program is 1,700 clock hours and the clock-hour component of the academic year is defined, in part, as 900 clock hours, the first payment period for the first academic year is the period of time needed for the student to successfully complete the first 450 clock hours. The second payment period would be the period of time needed for the student to successfully complete the next 450 clock hours. Because the remaining portion is 800 clock hours, the first payment period for the second academic year would be the period of time needed for the student to successfully complete the next 400 clock hours. The second payment period for the second academic year would be the period of time needed for the student to successfully complete the final 400 clock hours.

Remainder Greater Than Half an Academic Year Example



Payment Period for Clock Hour Programs Longer Than One Academic Year

Program Length (in clock hours)	First and subsequent full academic years		Remainder of program	
	First payment period	Second payment period	First payment period	Second payment period
<i>multiples of a full academic year</i>	<i>period of time in which student completes first half of academic year and first half of clock hours</i>	<i>period of time in which student completes second half of academic year and second half of clock hours</i>	N/A	N/A
<i>longer than 1 academic year, remainder shorter than or equal to one half of an academic year</i>	<i>period of time in which student completes first half of academic year and first half of clock hours</i>	<i>period of time in which student completes second half of academic year and the second half of clock hours</i>	<i>period of time in which student completes remainder of program and second half of clock hours</i>	N/A
<i>longer than 1 academic year, remainder shorter than academic year, but longer than half an academic year</i>	<i>period of time in which student completes first half of academic year and first half of clock hours</i>	<i>period of time in which student completes second half of academic year and second half of clock hours</i>	<i>period of time in which student completes first half of remainder of the program and second half of clock hours</i>	

Clock-hour and nonterm credit-hour programs where the school chooses to have more than two payment periods per academic year

For a program measured in credit hours without terms and for clock-hour programs, a school may choose to have more than two payment periods in the program or academic year, as applicable. If a school so chooses, the requirements for completing a payment period are modified to reflect the increased number of periods. For example, if a school chooses to have three payment periods in an academic year in a program that measures progress in credit hours but does not have academic terms, each payment period must correspond to one-third of the academic year measured in both credit hours and weeks of instruction. Each subsequent payment period cannot begin until the student completes the credit hours and weeks of instruction in the previous payment period.

If a student completes additional weeks or hours while completing the other measure of a payment period, these additional weeks or hours count towards completing the next payment period. If a school chooses to have more than two payment periods per academic year, the school must have that policy in writing and must apply the policy to all students enrolled in the programs affected.

Schools should note that making multiple disbursements within a payment period does not create a new or additional payment period.

So, for example, you may have multiple disbursements without having multiple payment periods. While the program regulations permit schools flexibility in making disbursements, schools should recognize the added complexity that making Pell disbursements over different periods than loan disbursements might cause if a student withdraws. To avoid overly complicating their Return of Title IV funds calculations, we recommend that, whenever possible, schools disburse all Title IV funds in the same payment periods.

Payment periods and eligibility for FFEL or Direct loans

For certain academic programs, FFEL and Direct Loans are disbursed differently than other FSA funds.

For programs offered in standard terms, or nonstandard terms of substantially equal length (i.e., all the terms in an academic year are within two calendar weeks of each other in length), the payment period for FFEL and Direct Loans is the term. A student in this type of program does not have to successfully complete the coursework to move to the next payment period. If a single term is the loan period, a student may not receive a second disbursement until the calendar midpoint of the term (loan period) is reached.

However, if the program is a clock-hour, nonterm credit-hour, or nonstandard term credit-hour program with terms that are not substantially equal in length, loan proceeds for FFEL and Direct Loans are not disbursed by payment period. Instead, the loan program rules for scheduling disbursements apply. For a student to be eligible for the second half of his or her loan proceeds, the student must reach **BOTH** the calendar midpoint of the loan period **AND** successfully complete half the coursework of the loan period.

“Substantially Equal”

FFEL: 34 CFR 682.604(c)(7)(ii)

DL: 34 CFR 685.301(b)(5)(ii)

Consider a program with no terms that is 24 credit hours long and offered in successive 4-hour modules with two 12-hour payment periods. The student can not receive the second half of the loan proceeds until the student successfully completes 12 hours and reaches the calendar midpoint of the loan period. A student who fails the first module cannot receive the second disbursement of the loan until s/he has successfully completed 3 additional modules (a total of 12 hours) **and** reached the calendar midpoint of the loan period.

Transfer or reentry for clock-hour and nonterm credit-hour programs

Reentry within 180 days

A student who withdraws from a clock-hour or credit-hour nonterm program and then re-enters within 180 days is treated as if he or she did not cease attendance for purposes of determining FSA award amounts.

Reentry or transfer within 180 days cite

34 CFR 668.4(e)

For credit-hour nonterm-based programs or programs that measure progress in clock hours, a student who withdraws and then reenters the same program at the same school within 180 days is considered to be in the same payment period he or she was in at the time of the withdrawal. The student retains his or her original eligibility for that payment period, and is treated as though he or she did not cease attendance.

Rentry or transfer after 180 days cite

34 CFR 668.4(f)

IMPACT OF CREDIT-HOUR/CLOCK-HOUR CONVERSION FORMULA ON PAYMENT PERIODS

If your program is subject to the credit-hour/clock-hour conversion formula, the clock hours in the payment period must support the number of credit hours in the payment period under the conversion formula. For a detailed discussion of the credit-hour/clock-hour conversion formula, including when it applies, see Volume 2, Chapter 4. For an example of clock-hour/credit-hour conversion, see the following page.

Clock-Hour/Credit-Hour Program Conversion Example

Sternberg University (SU) offers a two-year nondegree program measured in semester credit hours. Courses within the program are not creditable toward a degree at SU. Students in the program earn 16 credit hours per semester.

By applying the conversion formula, the school determines that the number of credit hours for Federal Student Aid purposes is 11 for the first two semesters, and 13 for the last two semesters.

Step 1

SU determines that there are 1,440 clock hours of instruction in the program. There are 330 clock hours of instruction in the first and second semesters (660 first-year total), and 390 clock hours of instruction in the third and fourth semesters (780 second-year total).

Total number of clock hours of instruction in the program: $(2 \times 330) + (2 \times 390) = 1,440$

Step 2

$\frac{330 \text{ clock hours}}{30} = 11$ credit hours in semesters one and two

$\frac{390 \text{ clock hours}}{30} = 13$ credit hours in semesters three and four

Step 3

For the first two semesters of the program, students are eligible for payment for only 11 credit hours of instruction (see Step 2). Because this is less than the full-time student minimum of 12 credit hours, students who attend the first two semesters are eligible to be paid for only three-quarter time attendance.

In the third and fourth semesters of the program, students are eligible to be paid for 13 credit hours of instruction (see Step 2). Students attending the third and fourth semesters can be paid as full-time students.

To see how this school determines the eligibility of the program, see Volume 2 — School Eligibility and Operations.

Direct Assessment program payment periods

Because Direct Assessment (DA) programs don't use credit or clock hours as measures of learning, you must establish a method to reasonably equate the DA program (or DA portion of any program) to credit or clock hours for the purpose of determining the payment periods in the program. You must provide a reasonable written description that supports your claim that the program or portion of a program is equivalent to a specific number of credit or clock hours. Note that any credits awarded for "life experience" are not counted for FSA purposes.

Direct Assessment Program Enrollment Status

34 CFR 668.10

Direct Assessment Academic Year and Week of Instructional Time

34 CFR 668.10 (a)(3)(i),(iii)

Direct Assessment Program Payment Period

34 CFR 668.10(a)(3)

For term credit-hour equivalent Direct Assessment (DA) programs, the payment period is the term.

For nonterm credit-hour equivalent DA program of one academic year or less, the first payment period is that period of time in which the student completes half of the credit hours and weeks of instruction in the program, and the second payment is the period in which the student completes the program.

For nonterm credit-hour equivalent DA programs of more than one academic year the first payment period is the period in which the student completes half of the credit hours and weeks of instruction in the academic year, and the second payment period is the period in which the student completes the academic year (for any remaining portion of the program that is more than 1/2 of an academic year but less than a full academic year, the first payment period is the period in which the student completes 1/2 the credit hours and weeks of instruction in the program and the 2nd payment period is the period in which the student completes the remainder of the program).

For clock-hour equivalent DA programs of one academic year or less, the first payment period is the period in which the student completes half of the clock hours in the program and the second payment period is the period in which the student completes the program.

For clock-hour equivalent DA programs that are more than one academic year in length, the first payment period is the period in which the student completes half of the clock hours in the academic year and the second payment period is the period in which the student completes the academic year (for any remaining portion of the program that is more than 1/2 of an academic year but less than a full academic year, the first payment period is the period in which the student completes 1/2 the clock hours in the program and the 2nd payment period is the period in which the student completes the remainder of the program).

Cost of Attendance (Budget)

Awards for each of the Federal Student Aid programs are based on some form of financial need, beginning with cost of attendance. This chapter picks up at the point where you have established the student's EFC (see the Application and Verification Guide) and the student's basic eligibility (see Volume 1). Most schools establish average costs for different categories of students and set these cost categories in EDExpress or other software that they use to determine awards and package aid. The typical costs that you establish for your students will be used to calculate their Pell Grant, Academic Competitiveness Grant (ACG), National Science and Mathematics to Retain Talent Grant (National SMART), Stafford, Campus-Based, awards (Chapters 3, 4, 5, and 6) and package their aid (Chapter 7).

Unlike scholarship programs that may award funds based on academic merit or the student's field of study, "need-based" grants, loans, and work-study are based on the family's demonstrated financial need for assistance.

The cost of attendance is the cornerstone of establishing a student's financial need, as it sets a limit on the total aid that a student may receive for purposes of the ACG/National SMART Grant programs, Campus-Based Programs and Stafford/PLUS loans, and is one of the basic components of the Pell Grant calculation.

ALLOWABLE COSTS

The cost of attendance for a student is an estimate of that student's educational expenses for the period of enrollment. As we'll see, you can use average expenses for students at your school, rather than actual expenses. For example, for the tuition and fees component, you can use the same average amount for all full-time students, instead of figuring the actual tuition and fees for each individual student. You can have different standard costs for different categories of students, such as a cost of attendance for out of state students (who have higher tuition) and a lower cost of attendance for in state students. However, you cannot combine the COA figures for each separate enrollment status and award aid to a student on the basis of the average COA. Students must be awarded on the bases of a COA comprised of allowable costs assessed all students carrying the same academic workload.

If a student is enrolled in a program that has extra fees or costs, such as lab fees, you can add those fees to the student's cost or use a standard cost that you've established for all students in that program. If you establish standard cost categories, you must apply the cost allowances uniformly to all students in those categories.

CHAPTER 2 HIGHLIGHTS

Allowable Costs

Determined by school, taking into account:

- Tuition and fees
- Books, supplies, transportation, personal, misc.
- Room and board
- Dependent care
- Study abroad expenses
- Disability expenses
- Employment expenses for co-op study
- Loan fees

Exceptions

- Less than half-time enrollment
- Correspondence study
- Incarcerated students
- Professional judgment

Costs met from other sources

- Tuition and fees not paid by student
- Free room and board
- Other cost specified by source

Costs for period of enrollment

- Campus-Based and Stafford/PLUS are based on costs for the period of enrollment; for instance, costs for a student attending a single semester in the school year would be limited to the costs for that time period.
- Pell and ACG/National SMART are always based on the cost of full-time attendance for a full academic year.

Cost of attendance components

The cost of attendance is determined by law (Higher Education Act, Sec. 472) and is not subject to regulation by the Department.

The law specifies the types of costs that are included in the cost of attendance, but you must determine the appropriate amount to include for each category for students at your school.

Less than Half Time COA Components

For students who are less than half-time, COA can include only:

- tuition and fees
- an allowance for books and supplies
- transportation (but not miscellaneous & personal expenses) and
- an allowance for dependent-care expenses.
- a limited allowance for room and board, see p. 3-21.

Documentation of exceptional expenses

The law doesn't specify what documentation you must collect for expenses such as dependent care or disability-related expenses. You can document these expenses in any reasonable way, such as documenting an interview with the student or obtaining a written statement from the student or other appropriate sources.

HERA and reduced origination fees

HERA reduced the origination fees for FFEL and Direct loans. Make sure the COA allowance in your packaging software reflects the lower percentages. For details, see DCL GEN-06-02.

Disabled student

A student is considered disabled if he or she has a physical or mental impairment that substantially limits a major life activity, such as if the student is deaf, mentally disabled, hard of hearing, has a speech or language impairment, is visually disabled, seriously emotionally disturbed, orthopedically impaired, autistic, has a traumatic brain injury, is otherwise health-impaired, or has specific learning disabilities that require special education and related services.

There are different ways to arrive at average costs for your students, such as periodic surveys of your student population and local housing costs.

Allowable costs in general

The types of costs that may be included are the same for all FSA programs. The cost of attendance for the Campus-Based and Stafford/PLUS programs is a student's cost for the period in which the aid is intended. The cost of attendance used for ACG & National SMART Grants and Pell Grants is always the full-year costs for a full-time student, so you may have to prorate actual or average costs up for students who are attending less than an academic year (or who are part-time in a term program) or prorate down for students who are attending for periods longer than an academic year. We'll discuss this at the end of this chapter.

A student's cost of attendance generally is the sum of the following:

- **The tuition and fees normally assessed for a student carrying the same academic workload.** This includes costs of rental or purchase of equipment (including equipment for instruction by telecommunications), materials, or supplies required of all students in the same course of study.
- **An allowance for books, supplies, transportation, and miscellaneous personal expenses.** This can include a reasonable amount, as determined by your school, for the documented rental or purchase of a personal computer that the student will use for study for the enrollment period. For example, a computer purchased in the summer for use in the fall term may be included.
- **An allowance for room and board.** For students without dependents living at home with their parents, this will be an allowance that you determine. For students living on campus, the allowance is the standard amount normally assessed most residents. For those living off-campus but not with their parents, the allowance must be based on reasonable expenses for the student's room and board (see example on next page).
- **For a student with dependents, an allowance for costs expected to be incurred for dependent care.** This covers care during periods that include, but that are not limited to, class time, study time, field work, internships, and commuting time for the student. The amount of the allowance should be based on the number and age of such dependents and should not exceed reasonable cost in the community for the kind of care provided.
- **An allowance for the one time direct costs of obtaining a first professional license or certificate for students who are enrolled in a program that requires such professional licensure or certification.** This allowance may only be provided one time per student per eligible academic program. Examples of allowable costs are fees charged to take a licensing exam and costs of

applying for and obtaining the license or certification. The cost must be incurred during (not after) a period of enrollment, even if the exam is after the end of the period.

- **For study-abroad programs approved for credit by the student's home institution, reasonable costs associated with such study.**
- **For a disabled student, an allowance for expenses related to the student's disability.** These expenses include special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided by other agencies.
- **For students engaged in a work experience through a cooperative education program, an allowance for reasonable costs associated with such employment.**
- **For students receiving loans, the fees required to receive them (for example, the loan fee for a Direct Loan or the origination fee and insurance premium for a FFEL).** You may also include the fees required for nonfederal student loans (that is, nonfederal loans that must be considered EFA for the student when packaging aid). In all cases, you can either use the exact loan fees charged to the student or an average of fees charged to borrowers of the same type of loan at your school. To be included in the COA, any loan fees for private loans must be charged to the borrower during the period of enrollment for which the loan is intended.

Exceptions to the normal cost allowances

The following are the exceptions to the normal cost of attendance allowances discussed above:

- For students who are enrolled **less than half time**, only the costs for tuition and fees and allowances for books and supplies, transportation, a limited amount of room and board, and dependent care expenses may be included as part of the cost of attendance (miscellaneous expenses, and personal expenses may not be included).
- Generally, the cost of attendance for **correspondence study** is restricted to tuition and fees, which often include books and supplies. If the costs of books and supplies are separate, then they may also be counted in the cost of attendance. If the student is fulfilling a required period of residential training, the cost of attendance can also include required books and supplies, an allowance for travel, and room-and-board costs specifically incurred for the period of residential training (as mentioned in Chapter 1 of *Volume 1: Student Eligibility*, a student isn't eligible to receive FSA aid for correspondence courses unless the student is enrolled in an associate-, bachelor's-, or graduate-degree program).
- The cost of attendance for **incarcerated students** is limited to tuition and fees and required books and supplies. Remember that an incarcerated student is ineligible for FSA loans, and if the student is in a federal or state penal institution, he is ineli-

Free room and board example

Guerrero University saves some of its Resident Assistant jobs for students with exceptional financial need. All Resident Assistants receive a waiver of room and board charges. If the student quits the job, the waiver is removed and the student has to pay the room and board charges. All the students have the room and board charges in their cost of attendance. For students who are Resident Assistants because of their financial need, Guerrero must count the room and board waiver as estimated financial assistance. If the waiver is not included in taxable income, then the student must report the waiver amount as untaxed income on the FAFSA.

HERA on Less than half time room and board COA allowance

HEA Sec 472(4)

DCL GEN 06-05

HERA legislation specifies that schools may include in the COA for a less-than-half-time student an allowance for room and board for up to three semesters (or equivalent), with no more than two of the semesters being consecutive at any one school. You are not required to monitor COA components from other schools attended by the student.

HERA Change to Estimated Financial Assistance Component of COA

HEA Sec. 480(j)

DCL GEN 06-05

If the source of assistance is a State and is designated by the State to offset a specific component of the student's COA, the amount of that assistance may be excluded from both COA and EFA. You may exclude such assistance on a student-by-student basis, but if it is excluded, it must be excluded for both COA and EFA. If the amount excluded is less than the allowance provided in the student's COA, you must exclude the lesser amount.

Alternate example of waived or paid COA component

The state in which Guerrero University was founded charges all full-time students the same tuition charge. However, in-state students receive a voucher to cover the difference between what most states consider in-state versus out-of-state tuition. Guerrero has two options. The first option would allow Guerrero to include the same tuition charge in the full-time COA for all students and include the amount of the voucher as estimated financial assistance (EFA) in the respective students' financial aid packages. Alternatively, Guerrero could exclude the amount of the voucher from both COA and EFA because the voucher must be used to explicitly pay a specific component of the COA. Regardless of the option Guerrero chooses, it must apply the option consistently.

WIA reimbursement contracts

Some WIA contracts operate on a reimbursement basis; that is, the student must fulfill the terms of the contract before WIA will reimburse the school for tuition and fee costs. If the student doesn't fulfill the terms of the contract, the school is left with an unpaid tuition and fees charge. The school isn't permitted to hold the student liable for the unpaid tuition and fees. Contracts are established this way to offer schools an incentive to properly train and place students enrolled in the training programs. However, if a tuition and fees charge is included in a Title IV recipient's budget, the student would be liable for any outstanding charges that are not reimbursed by WIA. Therefore, schools that enter into reimbursement contracts *must remove the tuition and fees component* from the Title IV budget because, under these contracts, schools are prohibited from holding the student liable for outstanding charges.

gible for Pell grants as well.

- You have the authority to use **professional judgment** to adjust the cost of attendance on a case-by-case basis to allow for special circumstances. Such adjustments must be documented in the student's file. (See "Professional Judgment" in the *Application and Verification Guide*.)

Costs waived or paid by other sources

When a specific component of a student's cost of attendance is waived or explicitly paid by another source, special treatment may be necessary. In some situations, the student is charged the normal tuition and fees charge with an offsetting credit issued. In other situations, the student is never charged tuition and fees at all. Although this section discusses this concept in terms of tuition and fee charges, it applies to any of the components of a student's cost of attendance.

In some cases, such as under Workforce Investment Act (WIA) programs, a student's tuition and fees are paid by another organization or are waived. The student's costs are based on what the school is actually charging the student, based on the agreement between the school and the student.

If the student is charged for the tuition and fees, even if the charge is eventually paid by someone besides the student (e.g., a scholarship agency or other source of aid), then that tuition and fee amount is included in the cost of attendance in most circumstances (see sidebar on "Alternate example of waived or paid COA component"). The tuition and fees payment would then be counted as estimated financial assistance. The charge is documented in the same way as for any non-WIA student—for instance, in your school's contract with the student or in the agreement with the WIA agency. (If your school charges the student for tuition and fees, your school would have to expect the student to pay the charge if the WIA agency or other source of assistance doesn't pay on the student's behalf.)

If the student is never charged for tuition and fees, then the cost of attendance wouldn't include the tuition and fees component. Some WIA agreements with schools provide that the school can't charge the tuition and fees to the student, even if WIA doesn't cover the costs. If your school is prohibited under such an agreement from charging tuition and fees to the student, then the tuition and fees aren't included in the student's cost of attendance, and, therefore, that amount would not be included as estimated financial assistance.

Even if there's no tuition and fees component, the student's budget still includes the other costs listed previously, such as an allowance for living expenses. Note that a Pell Grant award to a student who has no tuition and fees may need to be based on the Alternate Schedule for "Tuition Sensitivity" (discussed in Chapter 3). The option to either include the cost and aid in both COA & EFA versus excluding both from COA & EFA only applies to non-Federal sources of assistance, and only when that assistance is designated to offset specific components of COA (i.e. tuition, room and board).

COSTS FOR PERIODS OTHER THAN NINE MONTHS

The cost of attendance used to package ACG & National SMART, as well as Campus-Based aid and Stafford/PLUS loans covers the student's actual period of enrollment. Therefore, if the student will be attending for more than 9 months, you must use a higher cost of attendance that includes living expenses, such as room and board, for the longer period of time. If the student will be attending for less than 9 months, you must use a lower cost of attendance. You can choose to prorate the allowances you use for 9 months, or can calculate the cost in any other reasonable way.

Adjusting Costs for Pell

The types of costs included in the Pell budget are the same as those for the other FSA programs; however, Pell costs are always based on the costs for a *full-time student for a full academic year*.

For Pell, costs for programs or enrollment periods longer or shorter than an academic year must be prorated so that they are the costs for one full academic year. This is true for both parts of the academic year definition: if either the number of weeks or the number of clock/credit hours differs from the academic year standard, the costs must be prorated to determine the full-time, full-year Pell budget. The need to prorate Pell costs is most likely to occur in these situations:

- a term-based program that provides less than 30 weeks of instructional time in an academic year.
- a nonterm program that provides less than 24 semester hours, 36 quarter hours, or 900 clock hours and/or provides less than 30 weeks of instructional time in an academic year; or
- a program that is longer than an academic year, where the costs for the entire program are charged at the beginning of the program.

There are two ways to prorate Pell and ACG/National SMART costs, as shown in the first two examples at the end of this section. Both of these examples are based on a program that is shorter than an academic year. The third example shows how costs are prorated when they are charged for a program that is longer than an academic year.

If the student is in a category where costs are limited, such as less-than-half-time enrollment, those costs that are allowable must be based on costs for a full-time student for a full academic year. For instance, the tuition component of the Pell cost of attendance for a less-than-half-time student must be based on the tuition costs that would be incurred by a full-time student attending a full academic year.

Note that prorating the cost of attendance usually does not affect the amount of Pell Grant the student receives. However, you're required to report the full-time, full-year Pell budget when reporting disbursements to COD.

Costs for a period other than 9 months

For Stafford, PLUS, ACG/National SMART and Campus-Based aid, the cost of attendance used for packaging must reflect the student's cost for that period that he or she is actually enrolled.

For instance, if a student is completing her program of study by taking a 1/2-time course load for the fall semester at your school, and that's the only term that she'll be attending in the award year, you could use the actual tuition and fee charges for the student's costs. If you use average costs for living expenses for a 9-month academic year for students in that program, you may divide your average costs by the number of terms in the academic year to find the cost for this enrollment period (assuming the terms are substantial in length).

For Pell Grants and ACG/National SMART, you could either use an average tuition cost for a full-time, full-year student in the program or prorate the student's actual tuition for the fall term to arrive at a full-year, full-time cost. Costs for living expenses may also be average costs for a full academic year—if a full-year average cost is used, it doesn't have to be prorated for Pell and ACG/National SMART Grant awards.

Costs for full program charged at start

A school may charge the total tuition cost for a program at the beginning of the first period of enrollment. If the program is longer than an academic year, for Stafford/PLUS loans and Campus-Based aid, the tuition costs apply only to the first period of enrollment. For Pell, you must prorate these charges to reflect the academic year in accordance with the procedures outlined in Chapter 3.

Changes in Pell COA

For more on when changes in Pell COA necessitate a recalculation of a Pell award, see Volume 3, Chapter 3.

Pell Grant Cost Example #1: prorating total costs by lesser of two fractions

You may take the student's entire cost of attendance (tuition and fees, room and board, etc.) and multiply it by the lesser of the two fractions that represent the length of the academic year. If the lesser fraction is one, then you don't prorate the cost of attendance. One fraction is based on credit or clock hours and the other is based on weeks of instructional time, as shown in this example.

Let's use the example of a program that charges \$10,500, awards 18 semester credits, and is completed by most full-time students within 20 weeks of instructional time.

$$\frac{\text{Credit/clock hours in academic year definition} = 24}{\text{Credit/clock hours awarded} = 18}$$

$$\frac{\text{Weeks in academic year definition} = 30}{\text{Weeks provided} = 20}$$

Since the fraction using credit hours is the lesser fraction, the program cost of \$10,500 is multiplied by 24/18 to find the full-year Pell cost.

$$\$10,500 \times 24/18 = \$14,000$$

In this case, the full-time cost is \$14,000. (Note: If one of the fractions is equal to one, for instance, if the program awards 24 credit hours, then the prorated cost is the same as the original cost of attendance.)

Pell Grant Cost Example #2: prorating academic costs & living expenses separately

As an alternative, you can separately prorate the costs associated with credit or clock hours (tuition and fees, books and supplies, loan fees) and the costs associated with weeks of instructional time (room and board, miscellaneous expenses, disability expenses, transportation, dependent care, study abroad, reasonable costs associated with employment as part of a cooperative education program).

Using our earlier example of a program lasting 20 weeks and awarding 18 credit hours, and specifying that the student's tuition, books, supplies, etc come to \$4,500 and living expenses amount to \$6,000, the calculation would look like this:

$$\frac{24 \text{ credit hours}}{18 \text{ credit hours}} \times \$4,500 = \$6,000$$

$$\frac{30 \text{ weeks}}{20 \text{ weeks}} \times \$6,000 = \$9,000$$

In this example, the student's Pell budget is the sum of the two prorated costs, or \$15,000.

Pell Grant Cost Example #3: prorating costs for a nonterm program longer than an academic year

Costs must also be prorated if they are charged for a period longer than an academic year. You may use either of the proration methods shown in Examples 1 and 2.

We'll use the example of a program awarding 1,000 clock hours and providing 40 weeks of instructional time. Let's assume that the school uses the regulatory minimums in defining the academic year as 900 clock hours and 30 weeks.

The total costs over the 40 weeks, including tuition and living expenses, is \$5,900. If we use the method in Example 1, this amount must be prorated by the lesser of the following two fractions.

$$\frac{\text{Credit/clock hours in academic year definition} = 900}{\text{Credit/clock hours awarded} = 1000}$$

$$\frac{\text{Weeks in acad. year definition} = 30}{\text{Weeks provided} = 40}$$

The lesser of the two fractions is the one based on weeks (3/4). Multiply the total program cost by this fraction to determine the Pell costs for a full academic year: $\$5,900 \times 3/4 = \$4,425$.

Pell Grant cost of attendance for a consortium program

A student receiving a Pell Grant for attendance at two schools through a consortium agreement may have costs from both schools at the same time. The student's cost of attendance is calculated in the same way as for a student taking classes at only one school. The student's charges for tuition and fees and books and supplies at the consortium schools have to be combined into a single charge for a full academic year for purposes of the Pell calculation. The school paying the student can choose to use actual charges for the student, which would simply be the sum of the actual charges at both schools. Of course, if the student isn't attending full-time, your school will have to prorate these tuition and fees and books and supplies charges so that they are the correct amounts for a full-time, full-year student.

If the disbursing school is using average charges, then the average full-time charges at each of the schools must be prorated and combined. If the student is taking a full-time load at each school, the full-time tuition and fees charges for an academic year at each school can be averaged to determine the tuition and fee cost. However, if the student is taking an unequal course load, the disbursing school must prorate the charges based on the number of hours the student is taking at each school.

Pell Grant cost of attendance for a co-op program

If a student has a co-op job for the first term, the tuition and fees for that period can be prorated over the full academic year for the program (which must include at least 30 weeks of instructional time). This prorated amount is then added to the other cost of attendance components to arrive at the total cost for a full-time student for a full academic year.

For the rest of the year, your school can either use the cost of attendance with the projected amount or can recalculate the student's tuition and fees at the end of the first term to determine a new cost of attendance for the remaining payment periods. This decision must be consistent with your school's overall policy on recalculating for changes in a student's costs. (See the discussion of Pell Grant recalculations in Chapter 3 of this volume for more information.) Note that the cost of attendance can also include employment-related expenses.

Calculating Pell Grant Awards

Pell Grant awards are based on the EFC on the student's SAR or ISIR, the academic year structure (see Chapter 1), and the student's cost of attendance (see Chapter 2). The scheduled award amounts are specified on the Payment Schedules released by the Department prior to each award year. For term-based programs, awards for part-time students are also based on enrollment status, using the part-time charts in the Pell Grant Disbursement Schedules.

In this chapter, we'll show you how to take the award amount for the year and calculate Pell Grant payments for your students, using the appropriate formula for the term or nonterm calendar in the academic program.

SCHEDULED AWARD, AWARD YEAR, & ANNUAL AWARD

The Scheduled Award is the maximum amount the student can receive during the award year, if he or she attends *full-time* for a *full* academic year. The award year begins on July 1 of one year and ends on June 30 of the next year. For example, the 2007-2008 award year begins July 1, 2007, and ends June 30, 2008.

The student's *Scheduled Award* is established by the Pell Grant Payment Schedule that the Department issues prior to the start of each award year. The amount of the Scheduled Award is always taken from the Full-Time Payment Schedule, and is based on the student's EFC and Cost of Attendance.

The Scheduled Award is a maximum that can't be exceeded, even if the student transfers to another school or attends for a period longer than one academic year during the award year. For example, if a full-time student attends fall and spring semesters, and those terms encompass an academic year, the student would have no remaining eligibility in that award year for a summer term. (However, you can use the student's Pell Grant eligibility for the coming award year to pay a student for a summer term or other crossover payment period, as described later in this chapter.)

The annual award is the maximum amount a student would receive during a full academic year for a given enrollment status, EFC, and COA. Note that for a full-time student, the annual award will be the same as the Scheduled Award.

CHAPTER 3 HIGHLIGHTS

- Pell Grant calculations for:
 - Credit-hour term programs with fall through spring standard terms that provide 30+ weeks of instructional time (Formula 1 or Formula 3)
 - Credit-hour term programs with fall through spring standard terms that provide less than 30 weeks of instructional time (Formula 2 or Formula 3)
 - Any credit-hour term programs including nonstandard term programs (Formula 3)
 - Clock-hour programs and nonterm credit-hour programs (Formula 4)
 - Summer terms, crossover payment periods, and mini-sessions.
 - Transfer students
 - Recalculations (required and optional) when EFC, cost, or enrollment status changes

Scheduled Award limit

34 CFR 690.63(g)

Appendices

- Appendix A - Formula 2: Calculations for standard-term programs with less than 30 weeks in fall through spring
- Appendix B - Formula 5: Calculations for correspondence study programs
- Appendix C - Formula summaries for all five Pell formulas

2007-2008 Pell Payment Schedules

The 2007-2008 Pell Payment Schedules can be found on the IFAP website on the same page as the FSA Handbook Vol. 3

Multiple award provision

The law and regulations allow for the possibility of a second Scheduled Award during an award year under certain conditions, subject to available funding. If funds are available, we will inform you through a Federal Register notice and electronic announcement.

HEA Sec. 401(b)(6)(A), 34 CFR 690.67

Enrollment status under consortium agreement

The enrollment status of a student attending more than one school under a consortium agreement is based on all the courses taken that apply to the degree or certificate at the home institution. The disbursing school may have to make some adjustments if the coursework at the other school is measured in different units.

At a term school, a part-time student will have an *annual award* that is less than the Scheduled Award. If the student attends part-time, the student’s annual award is taken from the 3/4-time, 1/2-time, or less-than-1/2-time disbursement schedules.

For instance, if a student’s Scheduled Award is \$4,310, but the student is enrolled as a 1/2-time student in a term program, the student’s annual award would only be \$2,155.

		Full-Time Payment Schedule								Half-Time Disbursement Schedule					
		Expected Family Contribution								Expected Family Contribution					
Cost		0	500	1000	1500	2500	3000	Cost		0	500	1000	1500	2500	3000
1,000								1,000							
2,000								2,000							
3,000								3,000							
\$4,500 +	4310							\$4,500 +	2155						

Enrollment status for cooperative education

In a cooperative education program, your school assesses the work to be performed by the student and determines the equivalent academic course load. The student’s enrollment status is based on the equivalent academic course load.

The annual award is for a full academic year, and must be divided into payments for the payment period using the formulas described in this chapter. Note that if a student only attended half of an academic year, the student could receive no more than one-half of the annual award.

Consortium Different Units Example

Chris is taking 6 semester hours at Hart University, the home institution, and 9 quarter hours at Sarven Technical Institute. To determine his enrollment status, Hart needs to convert the hours at Sarven into semester hours. Because a quarter hour is about two-thirds of a semester hour, Hart multiplies the number of quarter hours by two-thirds:

9 quarter hours X 2/3 = 6 semester hours

Then the hours taken at both schools can be added together:

6 semester hrs. at Hart
 + 6 semester hrs. at Sarven
 12 semester hours

Linda is also taking 6 semester hours at Hart University and 9 quarter hours at Sarven Technical Institute, but her home institution is Sarven Technical Institute. Because Sarven is paying her, it needs to convert the semester hours taken at Hart into quarter hours:

6 semester hours X 3/2 = 9 quarter hours

Then, the hours taken at both schools can be added together:

9 quarter hrs. at Sarven
 + 9 quarter hrs. at Hart
 18 quarter hours

TERMS AND PAYMENT METHODS

Generally, if all the coursework is scheduled to be completed within a specific time frame, the program can be considered term-based. Term-based programs can have either standard terms or nonstandard terms. Generally, Pell Grants are calculated differently for the two types of terms. Standard term programs may be treated similarly to nonstandard term programs if the program does not conform to a traditional academic calendar.

Standard terms

Standard terms are semesters, trimesters, or quarters, as these words are traditionally used. In traditional usage, an individual semester or trimester provides about 14 to 17 weeks of instructional time and full-time is defined as at least 12 semester or trimester hours. The program’s academic calendar generally consists of three terms, one each in fall, spring, and summer. In traditional usage of the term “quarter,” an individual quarter provides about 10 to 12 weeks of instructional time, and full-time is defined as at least 12 quarter hours. The program’s academic calendar generally includes three quarters in the fall, winter, and spring and often a summer quarter as well.

Nonstandard terms

Any term that isn’t one of the standard terms described above is a nonstandard term. Sometimes schools refer to terms by standard names when they are, in fact, nonstandard terms. For example, a program may be made up of terms called quarters but progress is measured in semester hours.

Nonterm programs

Nonterm programs may be measured in either clock hours or credit hours. If the courses of a program are not offered in an academic calendar requiring the completion within the beginning and end dates of the terms, it is likely a nonterm program.

Ground rules for Pell

Fractions

When using fractions, be careful to multiply first, and then divide to avoid an incorrect result. For example, here's the correct way to prorate a \$2,130 Scheduled Award for a payment period that is a nonstandard term of 10 weeks of instructional time.

$$\$2,150 \times \frac{10}{30} \text{ is multiplied as } \frac{2,150 \times 10}{30} = 716.67$$

In this case, if you divide the fraction to get a decimal (.33333...) and then round the decimal either down (.33) or up (.34), your calculation will result in a number that's too low (709.50) or too high (731).

Rounding

Previously, schools were required to round to the nearest dollar when making disbursements. However, the Common Origination and Disbursement System (COD) accepts cents in payment amounts. Schools are not required to round disbursements to the nearest dollar, but can if they choose. Your school's policy of rounding, whether to the nearest dollar or cent, must be applied consistently to all students. Note that COD has very specific format requirements for payment amounts.

When rounding disbursements, round up if the decimal is .50 or higher; round down if it's less than .50. For instance, if a calculation results in a payment of \$516.50, round up to \$517. If the calculation result is \$516.49, round down to \$516.

If you're rounding disbursements for a student who is expected to be enrolled for more than one payment period in the award year, you have to alternate rounding up and rounding down to ensure that the student receives the correct amount for the year. For example, if a student had a Scheduled Award of \$1,025 to be paid in two payment periods, the first payment would be \$513 (rounded up from \$512.50), and the second payment would be \$512 (rounded down to ensure that the student isn't overpaid for the year).

The same principle applies when there are three or more payment periods in the award year. For instance, if the student has a Scheduled Award of \$1,100 and enrolls as a full-time student at a school using quarter terms, the payment for each term would come to \$366.66. If the school is rounding disbursements, the first two payments would be rounded up to \$367, and the last payment would be rounded down to \$366 to reach the total of \$1,100.

CREDIT-HOUR TERM-BASED PROGRAMS

Annual award based on enrollment status

In a term-based program, academic progress is always measured in credit hours, and the student's annual award depends on his or her enrollment status. Your school's standards for enrollment status must meet the minimum regulatory requirements, which are discussed in further detail in *Volume I: Student Eligibility (Chapter 1)*.

Academic calendar & enrollment status changes

Because the academic calendar for a program determines which Pell formula you use, you need to review the conditions for the use of each formula if the calendar for the program changes. This is particularly true if you are using Formulas 1 and 2, since they have the most restrictive conditions.

If a student's enrollment status changes during the year, your school may have to recalculate the student's Pell Grant payment based on the new enrollment status. At the end of this chapter we'll discuss when a school is required to recalculate due to a change in enrollment status.

34 CFR 690.63

34 CFR 690.80(b)

Including remedial coursework in enrollment status

When figuring enrollment status, your school must include any reduced-credit or noncredit remedial coursework designed to increase the student's ability to pursue his or her program of study. See the discussion of "Enrollment Status" in Volume I: Student Eligibility (Chapter 1).

Variations in enrollment status standards

If a program uses standard terms, for Pell Grants only, the enrollment status standards in the program don't have to be proportional—for instance, a program could have a 15-hour standard for full-time enrollment, but set a 9-hour minimum for 3/4-time status and a 6-hour minimum for 1/2-time status.

In addition, your school's academic standard may differ from the enrollment standard used by the financial aid office for FSA purposes. For example, your school may define full-time as six hours during the summer; however, the financial aid office uses 12 hours as full-time for all terms including the summer term. Your school must apply its FSA full-time enrollment standards consistently to all students enrolled in the same program of study for all FSA purposes. 34 CFR 668.2, 34 CFR 690.2

For standard terms, the minimum enrollment standards are:

- Full-time: 12 semester hours per semester/trimester
12 quarter hours per quarter
- 3/4-time: 9 semester hours per semester/trimester
9 quarter hours per quarter
- 1/2-time: 6 semester hours per semester/trimester
6 quarter hours per quarter
- Less than 1/2-time: less than half of the workload of the minimum full-time requirement.

For nonstandard term enrollment standards, see p. 3-33. If the student is enrolled full-time, then the annual award is the Scheduled Award, which is based on the full-time Payment Schedule.

If the student is attending part-time, you must use the 3/4-time, 1/2-time, or less than 1/2-time disbursement schedules, depending on the number of credit hours in which the student enrolls. If the student is enrolled less-than-half-time, it will also affect the cost components that are used in the student's Budget (see Chapter 2). *Schools do not have the discretion to refuse to pay an eligible part-time student.*

Enrollment status for students taking regular and correspondence courses

If a student is enrolled in a noncorrespondence study program, but correspondence coursework is combined with regular coursework, the correspondence courses must meet the following criteria to be included in the student's enrollment status:

- The courses must apply toward the student's degree or certificate or must be remedial work to help the student in his or her course of study.
- The courses must be completed during the period required for the student's regular coursework, e.g., a term.
- The amount of correspondence work counted can't be more than the number of credit hours of regular coursework in which the student is enrolled.

If the student is taking at least a half-time load of correspondence courses, the student would be paid as at least a half-time student, regardless of the credit hours of regular coursework. A student will be paid as a less-than-half-time student for any combination of regular and correspondence work that is less than 6 credit hours or the appropriate equivalent of half-time.

On the appropriate full-time or part-time Payment or Disbursement schedules, use the student's Cost of Attendance and EFC to look up the Pell annual award for the year at that enrollment status. Most student aid software programs, such as EDEExpress, will do this for you automatically, but we have included a printed version of the 2007-2008 schedules at the end of this chapter for your reference.

Pell Grant payments by term

Pell Grants must be paid in installments over the course of a program of study to help meet the student's cost in each payment period. The payment period affects when Pell funds are disbursed and the exact amount to be disbursed. For credit-hour term programs, the payment period is the term. If the student doesn't enroll in one of the terms, he or she won't receive a portion of the award for that payment period. If the student's enrollment status changes in the next term, his or her annual award will be different for that term. (See discussion of terms and payment methods.)

Enrollment Status for Enrollment in Correspondence and Regular Coursework

Regular Work	Correspondence Work	Adjusted Total Course Work	Enrollment Status
3	3	6	Half-time
3	6	6	Half-time
3	9	6	Half-time
6	3	9	Three-quarter time
6	6	12	Full-time
2	6	6	Half-time

This chart assumes that the school defines full-time enrollment as 12 credit hours per term, and half-time enrollment as 6 credit hours per term. As you can see in the second and third examples, the number of correspondence hours counted in the total course load was adjusted so that the correspondence hours never exceeded the regular hours taken. Note that in the last example, the student is eligible for payment based on half-time enrollment in correspondence courses, despite the fact that the student only took 2 credit hours of regular coursework.

FORMULA 1 : STANDARD TERM PROGRAMS WITH ACADEMIC CALENDARS OF 30+ WEEKS

For you to be able to use Formula 1, the program:

- must have an academic calendar that consists of standard terms; two semesters or trimesters, or three quarters—in the fall through spring;
- must have at least 30 weeks of instructional time in fall through spring terms;
- must not have overlapping terms; and
- must define full-time enrollment for each term in the award year as at least 12 credit hours and must measure progress in credit hours.

The term is the payment period, and you divide the student's award by the number of terms in the program's academic year.

Formula 1: Basic Calculation

To qualify for Formula 1, the program must use standard terms and have an academic calendar of 2 semesters or trimesters, or 3 quarters, and full-time enrollment must be at least 12 credit hours. In Formula 1, the annual award is simply divided by the number of terms in the fall through spring.

Take the case of Jeff, who is enrolled full-time in a program that has an academic year of 30 weeks of instructional time and 24 semester hours. The program has fall and spring semesters that provide a total of 30 weeks of instruction and a 12 week summer nonstandard term with 12 semester hours as full-time. Jeff has a Scheduled Award of \$3,000, and since he is enrolled full-time, that is also his annual award. Since the fall through spring has standard terms, it doesn't matter that the summer term is nonstandard; you still calculate summer payment based on Formula 1.

$$\frac{\$3,000}{2} = \$1,500 \text{ disbursement for each payment period}$$

The same formula would be used if Jeff enrolled in a program that has fall, winter, and spring quarters that provide at least 30 weeks of instruction. The only difference is that Jeff's annual award of \$3,000 is divided by 3.

$$\frac{\$3,000}{3} = \$1,000 \text{ disbursement for a quarter}$$

Note that Jeff is receiving a full Scheduled Award because he is attending for two terms as a full-time student and has no remaining eligibility for the summer payment period included in the award year. Next, we'll show other situations where a student might have remaining eligibility for summer, or can be paid for summer out of the next award year.

Requirements to be able to use Formula 1

34 CFR 690.63(a)(1)

Basic Pell calculations

Pell payment schedules: 34 CFR 690.62

Pell formulas: 34 CFR 690.63

"Crossover" payment periods (e.g., summer sessions):

34 CFR 690.64

Consistent use of formula

You must use the same formula for a program for all payment periods in an award year.

Standard term composed of shorter terms or modules

Remember that you can combine shorter terms or modules into a standard term that meets the requirements for Formula 1. See the discussion of academic calendars in Chapter 1 for examples.

Alternate calculation

If your school has a summer term, you may wish to use an alternate calculation that spreads the Scheduled Award over the summer term as well if your students attend full-time, year round.

Alternate schedules for low tuition costs

Use the alternate schedules to look up the annual award for students whose:

- tuition plus dependent care and/or disability expenses are less than \$675 (based on full-time full-year costs);
- total cost of attendance is \$3,400 or higher; and
- EFC is 700 or less.

In addition, the law now specifically provides that schools that charged only fees in lieu of tuition as of October 1, 1998, can count those fees as tuition for this calculation.

Formula 1: Enrollment status change

Let's say that one of your students, Micki, enrolls full-time in the fall semester. She has a cost of \$10,000 and EFC of 100, so her Scheduled Award, taken from the full-time Payment Schedule, is \$4,260. Since she's attending full-time, this is also her annual award. If your school defines its academic year as 30 weeks of instructional time and 24 semester hours, Micki's annual award is divided by 2 to arrive at the disbursement for the fall semester.

$$\frac{\$4,260}{2} = \$2,130 \text{ for Fall}$$

Micki decides that a full-time schedule is too ambitious, so she enrolls in the spring term as a 3/4-time student. Her EFC is the same, and even though her tuition is slightly less, the Pell award is still based on full-time costs. However, her annual award is now based on the 3/4-time disbursement schedule, so her spring payment will be less than her fall payment.

$$\frac{\$3,195}{2} = \$1,597.50 \text{ for Spring}$$

Note that Micki's Scheduled Award is still \$4,260, and she has only received \$3,727.50. This means that she is still eligible for up to \$532.50 in Pell funds from this award year if she attends a summer term that is part of the same award year. (We'll discuss other summer term payment options later in this chapter.)

Formula 1: Alternate calculation

If you're working with a standard-term program that meets the rules for Formula 1, the regulations give you an option to divide the annual award by the number of all the terms (including the summer term) in the award year. Schools that use this alternate calculation have programs where full-time students attend year round. The alternate calculation ensures that students get Pell payments in all terms in the award year. The disadvantage is that a student who misses one of the terms (such as a summer term), won't get a full Scheduled Award for that year.

34 CFR 690.63(b)(3)(ii)

If you choose to use this alternate calculation, you must:

- use the alternate calculation for *all* students enrolled in the same program of study;
- use the alternate calculation for all payment periods in the award year;
- increase the number of weeks of instructional time in the academic year defined for the student's program to include the number of weeks of instructional time in the summer term; and
- include the costs for the additional term in the Pell cost of attendance.

Your school may also include the number of credit hours for the additional term in your definition of the academic year for the student's program.

For example: Kevin enrolls as a full-time student in a 2-year associate degree program at Ivers College (IC). The academic calendar consists of two 15-week semesters. The program also has a summer semester that is the same length.

IC decides to use the alternate calculation to distribute the award over all three terms, as its students attend full-time throughout the award year. IC defines the academic year as 36 semester hours and 45 weeks of instructional time (both the weeks and the credit hours for the summer term are included in the academic year). Kevin's Scheduled Award is \$3,600. He's attending full-time, and so his annual award is the same. Using the alternate calculation, ICC divides the annual award by the payment periods in the award year.

$$\frac{\$3,600}{3} = \$1,200 \text{ disbursement per term}$$

FORMULA 2: STANDARD-TERM PROGRAMS WITH LESS THAN 30 WEEKS IN THE FALL THROUGH SPRING

Formula 2 may be used for programs that would qualify for Formula 1 except that the program's academic calendar provides less than 30 weeks of instructional time in the fall through spring terms. Like Formula 1, it simplifies the calculation payments by providing for the same calculation for all payment periods in the award year. Only a small number of schools use Formula 2; therefore, it is covered in Appendix A of this chapter.

FORMULA 3: GENERAL FORMULA FOR ANY TERM-BASED PROGRAM

Any term-based program may use this formula for Pell calculations, but you *must* use this formula for a term-based program that does not qualify for formulas 1 or 2, for instance, a program that uses only nonstandard terms.

To calculate the payment for the term, you must prorate the annual award that you looked up on the appropriate Pell Grant Payment or Disbursement Schedule. Unlike the term calculation in Formula 1, the annual award can't simply be divided evenly among the terms. Instead, you must multiply the annual award by a fraction that represents the weeks of instructional time in the term divided by the weeks of instructional time in the program's academic year.

$$\frac{\text{weeks* in term}}{\text{weeks* in academic year (at least 30)}}$$

If the resulting amount is more than 50% of the annual award, your school must make the payment in at least two disbursements in that payment period regardless of whether the term is a standard term or a nonstandard term. A single disbursement for a payment period can never be more than 50% of the annual award. You may disburse more than 50% of the annual award once the student has completed half of the weeks of instructional time in the program's academic year definition.

Enrollment status standards for nonstandard terms

If you are using Formula 3 for a program that has standard terms, the minimum enrollment standards previously discussed would still apply for the standard terms. However, if a program has nonstandard terms, the enrollment standard must be calculated for the nonstandard terms. The full-time enrollment status is determined for a nonstandard term based on the length of the term in relation to the academic year**

$$\text{Credit hours in academic year} \times \frac{\text{weeks* in nonstandard term}}{\text{weeks* in academic year (at least 30)}}$$

** If the resulting number isn't a whole number, it is rounded up to the next whole number. For example, 3.3 is rounded up to 4, if the program's coursework is offered in whole credits. If the program's coursework is offered in fractions, the full-time enrollment status need not be rounded. For example, 3.3 would remain 3.3 as full-time and a student taking 3.4 credits in the term would be full-time.

Disbursing more than 1/2 the annual award and the 50% Requirement

34 CFR 690.63(f)

If the disbursement for the payment period results in more than 1/2 of the annual award and occurs after half of the weeks of instructional time have passed during the payment period, you can make a disbursement of the full payment for the payment period.

EXAMPLE: Your school has a program that must use Formula 3. The program has 3 terms with 17, 14, and 6 weeks of instructional time and defines its academic year as 30 weeks of instructional time and 24 semester hours. Debbie is attending half-time for all three terms. Her payments for each payment period are 17/30, 14/30, and 6/30 of her half-time annual award. For the first term, you may disburse 15/30 of her award at the beginning of the term and the final 2/30 only after the 15th week of instructional time in the term. However, if Debbie establishes eligibility in the 16th week of the term, you can make a disbursement of 17/30 of the annual award at that time. Her award for the 2nd and 3rd terms may be disbursed in a single disbursement.

When to use Formula 3

- If a term program uses only nonstandard terms, or if a term program has standard terms, but does not qualify for formulas 1 or 2, you must use Formula 3 for Pell calculations.
- Any term program can opt to use Formula 3. However, standard term programs that qualify for Formula 1 or 2 generally prefer to use that formula because it is simpler.

Regulatory citations

Formula 3 described: 34 CFR 690.63(a)(3)

Enrollment status for nonstandard terms:

34 CFR 690.63(d)(1)(ii)

Disbursement cannot exceed 50% of the annual award:

34 CFR 690.63(f)

Fractions

Remember when using fractions, multiply first, and then divide.

Dividing the fraction first to produce a decimal can cause an error if you need to round the decimal up or down.

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

After your school has determined the number of credit hours required for full-time enrollment, your school can then determine the less-than-full-time status for the nonstandard term using the following formula:

$$\frac{\text{Credit hours student takes in the nonstandard term}}{\text{Credit hours required for full-time enrollment in the nonstandard term}}$$

Formula 3: Payments for standard terms

Hope College has a semester-based program with a 2-semester academic calendar that comprises 28 weeks of instructional time. The program's academic year is defined as 24 semester hours and 30 weeks of instructional time. If both semesters are 14 weeks in length, the Pell payment for a full-time student with a Scheduled Award of \$4,050 would be calculated as follows:

$$\frac{14 \text{ weeks* in term}}{30 \text{ weeks* in academic year}} \times \$4,050 = \$1,890$$

Formula 3: Payments for nonstandard terms of equal length

Just a few miles down Rio Road from Hope, Crosby University has a program that consists of four 8-week terms. Crosby University defines the academic year as 40 quarter hours and 32 weeks of instructional time. Because this program does not use standard terms (semesters, trimesters, or quarters), Crosby University must use Formula 3 to calculate Pell disbursements for students in the program. Let's use the example of a student who attends all four terms for 10 quarter hours each term in the 2007-08 award year, and has a Scheduled Award of \$3,700.

Because the program has nonstandard terms, Crosby University must determine the number of credit hours required for full-time enrollment in each term, as follows:

$$\frac{8 \text{ weeks* in term}}{32 \text{ weeks* in academic year}} \times 40 \text{ quarter hours} = 10 \text{ quarter hours}$$

A student enrolled for 7 hours could be paid as a half-time student ($7/10 = .7$, which is less than $3/4$ [.75] but greater than $1/2$ [.5]) Since the student in our example will be enrolled for 10 hours each term, she is a full-time student and her annual award is the same as her Scheduled Award. This is a term-based, credit-hour program, so the payment period is the term.

To determine the student's payment for each payment period, multiply her annual award by the length of the nonstandard term compared to the length of the academic year:

$$\frac{8 \text{ weeks* in term}}{32 \text{ weeks* in academic year}} \times \$3,700 = \$925$$

*These fractions use weeks of instructional time as defined in Chapter 1, which will not necessarily be the same number as the calendar weeks in an academic year.

Formula 3: Payments for nonstandard terms of unequal length

Owen is enrolled in a semester-hour program at Hart University that has a 10-week nonstandard term between two 12-week nonstandard terms. The terms do not overlap. The academic year for the program is defined as 34 weeks of instructional time and 24 semester hours. Courses are offered in whole credits. Hart must use Formula 3 to calculate Pell Grant payments for students in this program. Owen's Scheduled Award is \$3,060. He enrolls for 6 semester hours in each of the three terms. Because the program has nonstandard terms, Hart must determine the number of credit hours required for full-time enrollment in each term, as follows. For the first and third term:

$$\frac{12 \text{ weeks* in term}}{34 \text{ weeks* in academic year}} \quad \times \quad 24 \text{ semester hours} = 8.47 \text{ (round up to 9)}$$

For the second term:

$$\frac{10 \text{ weeks* in term}}{34 \text{ weeks* in academic year}} \quad \times \quad 24 \text{ semester hours} = 7.06 \text{ (round up to 8)}$$

A student must enroll in 9 semester hours (rounded up from 8.47) in the first and third terms, and 8 semester hours (rounded up from 7.06) in the second term, to be full-time. Owen is enrolled half-time in the first and third terms (6 semester hours/9 semester hours = .67). He is enrolled three-quarter time in the second term (6 semester hours/8 semester hours = .75). The cost of attendance does not need to be prorated because the fall through spring terms provide the same number of weeks of instructional time as in the academic year definition. Further, the school has determined the costs for a full-time student for a full academic year.

Based on a cost of attendance of \$8,745 and an EFC of 1214, the half-time disbursement schedule shows that Owen is eligible for an annual award of \$1,530. Because this is a term-based credit-hour program, the payment period is the term. To calculate Owen's payment for the first and third terms, the school uses the fraction 12/34:

$$\frac{12 \text{ weeks* in term}}{34 \text{ weeks* in academic year}} \quad \times \quad \$1,530 = \$540$$

Owen's payment for each of the first and third terms will be \$540.

Since Owen's enrollment status for the middle term is three-quarter time, the payment for that term is based on a three-quarter-time annual award of \$2,295. To calculate the payment for the middle term, the school uses the fraction 10/34:

$$\frac{10 \text{ weeks* in term}}{34 \text{ weeks* in academic year}} \quad \times \quad \$2,295 = \$675$$

Owen's payment for the middle term (the second payment period) is \$675*These fractions use weeks of instructional time as defined in Chapter 1, which will not necessarily be the same number as the calendar weeks in an academic year.

Requirements for using Formula 4

34 CFR 690.63(a) and (e)

All clock-hour and nonterm credit-hour programs must use Formula 4.

Formula 4: 34 CFR 690.63(a)(4),(e) and (f)

Enrollment status standards for clock-hour and other nonterm programs

For nonterm programs, the enrollment minimums are:

Full-time in credit hours: 24 semester hours, 24 trimester hours, or 36 quarter hours per academic year.

Less than 1/2-time status is defined as less than half of the workload of the minimum full-time requirement.

Full-time in clock hours: at least 24 clock hours per calendar week.

Coursework completion requirement & withdrawal/re-entry

Note that students in nonterm programs must successfully complete a payment period to receive subsequent payments. This will be discussed in Volume 4 as one of the disbursement rules.

We'll discuss the effect of withdrawal and re-entry into a program in Volume 5.

Receiving less than the Scheduled Award due to crossover

A student may also receive less than a Scheduled Award in an award year, if the program crosses award years and the student's Pell Grant award in one of the award years is for a portion of the program that is less than a full academic year.

Full-time students' completion

- For nonterm programs, you must consider whether students are progressing at the minimum full-time rate or a greater rate.
- If no students are progressing at a full-time rate in a program with fewer hours than the Title IV academic year, you must determine the weeks of instructional time it would take a full-time student to complete the hours in the lesser of the program or academic year. For example, a 30 quarter-hour program has an academic calendar in which students complete the program in 30 weeks of instructional time. With a defined academic year of 36 quarter credits and 30 weeks of instructional time, the students in the program are not full-time. A full-time student would complete 30 quarter credits in not greater than 25 weeks of instructional time. Therefore, the institution must use 25 in the numerator of the first fraction of the Pell calculation.
- If the program is at least an academic year in length and no

FORMULA 4: CLOCK-HOUR AND NONTERM CREDIT-HOUR PROGRAMS

Checking 1/2-time enrollment status

For clock-hour programs and for nonterm credit-hour programs, enrollment status only makes a difference if the student is attending less than half time. If that's the case, only certain components of the cost of attendance are used. (See discussion in Chapter 2.)

The annual award for a student in a clock-hour or nonterm credit-hour program is taken from the full-time Payment Schedule, even if the student is attending less than full-time. This requirement includes using the full-time Payment Schedule for certain low-cost students (see sidebar on low tuition costs, p.31).

Calculating payment amounts

Pell Grants must be paid in installments over the course of the academic year or program of study to help meet the student's cost in each payment period. The payment period determines when Pell funds are disbursed and the exact amount to be disbursed. You must use the rules discussed in Chapter 1 to determine the payment periods for clock-hour and nonterm credit-hour programs.

In nonterm programs, the student's Pell award is not reduced for part-time enrollment unless the student is enrolled less than half-time in which case the student's cost of attendance must be adjusted. However, if the program is less than an academic year (in either clock/credit hours or weeks of instructional time), students enrolled in that program won't receive a full Scheduled Award.

As in the case of the other formulas, you must perform comparable prorations of the award for each payment period in the student's program. The calculation for the payment period prorates a student's Scheduled Award based on weeks of instructional time most full-time students are attending and the credit/clock hours in the payment period as they compare to the defined academic year. The first step in determining the payment for a payment period involves prorating the student's Scheduled Award by the least of:

Weeks* for most full-time students to complete hours in program

Weeks* in program's academic year (at least 30 for credit-hr, at least 26 for clock-hr)

OR

Weeks* for most full-time students to complete hours in academic year

Weeks* in program's academic year (at least 30 for credit-hr, at least 26 for clock-hr)

OR

One (1)

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

Note that the result of this multiplication won't ever be greater than the Scheduled Award. Because the Scheduled Award is the amount for a full-time student, the numerators of the fractions use the weeks of instructional time needed for most full-time students to complete the lesser of the hours in the program or academic year. You must determine the weeks of instructional time it takes most full-time students to complete the hours in the program or the academic year.

The next step is to take into account the clock/credit hours in the payment period. To account for the hours, you must multiply the result of the first step by the following fraction, the result of which is the payment for the payment period:

$$\frac{\text{Clock/credit hours in the payment period}}{\text{Clock/credit hours in the program's academic year}}$$

students are progressing at full-time, you will default to multiplying the Scheduled Award by one (1).

- If the students are progressing at a faster rate than the minimum full-time standard, you must determine how many weeks of instructional time it takes for most full-time students to complete the lesser of the hours in the program or academic year. For example, you determine that, in a self-paced bachelor's degree program, students on average complete 24 semester hours in 24 weeks of instructional time across the program. With an academic year defined as 24 semester hours and 30 weeks of instructional time, the first step of the Pell calculation of a payment period is 24/30.

Payments for credit-hour nonterm program (Formula 4)

Evers is enrolled at Tinkers Technical Institute (TTI) and has a Scheduled Award of \$3,900. His program is 24 quarter hours and most full-time students complete the program in 20 weeks of instructional time. The academic year for the program is defined as 36 quarter hours and 30 weeks of instructional time. TTI has established two payment periods of 12 quarter hours and 10 weeks* each for Evers' program. To determine the disbursement for the payment period, TTI must first multiply the Scheduled Award by a fraction representing the proportion of weeks of instructional time for most full-time students to complete the hours in the program:

$$\frac{20 \text{ weeks* in program}}{30 \text{ weeks* in academic year}} \times \$3,900 = \$2,600$$

TTI then multiplies the result by a fraction representing the proportion of credit hours for the payment period compared to the academic year:

$$\frac{12 \text{ quarter hours in payment period}}{36 \text{ quarter hours in academic year}} \times \$2,600 = \$866.67$$

Evers' payment for the first payment period will be \$866.67. Evers can receive this payment when he begins the program. Because students don't earn any of the 24 quarter hours until they complete the entire program, TTI can make the payments of \$866.67 for the second payment period after TTI has determined that Allen has successfully completed 12 quarters hours and 10 weeks of instructional time of the program.

Payments for clock-hour program (Formula 4)

Chance is enrolled in a 650-clock-hour program at Tinkers Technical Institute (TTI) and is eligible for a Scheduled Award of \$2,150. Most of the full-time students in the program finish it within 22 weeks of instructional time. TTI defines the academic year for the program based on the regulatory minimums: 900 clock hours and 26 weeks of instructional time. To calculate Chance's payment, TTI calculates the payment for each payment period as follows:

$$\frac{22 \text{ weeks* in program}}{26 \text{ weeks* in academic year}} \times \$2,150 = \$1,819.23$$

$$\frac{325 \text{ clock hrs in payment period}}{900 \text{ clock hours in academic year}} \times \$1,819 = \$656.86$$

*The fractions in these examples use weeks of instructional time as defined in Chapter 1, which will not necessarily be same number as the calendar weeks in an academic year.

Chance's payment for the first payment period will be \$656.86. She can get this payment when she begins the program. She can receive her second payment of \$656.86 after she successfully completes the 325 clock hours in the first payment period.

FORMULA 5: CORRESPONDENCE STUDY

Formulas 5A & 5B are formulas that must be used for correspondence students. Because there are only a small number of Pell Grants made to correspondence students, the formula for correspondence study programs is covered in Appendix B of this chapter.

SUMMER TERMS & OTHER “CROSSOVER PAYMENT PERIODS”

Payment periods don't always fall neatly into one award year or another. A new award year starts every July 1. When a payment period falls into two award years—that is, it begins before July 1 and ends on July 1 or later—it's called a “crossover payment period.”

The formula for calculating the payment for a crossover payment period is the same as that for any other payment period in the award year. However, you must check the student's remaining eligibility if a student has already received payments for previous payment periods in the award year and the crossover period is assigned to the earlier award year.

Payment from either award year

You can make a payment for a crossover payment period out of either award year, if the student has a valid output document for the award year selected. However, if more than six months of the payment period is in a given award year, the Pell payment must be made from that award year.

The decision about which award year to use is usually based on the student's remaining eligibility in the earlier award year. You can assign the crossover payment period to either award year, on a student-by-student basis—you do not have to attribute the crossover period to a particular award year for all students. For instance, if a student had already been paid for two semesters as a full-time student for a full 30-week academic year in the 2006-2007 award year, the student would have been paid a full Scheduled Award for that year. In this case you might choose to pay the student for the crossover payment period out of the 2007-08 award year, provided the student is eligible for Pell based on a SAR or ISIR for that year (if the student attended part-time or didn't attend for a full academic year, the student might be eligible for at least a portion of the normal disbursement from the 2006-2007 award year for the crossover period).

You may also attribute the crossover payment period to a particular award year for all students enrolled in that period. For instance, you could attribute your summer session in 2008 to the 2007-08 award year for the purposes of all Pell payments for that period. However, if you attribute the crossover period to the 2007-08 award year for all students, you must pay Pell awards to all students enrolled in that payment period who have remaining Pell eligibility in the 2007-08 award year.

Scheduled Award limit and crossover payment periods

In most cases, the Pell Grant calculations assure that a student doesn't receive more than a Scheduled Award, but for some students, you will need to check the student's remaining eligibility before paying the student. In particular, if the student is attending more than an academic year's worth of courses in the same award year, the student could run out of eligibility for Pell. This most commonly happens with summer terms or crossover payment periods.

34 CFR 690.64

Alternate calculation that includes summer term

As noted earlier, if you're working with a standard-term program that meets the rules for Formula 1 or Formula 2, you may divide the annual award by the number of all the terms (including the summer term) in the award year. The advantages and disadvantages of this approach were discussed in the examples accompanying Formula 1.

Term schools: using the right formula for summer session

If your school offers a summer term in addition to Fall through Spring terms that qualify for Formula 1 or 2, you will calculate the student's payment for the summer term using the same Formula that you used to calculate payments for the other terms in the award year to which the summer term is assigned. If you use Formula 3 for Pell Grant calculations in any of the terms in an award year, then you must use Formula 3 for *all* terms in that program that occur in that award year, including the fall through spring terms. (Note that if your program is a standard-term program in the fall through spring and does not define full-time enrollment in the summer as at least 12 credit hours, you must use Formula 3 for Pell calculations for all terms in the award year.)

With regard to enrollment status, your school must apply its definition of full-time status for the summer term consistently for *all* FSA program purposes.

The cost of attendance for summer terms

Costs for summer terms are figured in the same way as for any other payment period; that is, the costs are based on a full academic year. If your school has fall and spring semesters that comprise an academic year, you can't add the costs for the summer term to the costs for the fall and spring semesters. The award for the summer term is still based on the costs for one academic year. However, if the academic year definition includes the summer term, then the costs for the summer term *must* be included in the cost for a full academic year.

Scheduled Award limit for summer term

Peter enrolls three-quarter time in the fall, spring, and summer terms at Hildebrand University. His Scheduled Award is \$3,000 and his three-quarter time annual award is \$2,250. Using Formula 1, Hildebrand determines that Peter can receive \$1,125 for each term.

For the fall and spring semesters, he'll receive a total of \$2,250. If Hildebrand wants to pay him for summer from the 2007-08 award year as well, it needs to see how much eligibility he has left. Subtracting the amount already received from the \$3,000 Scheduled Award, Hildebrand discovers that Peter only has \$750 of Pell eligibility left. Therefore, Peter can only receive \$750, instead of \$1,125, for the summer term.

As an alternative, Hildebrand could also pay Peter a full Pell disbursement for the summer term from the 2008-2009 award year, but that would reduce the amount of Pell that Peter could get for subsequent 08-09 terms. In the example below, Peter's 08-09 eligibility would be exhausted in the Spring term, since he will be attending full-time in Spring 2009, even though he qualified for a higher Scheduled Award in 08-09.

Option 1: Pay Summer from 2007-08 Scheduled Award (\$3,000)

Fall 07 = \$1,125 (3/4-time)	Spring 08 = \$1,125 (3/4-time)	Summer 08 = \$750 (remaining eligibility)
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Option 2: Pay Summer from 2008-09 Scheduled Award (\$3,200)

Summer 08 = \$1,200 (3/4-time)	Fall 08 = \$1,200 (3/4-time)	Spring 09 = \$800 (remaining eligibility)
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If the student was previously enrolled in the award year, you may be able to use the same cost of attendance for the summer term that it used for the immediately preceding term that the student attended. However, this isn't possible if the costs are different from the fall through spring such as a different tuition charge per credit hour or you are required to recalculate the cost of attendance. (See the end of this chapter for information on when recalculations are required.) If it's necessary to base the student's cost of attendance on the summer term, you must prorate the summer costs to establish the cost for an academic year. (See Chapter 2 on prorating costs in the Pell Grant program.)

If the summer session is the first term in the award year for that student (for example, your school is paying a student for the summer 2007 term from the 2007-2008 award year), you must establish the student's full-year cost based on the costs for the *summer* term. If the student enrolls in another term in that award year, you may have to recalculate the student's costs for the later term.

Summer minisessions

If a term-based school offers a series of minisessions that overlap two award years (by "crossing over" the June 30 end date for one award year), these minisessions may be combined and treated as one term. However, schools are not required to combine these minisessions.

When you combine minisessions into a single term (i.e., payment period), the weeks of instructional time in the combined term are the weeks from the beginning of the first minisession to the date the last minisession ends. The student's enrollment status for the entire payment period must be calculated based on the total number of credits the student is projected to take for all sessions. You must project the enrollment status for a student on the basis of the credits the student has:

- pre-registered or registered to take for all sessions;
- committed to take for all sessions in an academic plan or enrollment contract; or
- committed to take for all sessions in some other document.

When you combine the minisessions into a single term, a student cannot be paid more than the amount for one payment period for completing any combination of the minisessions. If the minisessions are not combined into a single payment period, you must treat each minisession as a separate nonstandard term using Formula 3 to calculate Pell Grant awards. Unless for each minisession you define full-time as at least 12 credit hours, you must use Formula 3 for each of the minisessions. (If you use Formula 3 for the crossover term, remember that you must also use it for all other terms in the award year, including Fall through Spring.)

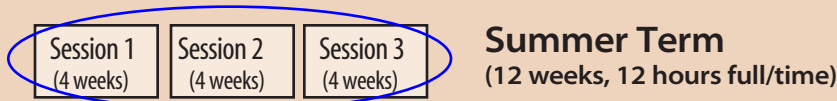
If the minisessions are combined in a single term and a student does not begin attendance in all of the minisessions, recalculation of prior disbursements is required based on the resulting changed enrollment status as discussed later in this chapter.

Minisession Enrollment Status Example

Bob is enrolled in a summer session with three-week minisessions that his school, Falcon University, has combined into 1 term. Falcon U. is using Formula 1 to calculate Bob's combined term, and knows as such they must define full-time enrollment as at least 12 credit hours, even though the individual component minisessions may have originally considered full-time to be something less than 12 credit hours. Bob is enrolled for 6 credits during the combined summer minisession term. Bob's enrollment status is equal to the proportion of his credits to the school's definition of full-time for the combined term. Therefore, Bob should be credited with half-time enrollment status for the combined summer term.

Combined minisessions into standard term

Brian enrolls part time at Hildebrand University which defines its academic year as 24 semester hours and 30 weeks of instructional time. In addition to fall and spring semesters, Hildebrand offers three summer minisessions. Each minisession provides 4 weeks of instructional time. Hildebrand can either combine the minisessions into a single nonstandard term, or treat each session as a separate nonstandard term. The school chooses to combine the sessions into a single payment period providing 12 weeks of instructional time with full-time enrollment in this period defined as 12 semester hours. If Hildebrand meets the conditions for use of Formula 1 in its fall and spring semesters, it can use Formula 1 to calculate Pell payments for this summer session.



Brian enrolls for 3 semester hours in each of the minisessions, so he's enrolled three-quarter time (9 hours total in the combined term). His Scheduled Award is \$3,500 and his annual award (from the 3/4-time disbursement schedule) is \$2,475. To calculate Brian's payment, Hildebrand simply divides the annual award by 2, the number of terms in the fall through spring: $\$2,475 / 2 = \$1,237.50$.

Brian can receive \$1,237.50 for the combined summer session if it's the first term of the award year. If he received payments for the fall and spring semesters from the same award year, the school would need to check his remaining eligibility to see how much he could be paid for the summer session. (See the earlier example of the Scheduled Award limit for a summer term.)

Minisessions treated as nonstandard terms

Suppose Hildebrand didn't combine these minisessions. If it defined full-time enrollment for each 4-week minisession as less than 12 semester hours, it would have to calculate all Pell payments for the program using Formula 3. Because these are nonstandard terms, Hildebrand would have to determine Brian's enrollment status for each mini-session by prorating the standard for full-time enrollment in a full academic year (24 semester hours):

$$24 \text{ semester hours} \times \frac{4 \text{ weeks}^* \text{ in term}}{30 \text{ weeks}^* \text{ in academic year}} = 3.2 \text{ semester hours (round up to 4^{**})}$$

For each of the 4-week terms, a full-time student must enroll in 4 semester hours, and based on that standard, the 3 semester hours that Brian is attending in each minisession counts as 3/4 time enrollment status. Note that Hildebrand would use the Pell cost of attendance for a full-time student attending a full academic year. Hildebrand would determine his payment for each minisession (assuming his Scheduled Award remains unchanged across both award years) using the following calculation:

$$\frac{4 \text{ weeks}^* \text{ in term}}{30 \text{ weeks}^* \text{ in academic year}} \times \$2,475 = \$330.00$$

Brian would receive \$330 for each of the minisessions, for a total of \$990 for the summer. Again, these payments for one or more minisessions that are in the prior award year may need to be reduced if Brian had previously received payments for the fall and spring semesters in the same award year.

** since Hildebrand only offers courses in whole credits

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

TRANSFER STUDENTS

The Pell payment for a transfer student is calculated in the same way as for any new student. That is, you must calculate payments for each payment period following the rules given in this chapter. However, a transfer student’s remaining Pell eligibility is reduced if the student received Pell funds for the same award year at any prior schools. You can identify the student’s prior Pell disbursements when you review his or her Financial Aid History in NSLDS (see sidebar).

Transfer student cites

34 CFR 690.65
 Mid-year transfer
 “Dear Colleague” Letter GEN-00-12
 Percent of remaining eligibility
 34 CFR 690.65(d)

NSLDS Financial Aid History and Transfer Monitoring

Before disbursing FSA funds to a transfer student, you must obtain a financial aid history for the student and you must inform NSLDS about the transfer student so that you can receive updates through the Transfer Student Monitoring Process. The financial aid history will not only identify Pell Grant disbursements that the student received at other schools, but tell you if the student is ineligible for any FSA aid due to default or overpayment, or if the student has reached annual or aggregate limits for Stafford loans. See Volume 1, Chapter 3, for a more detailed discussion of these requirements.

Why percentages are used

The reason for using percentages is that a transfer student may have different Scheduled Awards, for example, the costs of attendance at the two schools may be different. The percentages are also used to compare the portions of a student’s total eligibility that have been used at both schools. (If the student’s Scheduled Award is the same at both schools, the financial aid administrator can find the amount of the student’s remaining eligibility simply by subtracting the amount received at the first school from the Scheduled Award.)

Calculating remaining eligibility

Once you’ve identified the Pell amounts that a transfer student has already received for the ongoing award year, you must calculate the percentage of the Scheduled Award that has been used. This percentage is calculated by dividing the amount disbursed at the previous school by the student’s Scheduled Award at that school.

$$\frac{\text{Pell disbursed at prior school}}{\text{Scheduled Award at prior school}} = \% \text{ of Scheduled Award used}$$

Then subtract this percentage from 100%. The result is the maximum percentage of the Scheduled Award that the student may receive at your school.

Note that a transfer student receives the same payments as any other student until the limit (100% of a Scheduled Award) is reached. You give the student the full amount for each payment period, rather than trying to ration the remaining amount by splitting it evenly across the remaining terms.

Payment period for a transfer student at a nonterm school

When a student transfers into a nonterm credit-hour or clock-hour program at a new school, that student is starting a new payment period. For nonterm programs, you must use the payment period rules described in Chapter 1 to determine the payment periods for the remainder of the student’s program.

However, for a transfer student, the length of the program is the number of clock hours or credit-hours and the number of weeks, that the student will be required to complete in the new program. If the remaining hours in a clock-hour program are half an academic year or less, then the remaining hours constitute one payment period. For a nonterm credit-hour program, if the remaining credit hours *or weeks* are half an academic year or less, then the remaining hours and weeks constitute one payment period.

Retaking Coursework

For term-based credit-hour programs, students may generally receive FSA funds for retaking coursework and the credits may be included in the total number of credits that the student is taking when determining enrollment status as long as your school gives the student additional credit for the repeated course and the student is making satisfactory academic progress. Generally, schools do not give a student

credit for repeating a course to earn a better grade, unless the student fails a course the first time and receives no credit for the failure.

The treatment of repeated coursework is different for students in nonterm credit-hour and clock-hour programs. For more details and examples on retaking coursework, see the full discussion in Volume 4, chapter 2, *Disbursing FSA Funds*.

Transfer student example (calculating remaining eligibility) (one remaining term at new school)

Luna attends fall and winter terms at Lewis College in St. Louis using nonstandard terms. She then transfers to Clark University in Omaha for the spring semester. The aid administrator at Clark University checks NSLDS, which shows that Luna received \$1,003 in Pell payments and had a \$1,700 Scheduled Award. Luna is eligible for a \$2,100 Scheduled Award at Clark. To determine how much Luna can be paid, the aid administrator at Clark first figures out what percentage of the Scheduled Award she received at her first school:

$$\frac{\$1,003 \text{ disbursed at Lewis}}{\$1,700 \text{ Scheduled Award at Lewis}} = 59\%$$

Subtracting this percentage from 100%, the aid administrator finds that Luna is eligible for 41% of her Scheduled Award at Clark. The Scheduled Award is multiplied by this percentage to find the dollar amount of Luna's remaining eligibility.

$$41\% \times \$2,100 \text{ Scheduled Award} = \$861 \text{ remaining Pell eligibility}$$

A student with a \$2,100 Scheduled Award would ordinarily receive a \$1,050 payment for one semester (if enrolled full-time). However, Luna can't be paid more than \$861, because she has received 59% of the Scheduled Award at Lewis College.

Transfer student example (two remaining terms at new school)

Dmitri transfers to Bylsma Conservatory during the award year and enrolls for two terms. He would ordinarily receive a \$500 payment for each term. However, his remaining eligibility, based on payments at the previous school, is only \$600. Rather than "rationing" this amount by splitting it into two \$300 payments for the two terms, Bylsma must pay Dmitri \$500 for the first term and the remainder (\$100) for the second term in accordance with the requirements for calculating the payment for the payment period. This way, Dmitri will receive the full payment he's entitled to for the first term, even if he doesn't return for the second term.

Calculating a Pell award when a student who owes an overpayment returns to a standard term-based educational program in the same award year

Consider a student who is eligible for Federal Pell Grant funds and who transfers from one school (school A) to another school (school B) within the same award year. Before paying any Pell funds to the student, school B must determine the percentage of eligibility remaining to the student. After transferring, a student's remaining Pell Grant eligibility during an award year is equal to the percentage of the student's *scheduled award* that remains unused, multiplied by the student's scheduled award at the new school.

School B may pay the student a Pell Grant only for that portion of an academic year in which the student is enrolled and in attendance at school B. The grant must be adjusted, as necessary, to ensure that the funds received by the student for the award year do not exceed the student's scheduled award for that award year.

The award for each payment period is calculated using the (full) scheduled award. The student receives a full award until the student has received 100% of the student's remaining eligibility. This avoids a school having to ration the remaining amount by splitting it evenly across the remaining terms.

To calculate a transfer student's remaining eligibility, school B must first determine what percentage of the scheduled award the student used at school A. On the student's current ISIR, on the Financial Aid History Page, in a section headed ***Pell Payment Data***, school B will find an entry for ***% Sch. Used***. School B subtracts the percentage listed under ***% Sch. Used*** from 100%. The remainder is the unused percentage of the student's scheduled award — the percentage the student may receive at school B. (One uses percentages rather than dollars because a transfer student may have different scheduled awards at the two schools, and using percentages rather than dollars adjusts for this possible difference.) School B then multiplies the percent of eligibility remaining times the scheduled award at the new school. The result is the maximum amount of Federal Pell Grant funds the student may receive at school B during the balance of the award year.

Note: Following the appropriate procedures relative to the figure reported in ***% Sch. Used*** will ensure that a transfer student does not receive more than 100% of the student's scheduled award. Therefore, school B may ignore the actual grant and overpayment amounts from school A in school B's calculations.

RECALCULATIONS

In certain cases, you may have to recalculate the student's Pell Grant after the initial calculation or disbursement, to account for changes to the student's costs, EFC, or enrollment status.

Change in the EFC (recalculation required)

If the student's EFC changes due to corrections, updating, or an adjustment, and the EFC change would change the amount of the Pell award, you must recalculate the Pell award for the entire award year. If, as a result of the recalculation, the student has received more than his or her award amount, then the student has received an overpayment. In some cases, you may be able to adjust an award by reducing or canceling later payments to the student in the same award year. However, if the overpayment can't be eliminated, you must follow the procedures in Volume 5 of the *FSA Handbook*.

A student selected for verification can't *increase* his or her eligibility based on a corrected output document that you receive during the "verification extension" (120 days after the student's last day of enrollment, not to extend beyond the deadline date established by a Federal Register notice). For example, if the student submits a reprocessed SAR during the extension period and the SAR has a lower EFC than the previous SAR (increasing the student's eligibility), you may not recalculate the student's Pell Grant based on the later SAR. The student would be paid based on the *higher* EFC on the SAR that was submitted earlier. However, if the corrections *reduce* the student's eligibility (that is, if the reprocessed SAR had a higher EFC), then the award must be calculated based on the reprocessed SAR.

Change in enrollment status between terms (recalculation required)

In a term program that uses credit hours, you must calculate a student's payment for each term based on the enrollment status for that term. If a student attended full-time for the first term and then enrolled half time in the second term, you must use the half-time enrollment status to calculate the student's payment for the second term.

Student doesn't begin attendance in all classes within a term (recalculation required)

If the student doesn't begin attendance in *all* of his or her classes, resulting in a change in the student's enrollment status, you must recalculate the student's award based on the lower enrollment status. A student is considered to have begun attendance in all of his or her classes if the student attends at least one day of class for each course in which that student's enrollment status was determined for Federal Pell Grant eligibility. Your school must have a procedure in place to know whether a student has begun attendance in all classes for purposes of the Federal Pell Grant Program. The Department does not dictate the method a school uses to document that a student has begun attendance. However, a student is considered not to have begun attendance in any class in which the school is unable to document that attendance.

Initial Calculation

An initial calculation is the first calculation that is made on or after the date the school has received an ED-product EFC* such as the student's initial SAR or ISIR with an official EFC and uses the enrollment status at the time of the initial calculation. If you've estimated the student's eligibility prior to receiving a SAR or ISIR for the student, you must confirm that prior estimated eligibility or determine the student's eligibility at the time the SAR or ISIR is received.

You should document the date that you initially calculate a student's Pell Grant. The earliest date is the date of receipt of an ED-product EFC*, such as on a SAR or ISIR (assuming the school has a documented or projected enrollment status for the student). If you fail to document the date of the initial calculation, you must use the later of (a) the date that the SAR or ISIR is first received and the student's enrollment status as of that date or (b) the date the student enrolls.

Your school is considered to have received the ISIR on the date it was processed. This date is labeled "Processed Date" on the ISIR. In the case of a SAR, your school is considered to have received it on the date processed unless you document a later date. The processing date on a SAR is the date above the EFC and, on a SAR Acknowledgment, the "Transaction Processed Date."

*Note: An ED-product EFC may be an EFC from a SAR/ISIR, FAA Access, or FAFSA on the Web.

Changes to the EFC

There are three ways that a student's EFC can change:

1. Corrections. The student may have to correct a mistake that was reported on the original FAFSA or SAR/ISIR. This frequently occurs as a result of verification, but it may also be a result of the student's own review of the SAR/ISIR.
2. Updating. In some cases, a student is required to update changes to dependency status, household size, and the number in college (see Volume I: Student Eligibility for details).
3. Professional judgment. You may, on a case-by-case basis, adjust one or more of the data elements used to calculate the EFC. In some cases, you might make an adjustment during the award year to reflect a student's changed circumstances. For example, if a wage-earning parent dies after the student's first semester, you could adjust the adjusted gross income in the EFC formula to reflect the loss of income. You may also determine that a dependent student should be considered independent.

If the student has already been paid based on the original EFC, the award will have to be recalculated.

***Change in enrollment status within a term
(optional recalculations)***

The regulations don't require any recalculation for changes in enrollment status after the student has begun attendance in all of his or her classes. However, your school can have a policy of recalculating an award if a student's enrollment status changes within a term. If such a policy is established, it must be applied consistently to all students in a program. For example, if the school chooses to recalculate for a student whose enrollment status increases from half-time to full-time, it must also recalculate for a student whose enrollment status decreases. If the school establishes a policy allowing optional recalculations for an educational program, this policy must be in writing.

Your school's policy may set a date after which Pell Grants will not be recalculated for enrollment status changes. For example, a school can establish a policy that it will recalculate Pell awards only for enrollment changes that occur up to the "add/drop" date of a term. The initial calculation of a student's Pell Grant may occur subsequent to the "add/drop" date of the term, including terms with compressed coursework. You must use the student's effective enrollment status on the date of the initial calculation, and there would be no recalculations of the student's Pell Grant for the term due to a subsequent change in enrollment status, assuming the student began attendance in each class. If the student's payment for the term is being disbursed in a subsequent payment period, you may pay the student only for the coursework completed in the term.

In the case of programs offered with compressed coursework or modules within the terms, the school may adopt a policy of setting the date based on the add/drop date of the last class in which the student enrolls, or is expected to enroll, for the term. In this circumstance, the school must take into account all adjustments to the enrollment status, both increases and decreases, up to the add/drop date of the student's last class.

If a school doesn't establish a policy for recalculation within a term, a student who begins attendance in all classes would be paid based on the initial calculation, even if his or her enrollment status changes before the disbursement is made.

If the student withdraws from all of his or her classes (or doesn't begin attending any classes), you must follow the procedures discussed in Volume 5.

Change in cost of attendance (recalculation required if you are recalculating for an enrollment status change; otherwise optional)

You're not required to recalculate Pell awards for cost changes during the award year. For instance, if the student gets accepted into on-campus housing after the fall term and your student budget for on-campus housing is lower, you're not required to recalculate the student's Pell award. If you choose to recalculate for changes in costs, you have to consistently apply that recalculation policy.

If you recalculate a Pell award because the student's enrollment status has changed, you must also take into account any changes in the student's costs at that time. For example, if a student enrolls full-time for the first semester and then drops to less than 1/2-time during that semester, the student's costs will change, because only certain cost components are allowed for less than 1/2-time students. If your school's policy is to recalculate for the enrollment change, you must use the cost for a less-than-half-time student *for a full year* to calculate the student's less-than-half-time award. You must not combine the two costs or average them.

COA changes between payment periods

A school may have a policy of recalculating awards when the cost of attendance changes from one payment period to the next—for example, because of changes to the student's tuition and fee costs, or because a student's living situation changes (such as when a student moves off campus). Schools also have the option to establish a policy to recalculate financial aid awards when a student's costs change *within* an award year, as long as the recalculation policy is carried out for all students whose costs change.

COA changes within a payment period

You may establish a policy of recalculating for cost changes from one payment period to the next, and at the same time, have a policy not to recalculate for cost changes *within* a payment period. You also have the option to establish a policy to recalculate financial aid awards when a student's costs change within a payment period. For instance, if a student with no dependents moves from a dormitory to off-campus housing at midterm, the school may wish to recalculate the student's award for that payment period.

For Pell purposes, such a policy is acceptable if its carried out for all students whose costs change within the payment period.

You may not recalculate the payment for a payment period that took place *before* the cost change. For instance, in the example above, if the student lives in the dormitory during the first quarter and then moves off campus for the second and third quarters, the recalculation would only affect the payments for the second and third quarters.

SAR/ISIR with different EFC

If you receive a SAR or ISIR with an EFC different from the one you used for the payment calculation, you must first decide which document is valid. If the new information is the valid information, in most cases you must recalculate the student's Pell award for the entire award year based on the new EFC.

Enrollment change: required recalculation example

Edmund registers for a full-time course load (15 credit hours), and Hart University makes a first-term disbursement on that basis 10 days before the term starts. When the term starts, Edmund only begins attendance in three classes (9 credit hours). Hart must recalculate Edmund's Pell award based on the lower enrollment status. Any difference between the amount Edmund received and his new recalculated award is an overpayment. See Volume 5 for a discussion of overpayments.

Enrollment change within payment period example

Emma registers for a full-time course load at Woodhouse College, and Woodhouse initially calculates a full-time award for her. She begins attending all of her classes but subsequently drops to half-time. Depending on Woodhouse's recalculation policy, Emma may still be paid based on full-time enrollment as long as she's otherwise eligible for payment. On the other hand, if Woodhouse did not receive Emma's first processed SAR or ISIR with an official EFC until after she dropped to half-time enrollment, the Pell initial calculation would be based on her enrollment status at the time the output document was received (half-time).

Tuition and fee charges and recalculation

If the school recalculates a student's Pell Grant due to a change in enrollment status, continuing to charge tuition and fees for credit hours no longer included in the student's enrollment status for Pell Grant purposes does not affect the requirement to recalculate the student's Pell Grant.

For example, Jackie enrolls as a full-time student with 12 credits but never starts attendance in a 3-credit class that starts after the college's "add/drop" date. Jackie's award must be recalculated as three-quarter time even though the college charges tuition for any classes dropped after the "add/drop" date and continues to charge Jackie for 12 credits.

Chapter 3

Appendices:

**APPENDIX A: FORMULA 2: CALCULATIONS FOR
STANDARD TERM PROGRAMS WITH LESS THAN
30 WEEKS IN FALL THROUGH SPRING**

**APPENDIX B: FORMULA 5: CALCULATIONS FOR
CORRESPONDENCE STUDY PROGRAMS**

APPENDIX C: PELL FORMULA SUMMARIES

APPENDIX A

FORMULA 2: CALCULATIONS FOR STANDARD TERM PROGRAMS WITH LESS THAN 30 WEEKS IN FALL THROUGH SPRING

The regulations provide an option for standard-term programs whose fall through spring terms provide less than 30 weeks of instructional time. Formula 2 may be advantageous for your summer term calculations. You may use Formula 2 if the program:

- has an academic calendar that consists of two semesters or trimesters (in the fall through the following spring) or three quarters (in the fall, winter, and spring);
- does not have overlapping terms; or
- measures progress in credit hours and defines full-time enrollment for each term in the award year as at least 12 credit hours.

Using Formula 2

34 CFR 690.63(a)(2), 690.63(c)

Formula 2 Alternative Calculation

Under Formula 2, you can perform the same alternate calculation as performed under Formula 1 if the weeks of instructional time in the defined academic year are the same as the total number of weeks of instructional time in all the terms in the award year. See the example for alternate calculation under the discussion of Formula 1 earlier in this chapter.

Formula 2: calculation for standard terms with Fall through Spring terms < than 30 weeks

The regulations offer an alternative formula for standard term programs with fall through spring standard terms that provide less than 30 weeks of instructional time. The significant effect of this formula is to allow you to pay the same Pell amount for the summer term as you would for one of your traditional fall through spring terms. To use this formula, the program must have two semesters or trimesters (in the fall through the following spring) or three quarters (in the fall, winter, and spring), with no overlapping terms, and define full-time enrollment for each term in the award year as at least 12 credit hours.

Let's take the example of Emma, who is attending Woodhouse College (WHC), which has fall and spring semesters of 14 and 15 weeks, and a summer term of 10 weeks. WHC defines the academic year of Emma's program as 24 semester hours and 30 weeks.* Her Scheduled Award is \$3,300, and she is attending as a full-time student. Because the fall and spring terms provide less than the minimum 30 weeks of instructional time for an academic year, Emma's full-time award is prorated as follows:

$$\frac{29 \text{ weeks* in term**}}{30 \text{ weeks* in academic year}} \times \$3,300 = \$3,190$$

This prorated amount is then divided by the number of terms:

$$\frac{\$3,190}{2} = \$1,595$$

Emma will receive \$3,190 for her attendance in both semesters. Note that this is less than her Scheduled Award; she may be able to receive the remaining \$110 if she enrolls in a summer term.

The difference between Formula 2 and Formula 3 lies in whether you must make a separate calculation for each term. Under Formula 2, you do not have to perform a separate calculation based on the length of each term. Emma's Pell eligibility as a full-time student would be \$1,595 under Formula 2. If Woodhouse used Formula 3, the annual award would be prorated based on the length of each term: 14 weeks (14/30), 15 weeks (15/30), and 10 weeks (10/30), and Emma's eligibility would be \$1,540, \$1,650, and \$1,100 respectively.

Emma only has \$110 in remaining Pell eligibility for the summer term under both formulas. Her summer payment would only be different for each formula if Woodhouse chose to pay the summer term out of the subsequent award year. (Note that Emma's Scheduled Award and her summer payment would then be based on the EFC for the following award year.)

*These fractions use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

**Fall through spring.

APPENDIX B

FORMULA 5: CALCULATIONS FOR CORRESPONDENCE STUDY PROGRAMS

Students enrolled in correspondence courses are eligible for aid under FSA programs only if the courses are part of a program leading to an associate, a bachelor's, or a graduate degree. Also, to be eligible, a correspondence program must meet the criteria for an eligible program (see the Volume 2 of the *FSA Handbook: Institutional Eligibility and Participation*).

PELL COST OF ATTENDANCE

The cost of attendance for correspondence programs is limited to tuition and fees, and in certain cases, books and supplies. Traditionally, books and supplies have been included as part of the correspondence program's tuition. If books and supplies are not included in the program's tuition, they may be counted as costs, for either a residential or nonresidential period of enrollment. As always, the cost of attendance must be based on the costs for a full-time student for a full academic year for the relevant component (for correspondence COA, there would be no room and board, etc.). If the student's program or period of enrollment, as measured in credit hours, is longer or shorter than an academic year as measured in credit hours, the tuition and fees for the program or enrollment period must be prorated. Because the correspondence study cost of attendance for the nonresidential component only includes costs associated with credit hours, your school always uses the credit hour-related fraction to prorate the cost of attendance as follows (because there are no costs associated with weeks of instructional time in the correspondence cost of attendance, your school has to prorate the cost only if the number of hours in the program is shorter or longer than in an academic year):

Credit hours in program's definition of an academic year

Credit hours to which the costs apply

The resulting amount is the full-time, full-academic-year cost used for calculating Pell Grant eligibility. When there is a residential portion in a correspondence student's program, Formula 3 or 4 (whichever applies) is used to calculate the student's payment for a payment period for a residential portion. Refer to Formula 3 or 4 guidelines, including cost of attendance determinations, for this circumstance.

PELL ENROLLMENT STATUS

Students enrolled in programs of correspondence study are considered to be no more than half-time students, even if they're enrolled in enough coursework to be full-time. However, if the correspondence study is combined with regular coursework, the student's enrollment status might be more than half time.

Correspondence program highlights

- Pell cost of attendance limited to tuition and fees (and in some cases, books and supplies)
- The enrollment status for correspondence students can never be more than 1/2-time
- The enrollment status for a student who is taking both correspondence and regular coursework may be greater than 1/2-time
- Timing of payments within payment periods is different for correspondence students
- Formula 5A or 5B used to calculate awards for correspondence students

Enrollment status cites for correspondence

Term classes — 34 CFR 690.66(c)(2)

Combined with regular study — 34 CFR 690.8

Academic coursework

The term academic coursework does not necessarily refer to credits. If a student does not earn any credits until the end of the program, it may refer to the lessons or other measures of learning within a course or a program. For instance, if a course or program is made up of 40 equal lessons, the student reaches the halfway point as follows:

- If the student successfully completes the first 20 lessons before the calendar midpoint of the academic year, the second payment period does not begin until the calendar midpoint.
- If the student completes the first half of the academic year before successfully completing the first 20 lessons, the second payment period does not begin until the student successfully completes the first 20 lessons.

Annual award

The annual award for a student in a nonterm correspondence program is always taken from the half-time Disbursement Schedule because a correspondence student can't receive more than half a Scheduled Award. For a student in a term correspondence program, the annual award is determined from the half-time Disbursement Schedule or the less-than-half-time Disbursement Schedule, as appropriate.

34 CFR 690.66(a)(1) and (2)

A student enrolled only in a nonterm correspondence program always has his or her award calculated based on the half-time Disbursement Schedule. For a student enrolled in a term-based correspondence program, your school must determine whether the student is enrolled half-time (6 or more credit hours in a term) or less than half-time (less than 6 credit hours in a term). Special rules are used to determine the student's enrollment status when the student is enrolled in a combination of regular and correspondence coursework.

PAYMENT PERIODS & TIMING OF PAYMENTS

For a *nonterm* correspondence program, there must be two equal payment periods in each academic year. Each payment period is the lesser of half the academic year or half the program (measured in credit hours). In addition, you can't disburse a Pell payment for the first payment period until the student has completed 25% of the work in the academic year or the program, whichever is shorter. It can't make the second payment until the student has completed 75% of the work in the academic year or program.

For a *term*-based correspondence program, as for other term-based programs, the payment period is the term. However, you can't disburse the Pell for a payment period until the student has completed 50% of the lessons or completes 50% of the work for the term, whichever is later.

If the correspondence program has a required period of *residential training*, you must treat the residential training as an additional payment period and determine the payment for that payment period using either Formula 3 or Formula 4. Note that the correspondence portion of the program is still treated as a separate portion of the program that's divided into two equal payment periods.

PELL CALCULATIONS IN CORRESPONDENCE PROGRAMS

Formula 5 is used for students enrolled only in correspondence courses (not including residential components of correspondence programs). There are two versions of Formula 5: Formula 5A (which is similar to Formula 4) is used for nonterm programs, and Formula 5B (which is similar to Formula 3) is used for term-based programs. For a residential component of a correspondence program, your school must use either Formula 3 or Formula 4. If the residential component is a term, your school uses Formula 3; otherwise, it uses Formula 4.

For nonterm correspondence programs, this step of the calculation is similar to the step under Formula 4. For term correspondence programs, this step is the same as under Formula 3.

For the Pell calculation, you are required to determine the number of weeks of instructional time in the program by preparing a written schedule for the lessons that the student will submit. A nonterm correspondence program must require at least 12 hours of preparation per week. A term-based correspondence program must

Correspondence Payment Periods Cites

Nonterm — 34 CFR 690.66(b)

Term — 34 CFR 690.66(c)(3),(c)(4)

require at least 30 hours of preparation per semester hour or at least 20 hours of preparation per quarter hour during the term.

Nonterm correspondence program—Formula 5A

You first multiply the annual award (taken from the half-time disbursement schedule) by the least of:

$$\frac{\text{Weeks* for a student to complete credit hours in a program}}{\text{Weeks* in program's academic year definition}}$$

or

$$\frac{\text{Weeks* for a student to complete credit hours in academic year}}{\text{Weeks* in program's academic year definition}}$$

or

One (1)

You then multiply the result by the following fraction:

$$\frac{\text{Credit hours in a payment period}}{\text{Credit hours in program's academic year definition}}$$

Term correspondence program—Formula 5B

You multiply the annual award (taken from the half-time or less-than-half-time Disbursement Schedule) by the weeks of instructional time in the term divided by the weeks in the academic year:

$$\frac{\text{Weeks* in term}}{\text{Weeks in program's academic year definition}}$$

A single disbursement for a payment period can never be more than 50% of the annual award. If the resulting amount is more than 50% of the annual award, your school must make the payment in at least two disbursements in that payment period. You may not disburse an amount that exceeds 50% of the annual award until the student has completed the period of time in the payment period that equals 50% of the weeks of instructional time in the program's academic year definition.

*Note: The fractions on this page use weeks of instructional time as defined in Chapter 1, which are not necessarily the same number as the calendar weeks in an academic year.

Correspondence Multiple Formulas Exception

If a correspondence student has one or more payment periods in an award year that contain only correspondence study and one or more payment periods in the same award year that contain a residential portion, your school would use two different formulas for determining a student's payment for each payment period. This instance is the only one in which a school would use two different Pell formulas within the same award year for students in the same program.

APPENDIX C

FORMULA SUMMARIES

Formula 1 Summary

Standard-term, credit-hour programs, with 30 weeks of instructional time (or waiver applies)

- Enrollment for at least 12 credit hours each term required for full-time status
- Program terms don't overlap
- Academic calendar includes 2 semesters/trimesters (fall and spring) or 3 quarters (fall, winter, and spring)
- Fall through spring terms equal at least 30 weeks of instructional time, or at least 26 weeks of instructional time if the program was granted a waiver of the minimum 30-week academic year requirement.

Step 1: Determine Enrollment Status

Full time, three-quarter time, half time, or less than half time

Step 2: Calculate Pell COA

Full time, full academic year costs

Step 3: Determine Annual Award

If the student's enrollment status is full time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4 time, 1/2 time, or less than 1/2 time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Step 4: Determine Payment Periods

Payment period is the academic term

Step 5: Calculate Payment for a Payment Period

$$\frac{\text{Annual Award}}{\text{Number of payment periods in the program's academic year definition}}$$

OR

For alternate calculation:

$$\frac{\text{Annual Award}}{\text{Number of terms in the award year}}$$

Formula 2 Summary

Standard-term, credit-hour programs, with fewer than 30 weeks of instructional time, and waiver does not apply

- Enrollment for at least 12 credit hours each term required for full-time status
- Program terms don't overlap
- Academic calendar includes 2 semesters/trimesters (fall and spring) or 3 quarters (fall, winter, and spring)
- Fall through spring terms are less than 30 weeks of instructional time

Step 1: Determine Enrollment Status

Full time, three-quarter time, half time, or less than half time

Step 2: Calculate Pell COA

Full time, full academic year costs

Cost for fall through spring terms prorated. If fall through spring terms provide the same number of credit hours as are in the academic year definition, prorated COA is the same as non prorated COA.

Step 3: Determine Annual Award

If the student's enrollment status is full time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4 time, 1/2 time, or less than 1/2 time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Step 4: Determine Payment Periods

Payment period is the academic term

Step 5: Calculate Payment for a Payment Period

$$\frac{\text{Annual Award}}{\text{Number of payment periods in the program's academic year definition}}$$

OR

For alternate calculation:

$$\frac{\text{Annual Award}}{\text{Number of terms in the award year}}$$

Formula 3 Summary

Any term-based, credit-hour programs; may include those qualifying for Formulas 1 and 2

Step 1: Determine Enrollment Status

Full time, three-quarter time, half time, or less than half time

Step 2: Calculate Pell COA

Full time, full academic year costs

Cost for program or period not equal to academic year prorated. Two fractions are compared:

$$\frac{\text{Hours in program's definition of academic year}}{\text{Hours to which the costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

The entire cost is multiplied by the lesser of the two fractions to determine Pell COA.

Step 3: Determine Annual Award

If the student's enrollment status is full time, the annual award is taken from the full-time Payment Schedule (Scheduled Award). If the student's enrollment status is 3/4 time, 1/2 time, or less than 1/2 time, the annual award is taken from the appropriate part-time Disbursement Schedule.

Step 4: Determine Payment Periods

Payment period is the academic term

Step 5: Calculate Payment for a Payment Period

$$\frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in the program's academic year definition}}$$

A single disbursement can't exceed 50% of the annual award

Formula 4 Summary

Clock-hour programs and credit-hour programs without terms, residential portion of nonterm correspondence programs.

Step 1: Determine Enrollment Status

At least half time or less than half time

Step 2: Calculate Pell COA

Full time, full academic year costs

Cost for program or period not equal to academic year prorated. Two fractions compared:

$$\frac{\text{Hours in program's definition of academic year}}{\text{Hours to which the costs apply}}$$

$$\frac{\text{Weeks of instructional time in program's definition of academic year}}{\text{Weeks of instructional time in the enrollment period to which the costs apply}}$$

The entire cost is multiplied by the lesser of the two fractions to determine Pell COA.

Step 3: Determine Annual Award

Always taken from full-time Payment Schedule (equal to Scheduled Award)

Step 4: Determine Payment Periods

Length of payment period measured in credit or clock hours. Minimum of 2 equal payment periods required for programs shorter than an academic year, or 2 equal payment periods in each full academic year (or final portion longer than half an academic year) for programs longer than or equal to an academic year.

Step 5: Calculate Payment for a Payment Period

Annual award is multiplied by two fractions:

$$1) \quad \frac{\text{Weeks of instructional time for a full-time student to complete hours in program}}{\text{Weeks of instructional time in program's academic year definition}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete hours in academic year}}{\text{Weeks of instructional time in program's academic year definition}}$$

OR

One (1)

2) The results of the first multiplication are multiplied by:

$$\frac{\text{Clock/credit hours in payment period}}{\text{Clock/credit hours in program's academic year definition}}$$

A single disbursement cannot exceed 50% of the annual award. A minimum of 26 weeks of instruction is needed to meet the minimum academic year definition requirements (versus 30 for credit-hour programs).

Formula 5A Summary

Correspondence programs nonterm correspondence component. For residential portion, use formula 4 to calculate payment periods and amounts. The schedule for the submission of lessons must reflect a workload of at least 12 hours of preparation per week of instructional time.

Step 1: Determine Enrollment Status

Enrollment status is never more than half time

Step 2: Calculate Pell COA

Full time, full academic year costs (for applicable components)

Cost for program or enrollment period not equal to academic year prorated according to the following formula:

For tuition and fees:

$$\text{Costs X } \frac{\text{Credit hours in program's definition of academic year}}{\text{Credit hours to which costs apply}}$$

Step 3: Determine Annual Award

Annual award taken from half-time Disbursement Schedule

Step 4: Determine Payment Periods

Length of payment period measured in credit hours.

The first payment period is the period of time in which the student completes the lesser of the first half of the academic year or the first half of the program. (First payment can be made only after the student has completed 25% of the lessons or otherwise completed 25% of the work scheduled, whichever comes last.)

The second payment period is the period of time in which the student completes the lesser of the second half of the academic year or the second half of the program. (Second payment may be made only after the student has submitted 75% of the lessons or otherwise completed 75% of the work scheduled, whichever comes last.)

Step 5: Calculate Payment for a Payment Period

Annual award is multiplied by two fractions:

$$1) \quad \frac{\text{Weeks of instructional time for a full-time student to complete credit hours in program}}{\text{Weeks of instructional time in program's academic year definition}}$$

OR

$$\frac{\text{Weeks of instructional time for a full-time student to complete credit hours in academic year}}{\text{Weeks of instructional time in program's academic year definition}}$$

OR

One (1)

2) The results of the first multiplication are multiplied by:

$$\frac{\text{Credit hours in payment period}}{\text{Credit hours in program's academic year definition}}$$

Note: A single disbursement can't exceed 50% of the annual award.

Formula 5B Summary

Programs of study by correspondence, term correspondence component. During each term, the written schedule for the submission of lessons must reflect a workload of at least 30 hours of preparation per semester hour or at least 20 hours of preparation per quarter hour.

Step 1: Determine Enrollment Status

Enrollment status is never more than half time

Step 2: Calculate Pell COA

Full time, full academic year costs (for applicable components)

Cost for program or enrollment period not equal to academic year prorated according to the following formula:

For tuition and fees:

$$\text{Costs} \times \frac{\text{Credit hours in program's definition of academic year}}{\text{Credit hours to which costs apply}}$$

Step 3: Determine Annual Award

Annual award taken from half-time or less than half time Disbursement Schedule

Step 4: Determine Payment Periods

Length of payment period is the academic term.

Step 5: Calculate Payment for a Payment Period

Annual award multiplied by:

$$\frac{\text{Weeks of instructional time in the term}}{\text{Weeks of instructional time in program's academic year definition}}$$

When there is a residential portion in a term-based correspondence program, Formula 3 is used to calculate the student's payment for a payment period for the residential portion.

A single disbursement cannot exceed 50% of the annual award.

Calculating ACG and National SMART Grants

CHAPTER 4

In this Chapter we will illustrate the amounts a student may receive under the ACG and National SMART Grant programs and show how to determine the correct grant award for each payment period. While these programs share some requirements, they are two separate programs with a number of different requirements. For more detail on ACG and National SMART Grant criteria and eligibility, see Volume 1, Student Eligibility. For more on payment periods, see Chapter 1 of this volume, and for cost of attendance, see Chapter 3 of this volume.

In general, a full-time student may be eligible for two ACG Scheduled Awards: one each for the first and second academic years of the student's enrollment in any ACG-eligible program. A full-time student may be eligible for two National SMART Grant Scheduled Awards: one each for the third and fourth academic years of the student's enrollment in any National SMART Grant-eligible program. A student may never receive more than two ACG or two National SMART Grant Scheduled Awards throughout the student's undergraduate education.

The rules for calculating an ACG or National SMART Grant disbursement for a payment period are identical to the Pell calculations we described in the previous chapter. Like Pell, ACGs and National SMART Grants use a Scheduled Award. However, there are key differences between the Scheduled Award for ACGs and National SMART Grants and the Scheduled Award for Pell. A student's ACG or National SMART Grant Scheduled Award is based only on completing the respective academic year of the student's ACG or National SMART Grant-eligible program.

However, a Pell Scheduled Award is for completing an academic year within an award year. For instance, a student who enrolls in the spring of one year could receive the first half of an ACG Scheduled Award for an academic year in that term and the second half of the ACG Scheduled Award for that academic year in the following fall term, even though the terms take place in two different award years.

The maximum ACG or National SMART Scheduled Award for a particular student depends on the academic year in which the student is enrolled during the student's undergraduate education in eligible programs of study and the availability of funds for all eligible students during the award year. For the ACG Program, the Scheduled Award may be up to the authorized maximum awards of:

- \$750 during the first academic year that an eligible student is enrolled in any ACG eligible program at any school; and

Chapter 4 Highlights

- Academic year definition
- Academic year progression for all eligible programs
- Academic year progression for programs eligible to calculate payments under Formula 1
- Calculating an ACG/National SMART Grant for a payment period
- Summer/Crossover periods
- Transfer Students

Academic Year

Higher Education Act; Section 481(a)
34 CFR 668.3

Annual establishment of ACG/National SMART Grant maximum Scheduled Awards

34 CFR 691.2(d)
34 CFR 691.62

ACG and National SMART Grant Scheduled Awards will be established for each award year based on the available funding. The Department has determined for the 2007-2008 award year, that the Scheduled Awards will not need to be reduced from the authorized maximum awards.

ACG and National SMART Grant Eligible Programs

For ACGs, an eligible program must meet the FSA eligible program requirements and lead to an associate's degree or a bachelor's degree; be a two-academic-year program acceptable for full credit toward a bachelor's degree; or be a graduate degree program that includes at least 3 academic years of undergraduate education. For National SMART Grants, an eligible program must meet the FSA eligible program requirements and lead to a bachelor's degree in an eligible major or be a graduate degree program in an eligible major that includes at least 3 academic years of undergraduate education.

The eligible program differences may affect the award for which a student qualifies. For example, it is possible for a student to complete two academic years in an ACG-eligible program but not immediately qualify as being in the third academic year of a National SMART Grant eligible program. In this case, a student declares a National SMART Grant eligible major at the end of the student's second academic year. The student's school performs a degree audit at that time and determines that only 36 semester hours from the prior two years apply towards the student's National SMART Grant eligible program. As a result, the student is considered to be enrolled in the second year of the National SMART Grant-eligible program and is not yet eligible for a National SMART Grant. We will discuss additional considerations related to this issue later in this chapter.

Academic Year Progression

34 CFR 691.6
DCL GEN-06-18

Case Studies

For detailed case studies on academic year progression see Appendix A to this chapter, posted on the same webpage as Vol. 3 on IFAP.

- \$1,300 during the second academic year that an eligible student is enrolled in any ACG eligible program at any school.

For the National SMART Grant Program, the Scheduled Award may be up to the authorized maximum awards of:

- \$4,000 during the third academic year that an eligible student is enrolled in any National SMART Grant eligible program at any school; and
- \$4,000 during the fourth academic year that an eligible student is enrolled in any National SMART Grant eligible program at any school.

Generally, once a student completes an academic year in an ACG or National SMART Grant eligible program, the student may never receive an ACG or National SMART Grant for that academic year. This requirement is applicable regardless of whether the student received any portion of the award during that academic year. For example, a student completes her second academic year in an ACG eligible program going only part-time. Since a student must be enrolled full-time to be eligible for ACG (or National SMART Grant), she was not eligible for an ACG during her second academic year and never will be eligible for a second-year ACG award. While this principle is generally true, there are considerations that may affect its implementation discussed later in this chapter.

ACADEMIC YEAR PROGRESSION: GENERAL REQUIREMENTS

For purposes of ACGs and National SMART Grants, a student's academic year progression is not based on the student's enrollment in each ACG- or National SMART Grant-eligible program separately, but rather is based on all ACG- and National SMART Grant-eligible programs in which a student has enrolled over the course of the student's undergraduate education.

Academic year

Your school must define the academic year in weeks of instruction and credit or clock hours for each eligible program for which you intend to award ACGs or National SMART Grants. The definition must meet the minimum FSA standards and be the same one used for all other FSA programs. See Chapter 1 of this volume for more on academic year.

To determine the ACG or National SMART Grant Scheduled Award for which a student is eligible, you need to determine how many academic years the student has completed while attending an ACG or National SMART Grant eligible program of study. Generally, to do this, one compares the academic year definition for a student's program of study to the number of credit or clock hours earned by the student and the weeks of instruction attended by the student in ACG-

eligible programs or in National SMART Grant-eligible programs. Remember, for a student to progress from one academic year to the next, a student must complete the minimum number of credit or clock hours AND the minimum number of weeks of instruction in the academic year.

Academic year progression for all eligible programs: exact accounting

In general, a school determines a student's academic year progression during the student's attendance for the first and second academic years in ACG-eligible programs at all schools. Similarly, a school determines a student's academic year progression during the student's attendance for the third and fourth academic years in National SMART Grant-eligible programs at all schools.

Thus, a student's academic year progression is not based on the student's enrollment in each eligible program separately, but rather it is based on all eligible programs in which a student has enrolled over the course of the student's undergraduate education.

A school must determine whether a student's previous enrollment, as measured in both weeks of instruction and credit or clock hours, affects the student's eligibility for an ACG and National SMART Grant in an academic year. For example, a student completes 24 semester hours over three 15-week semesters enrolled in an ACG-eligible program at a school by attending full-time one term and half-time for two terms. Over the three semesters the student has thus completed the 24 semester hours and 30 weeks of instruction of her first academic year. Even though she attended on a full-time basis for only one of the semesters and received only half of the first-year ACG, the student is no longer eligible as a first-year student at any school since the student has completed both the hours and weeks of instruction of the first academic year of enrollment in an ACG-eligible program. Thus, the student would never be eligible to receive the second half of the first-year ACG.

In determining the credit or clock hours of an academic year completed, a school must use the number of credit or clock hours earned by a student at that school or at any other postsecondary schools if those credit or clock hours will be accepted to meet a part of the requirements for the student's ACG- or National SMART Grant-eligible program.

Credit or clock hours earned by a student based on, for example, Advanced Placement (AP) coursework or tests, International Baccalaureate (IB) coursework or tests, testing out, life experiences, or enrollment in an ineligible program or as a nonregular student, must also be included in determining progression in the credit or clock hour component of the academic year if the school uses those credits or clock hours to meet a part of the requirements of the student's eligible program. However, there are no weeks of instruction associated with receiving these credits or clock hours.

Rate of Progression

It is possible for a student to be starting one measure of a new academic year in hours or weeks of instruction while completing the other measure for the prior academic year. For example, Diane attends 18 semester hours per 15-week semester for 4 semesters in a program with an academic year of 24 semester hours and 30 weeks of instruction. At the end of the fourth semester she has accrued the 72 semester hours, thus completing the hours for three academic years. However, while she has completed the hours of three academic years, under an exact accounting, she is considered to be entering the third academic year because she has only attended 60 weeks of instruction. Thus, when she begins her fifth semester, she will begin the hours of a fourth academic year, but the weeks of instruction of her third academic year. In her fifth semester she is considered to be in her third academic year. Remember, when tracking academic year progression for the ACG and National SMART Grant programs, you are tracking progression through the defined academic year in weeks of instruction and hours rather than grade level.

Hours without Weeks

When performing an exact accounting of a student's academic year progression, credits or clock-hours for Advanced Placement (AP) coursework or tests, International Baccalaureate (IB) coursework or tests, testing out, life experiences, enrollment in an ineligible program or as a nonregular student do not have weeks of instruction associated with them. For instance, if a student initially enrolls with more than one academic year of these credits, the student would still be placed in the first academic year because the credits carry no weeks of instruction.

Academic year progression for programs eligible to use Formula 1: assumption method (applicable only to the 2006-2007 and 2007-2008 award years)

Applicable only for the 2006-2007 and 2007-2008 award years, the Secretary provided guidance in Dear Colleague letter GEN-06-18 governing ACG- and National SMART Grant-eligible programs for which a school may calculate payments for payment periods under Formula 1.

Unlike schools with nonterm and nonstandard term programs, schools with programs qualifying for Formula 1 payment calculations have not generally had to monitor their students' completion of the weeks of instruction and credit hours of an FSA academic year. This guidance was intended to relieve these schools' administrative burden during the two initial award years of implementing the ACG and National SMART Grant programs.

Under this guidance, a school is not required to do an exact accounting of a student's academic year progression and may assume that a student has completed the weeks of instruction in the academic year for each increment of the student's credit hours in the academic year. For example, a student who completed 24 semester hours is considered to also have completed 30 weeks of instruction for a program with an academic year of 24 semester hours and 30 weeks of instruction.

In making this determination under the assumption method, any fractions of an academic year are not rounded to include the next term or academic year. For example, a student who completed 27 semester hours is considered to also have completed 33.75 weeks of instruction for a program with an academic year of 24 semester hours and 30 weeks of instruction ($27 \text{ hours earned} \times 30 \text{ weeks of instruction in academic year} / 24 \text{ hours in academic year}$).

A school need not consider whether the credits were earned while enrolled in an ACG- or National SMART Grant-eligible program or were credits earned by a student from AP coursework or tests, IB coursework or tests, testing out, life experiences, or enrollment in an ineligible program or as a nonregular student.

A school may use the assumption method on a student-by-student basis, for the same student for different terms, or for transfer credits but not credits subsequently earned at the school.

Student request for an exact accounting

A school using the assumption method must provide an exact accounting for a student who requests that such a determination be made or who questions whether he or she has completed an academic year.

Degree audits and prior payments

Generally, a school considers all of the hours a student earns to apply to the student's degree program until such time as the school may perform a degree audit to determine the hours that are applicable to the student's degree program. The school is not considered to have erred by relying on the student's progress prior to the degree audit in determining the student's academic year progression for an ACG or National SMART Grant, even though some of the student's prior coursework is no longer considered to be applicable to the student's academic year progression in an ACG or National SMART Grant eligible program.

Based on a degree audit a student may be reclassified to an academic year prior to an academic year for which the student has received payment. The student is not required to return awards for any academic year subsequent to the student's reclassified standing in this circumstance. However, the student may not regain eligibility for any academic year prior to a year for which payment has been received since the student is considered to have completed the academic years in an eligible program through the years for which payment has been received.

Degree Audits and Prior Payments

Once a student receives an award for a particular academic year, the student's eligibility in the earlier years is considered to have elapsed since eligibility is based on attendance in all eligible programs at all schools. For example, Anthony received a third-year National SMART Grant award. A degree audit at the end of his third academic year determined that he only has applicable credits to be in the second academic year of his National SMART Grant-eligible degree program. While there is no repayment of the third-year award, Anthony does not become eligible for a fourth-year National SMART Grant until he has completed the necessary additional credit hours and weeks of instruction of at least 3 academic years in his National SMART Grant-eligible program. Since a student cannot go back to academic years prior to a year for which the student received a disbursement, Anthony cannot be considered a second-year student eligible for his remaining ACG eligibility since the second academic year of an ACG-eligible program must be considered to have elapsed by his receipt of a third-academic-year National SMART Grant.

Determining Academic Year Progression

Payment Formula Used for Eligible Program	Academic Year Based on <i>Actual</i> Weeks of Instruction and Hours	May <i>Assume</i> Weeks Based on Hours (2006-07 and 2007-08)	May <i>Assume</i> Weeks Based on Accepted Hours for Transfer Students	Must Determine <i>Actual</i> Academic Year Standing if Student Requests
Formula 1	Yes	Yes	Yes	Yes
Formula 3, but eligible to use Formula 1	Yes	Yes	Yes	Yes
Formulas 2, 3 and 4	Yes	No	Yes	Yes, for transfer students

ACADEMIC YEAR PROGRESSION: ADDITIONAL CONSIDERATIONS

Transfer students

Preamble, November 1, 2006 final regulations (71 FR 64404-64405)
34 CFR 691.65

Transfer students

A school is responsible for determining whether any previous enrollment by a student as measured in weeks of instruction and hours affects the student's eligibility for an academic year. A school may always document a student's attendance in ACG and National SMART Grant eligible programs at all the schools a transfer student attended to do an exact accounting of the student's academic year progression. An exact accounting is always considered the best method of determining a student's academic year progression.

In addition, any school may assume a transfer student's academic year progression in weeks of instruction based on the credits accepted on transfer into an ACG or National SMART Grant-eligible program in lieu of performing an exact accounting of a transfer student's academic year progression in ACG- and National SMART Grant-eligible programs at other schools. However, a school must provide an exact accounting for a student who requests that such a determination be made or who questions whether he or she has completed an academic year.

Generally, to the extent a determination does not conflict with information related to grants previously received, when determining the appropriate academic year for a transfer student, the school may rely on the transfer credits accepted, along with the estimated number of weeks of instruction completed in proportion to the academic year of the student's ACG or National SMART Grant eligible program at the school to which the student transferred. To determine the estimated number of weeks of instruction, the school may use the following formula:

$$\frac{\text{hours accepted on transfer} * \text{weeks of instruction in academic year}}{\text{hours in academic year}}$$

Note that any fractions of an academic year are not rounded to include the next term or academic year.

A student may have previously received an ACG or National SMART Grant for an academic year, or a portion of one. The student's school must consider the student to have completed an eligible program through that academic year, or that portion of an academic year, in weeks of instruction and hours, unless the school has information to the contrary.

However, a school may not be aware that the student completed an academic year in an ACG or National SMART Grant-eligible program at another school for which he has been paid or does not have information confirming such completion. In this case, the second school may determine the student's academic year progression based on the credits accepted on transfer and the assumed weeks of

instruction. While we do not require schools to track this information, a school must take it into account if it has the information.

In determining the academic year of a transfer student, you need not follow the same policy as is used for assessing weeks of instruction in the student's program of study at your school. For example, you may assume the weeks of instruction based on a student's transfer credits, but pursue an exact accounting of the student's academic year progression going forward in his or her program at your school.

Summer terms (Formula 1 and 2 programs)

For a program with a single summer term that is eligible to calculate payments using Formula 1 or 2, the current regulations provide that a school may treat the summer term as though it is the same fraction of the weeks of an academic year as the fraction used to calculate a payment for a payment period. To use this option, the school must apply it to all students enrolled in the program unless a student is requesting an exact accounting of his academic year progression.

Under this option, for an eligible program offered in semester hours or trimesters with a single summer term that provides at least 12 semester or trimester hours of coursework, the summer is considered to be one-half of an academic year in weeks of instruction or, if the academic year is defined to include the summer term, one-third of an academic year in weeks of instruction. For an eligible program offered in quarters with a single summer term that provides at least 12 quarter hours of coursework, one-third of an academic year in weeks of instruction or, if the academic year is defined to include the summer term, one-fourth of an academic year in weeks of instruction.

Extension of ACG and National SMART Grant eligibility (applicable only to the 2006-7 and 2007-8 award years)

Generally, a student who has completed the second academic year of an ACG-eligible two-year program is not eligible for an ACG. Similarly, a student who has completed the fourth academic year of a National SMART Grant-eligible program is not eligible for a National SMART Grant.

However, for the 2006-2007 and 2007-2008 award years, we consider a student's second academic year for an ACG or fourth academic year for a National SMART Grant to end when the student has completed the credits required for completion of that academic program, as published in the school's official academic publications. A student may only receive one second-year ACG or one fourth-year National SMART Grant.

For example, a student is enrolled in an associate degree program requiring 60 semester hours to complete. The program has semesters with 15 weeks of instruction and defines its academic year as 24 semester hours and 30 weeks of instruction. The student did not

Summer Terms

34 CFR 691.6

Extension of ACG and National SMART Grant Eligibility

DCL GEN-06-18

receive a Federal Pell Grant while earning 48 semester hours over the first four semesters in her program in the award years prior to the 2007-2008 award year and has not received a second-year ACG award even though the student has a 3.0 GPA for the first academic year of attendance. In her fifth semester in the fall of 2007 she is receiving a Federal Pell Grant and may receive half of her second-year ACG award even though the student has completed the weeks of instruction and credit hours of a second academic year.

Grade level and defining an academic year

Schools often define a program's academic year based on the minimum FSA standards. Traditionally, schools have set a higher standard for grade level progression. For instance, a 4-year baccalaureate program might require 120 semester credits for completion and expect a student to earn 30 credit hours to progress from the first to second grade level. Similarly, a 2-year associate degree program that requires 90 quarter hours for completion might adopt a standard of 45 quarter hours for a student to progress from the first to the second grade level. For Stafford loans, you are already using a grade level progression. Though you are not required to do so, you may find it convenient to define the academic year to the same standard as grade level to facilitate making ACG and National SMART Grant awards. In determining whether to define the hours of your academic year as the same standard as grade-level progression, there are a number of issues you may want to consider such as the following:

- The program's grade level standards need to be in equal increments since you must use the same academic year definition across all academic years of the program.
- An individual student's eligibility for a grant may be affected by adopting a different standard. A student's eligibility for the next academic year's award may be delayed by redefining the academic year in hours to coincide with grade-level increments rather than retaining a definition in accordance with the minimum standards.
- The academic year definition affects the determinations of enrollment status for nonterm programs and programs with nonstandard terms. It does not affect the definition of full-time enrollment status for semesters, trimesters, and quarters where full-time must be defined as not less than 12 semester or quarter hours.
- The academic year is also used for FFEL/DL loan proration (the denominator in the loan proration fraction is the number of credit hours in the school's academic year definition). If you change the hours of your academic year definition from 24 semester hours to 30 semester hours, then you must also change the denominator for loan proration, which may impact loan eligibility.
- Grade level may still not synchronize with an individual student's academic year progression depending on an individual student's circumstances.

Academic Year Progression and Grade Level examples

Example 1

Sophia enrolls in Chernivtsi Institute as a full-time student taking 12 semester hours in both the fall and spring semester hours and receives a first-year ACG. Chernivtsi defined the hours component of its academic year to match its 30-semester-hour grade level increments. When Sophia enrolls for 12 hours in the fall term, she will not be eligible for a second-year ACG since she will not have completed the 30 semester hours of the first academic year even though she has completed the 30 weeks of instruction in the first academic year. In her second spring term, she is at second year grade level and is also starting her second academic year. She enrolls full-time and is eligible for a second-year ACG award since she has a 3.1 GPA for the 36 hours of coursework completed in the three previous terms that constituted completing her first academic year.

Example 2

Jackie initially enrolls in Rock Creek College as a full-time student taking 15 semester hours in the fall and spring terms in a 120-hour biology degree program. She also has 30 credits from an ACG-ineligible program upon enrollment. Rock Creek defines its academic year as 30 semester hours and 30 weeks of instruction; the 30 hours match its grade level increments. In determining ACG and National SMART Grant eligibility, the College does an exact accounting of Jackie's academic year progression. For the first two terms, although she is classified as a sophomore, she is eligible for a first-year ACG award since her transfer credits have no weeks associated with them. At the beginning of her second fall term, she is a junior but receives a second-year ACG award. For her last two terms, she is a senior but receives her third-year National SMART Grant.

Grade Level and Defining an Academic Year examples

Example 1

Potter Lake College defines the academic year of Pamela's eligible program as 24 semester hours for progression from one academic year to the next across the program. The college is considering defining its academic year to match the college's grade level policy. However, the college defines grade level 2 as having completed 30 semester hours and grade level 3 as having completed 66 semester hours. Since a defined academic year for a program always has the same number of hours and the grade level increments are not equal, the College cannot define academic year to coincide with grade levels.

Example 2

McCreery College offers a program with an academic calendar of fall and spring semesters, each 14 and 16 weeks of instruction in length respectively, and a summer term of 6 weeks of instruction. McCreery must use Formula 3 to calculate payments since the college defines full-time for the summer term as less than 12 semester hours since the school uses the minimum allowed enrollment status for the summer term. If McCreery changes its academic year from the minimum 24 semester hours to 30 semester hours to match grade-level progression, the minimum full-time standard for the summer term would change from 5 semester hours to 6 semester hours. The change in the academic year definition would not change the full-time enrollment status of 12 semester hours for the semesters.

Hours without weeks

There are several additional considerations in the treatment of “hours without weeks” such as those awarded for AP coursework or tests, IB coursework or tests, testing out, life experiences, or enrollment in an ineligible program or as a nonregular student, because these credits generally carry no weeks of instruction and some categories of these credits can’t be used to calculate the required GPA.

Generally, under an exact accounting, a student’s academic year progression will lag behind the student’s credit or clock hours if these hours include hours without weeks. For example, a student entering college with 24 semester hours of AP credits may have completed the hours necessary for the first academic year but would not have the weeks of instruction for the first academic year. The student would, therefore, be considered a first-year student.

Under the assumption method of determining academic year progression for Formula 1-eligible programs for the 2006-2007 and 2007-2008 award years, a student would be considered to have completed weeks of instruction proportional to these credits.

Under the assumptions method, while credits from enrollment in an ineligible program or as a nonregular student generally will have grades, for credits without weeks based on AP coursework or tests, IB coursework or tests, testing out, or life experiences, there are no grades. If a student has an academic year of credits from these sources and thus also was considered to have the first academic year of weeks of instruction, the student would still not have a GPA to qualify for a second-year ACG award.

Similarly, if a student brought two academic years of credits from these sources to a National SMART Grant-eligible program and thus also was considered to have the two academic years of weeks of instruction, the student would not have a cumulative GPA to qualify for a payment in the student’s first payment period of enrollment in the third academic year. If some or all of the credits without weeks were from enrollment in an ineligible program or as a nonregular student, the school generally would be able to calculate a GPA.

National SMART Grant eligibility and academic year progression

A student’s progression to National SMART Grant eligibility is not dependent on the prior receipt of an ACG award. For example, a student may progress through the first two academic years of his undergraduate education without receiving an ACG award. In his third academic year in an eligible program he may then qualify for a National SMART Grant.

Academic Year and Transfer Credits example

Michelle transfers to Terrapin College with 12 credits accepted on transfer into an ACG-eligible program. She has received all of her first-year ACG Scheduled Award. Terrapin defines its academic year as 24 semester hours and 30 weeks of instruction. Her ISIR shows that she received a first-year Scheduled Award, but Terrapin has no information confirming she completed an academic year while enrolled in an ACG-eligible program because her prior school's transcript does not indicate whether she was enrolled in a degree program. Terrapin, therefore, may consider her to be in her first academic year and not yet eligible for a second academic year ACG Scheduled Award.

However, Michelle challenges this determination and provides Terrapin information confirming her completion of a first academic year in an ACG-eligible program at the prior school. She is now considered to be in her second academic year since academic year progression is generally measured based on attendance in all eligible programs at all schools. Since she has a 3.4 GPA in the 12 hours accepted on transfer, she is eligible for a second-year award in her first term at Terrapin.

Weeks of Instruction and Credits without Weeks examples

Example 1

Eddie graduates from high school in May of 2007 and begins attendance at Shaw College in the fall. Eddie has 25 semester hours of CLEP credit, and Shaw College defines Eddie's program's academic year as 24 semester hours and 30 weeks of instruction.

Shaw's policy is to track actual weeks of instruction to measure a student's academic year progression. Since CLEP credits have neither weeks of instruction nor grades associated with them, even though Eddie has enough credits to complete his 1st academic year, he is still considered to be in his 1st academic year for ACG purposes.

Example 2

Drew graduates from high school in May of 2007 and begins attendance at Woolridge University in the fall. Drew has 45 AP credits, all with a score of 3 or higher. Woolridge defines academic year of Drew's program as 24 semester hours and 30 weeks of instruction.

If Woolridge uses assumed weeks, Drew would have enough credits and weeks to be in his second academic year. However, AP credits do not have a grade associated with them, regardless of their test scores, so Drew cannot receive a second-year ACG, as he did not have a 3.0 or higher GPA in the program at the point he had enough credits to complete his first academic year. Drew is also not able to receive 1st year ACG, as his incoming credits and assumed weeks are sufficient to be considered to have already completed his 1st academic year. If Woolridge chooses to use actual weeks, Drew would be eligible for a 1st year ACG. Woolridge could switch to assumed weeks once Drew has completed his second term, but Drew would then be considered to be in his third academic year and would not be eligible for a second year ACG.

CALCULATING A PAYMENT FOR A PAYMENT PERIOD

Calculating a payment for a payment period

34 CFR 691.63 and 691.76(b)

As previously noted, the requirements for calculating an ACG or National SMART Grant payment for a payment period are exactly the same as Federal Pell Grant program requirements and use the same formulas as the Pell Grant program. ACG and National SMART Grant Formulas 1, 2, 3, and 4 are identical to the corresponding Pell formulas. The school disburses an ACG or National SMART Grant, like Pell, over the hours and weeks of instruction in an eligible program's academic year as defined by the school.

As with Pell Grants, ACG and National SMART Grant Scheduled Awards are divided into at least two payments based on the payment periods in an academic year. The calculation formula you use depends on the academic calendar of a student's eligible program and would be the same formula used to calculate payments of Pell Grants for that academic program. Refer to Chapter 3 of this volume on Pell Grants for a more detailed explanation of these formulas.

A student's payment for a payment period is calculated based on the coursework in the student's ACG or National SMART Grant-eligible program. For a National SMART Grant, the coursework in the payment period may include the courses in the eligible major or other courses that make up the student's eligible program, or both. If a student's payment is calculated based on taking courses in the student's National SMART Grant program without any courses in the student's eligible major, the school must ensure that the student's courses are necessary for the student to complete the student's National SMART Grant eligible program, and in the case of a student with a double major, with only one major being a National SMART Grant eligible major, the student's eligible program includes the coursework for both majors as well as the other courses that make up the eligible program.

Packaging

While a student's payment for a payment period is calculated exactly the same way as the student's Federal Pell Grant, unlike Pell, both ACGs and National SMART Grants are reduced to eliminate an overaward. For more details on how to package ACGs and National SMART Grants along with other FSA, see Chapter 7 of this volume.

Remaining eligibility

A student may have remaining eligibility from a Scheduled Award upon completing the academic year for that award, either because the award amounts were reduced in the packaging process to prevent an overaward or because the student was not otherwise eligible to receive a payment in one or more terms (for instance, if the student was enrolled less than full-time or was temporarily ineligible for National SMART Grant due to a low GPA). In such cases, the student generally

may not receive any of the remaining award amount in a subsequent payment period at any school.

Payment period with two academic years

A student may be completing one academic year in credit or clock hours and weeks of instruction while beginning the next academic year during the same payment period. In this circumstance, the Scheduled Award applicable to the payment period is the award for the academic year being completed. No adjustment is made to the payment period calculation; it is calculated as though all of the weeks and hours of the payment period were part of the applicable Scheduled Award's academic year.

Remaining eligibility in a different award year

The payment periods of a student's Scheduled Award for a particular academic year may fall in two different award years. If the amount of the Scheduled Award for an academic year changes between award years based on the funds available for awards, the school must determine the percentage of the Scheduled Award used in the prior award year to determine the percentage of the Scheduled Award that is available in the subsequent award year.

For example, a student receives \$2,000 from a third academic year National SMART Grant Scheduled Award of \$4,000. The student thus has used 50 percent of the third-year Scheduled Award ($\$2,000/\$4,000 = 50\%$). Due to a reduction of the Scheduled Award to \$3,000 in the subsequent award year, the student may only receive 50 percent of the \$3,000 third academic year Scheduled Award in the subsequent award year, or \$1,500.

Transfer student attending more than one school in an academic year

A student may transfer from a school to a second school during an academic year. The second school may pay a grant only for that portion of the academic year of the student's ACG- or National SMART Grant-eligible program in which the student enrolls at the second school. The payments must be adjusted to ensure that the grant does not exceed the student's Scheduled Award for that academic year. A school must take into account any change in the Scheduled Award for that academic year in determining that the student does not receive more than 100 percent of the Scheduled Award.

Payment Period with Two Academic Years Example

Dan attended the fall and spring semesters at Swampoodle University during his first academic year as a three-quarter-time student and earned 18 semester hours.

Swampoodle defines the academic year of Dan's ACG-eligible program as 24 semester hours and 30 weeks of instruction. In his second fall semester, he registers for 12 hours as a full-time student. Although Dan has completed the weeks of instruction of his first academic year, he still needs to complete 6 semester hours of his first academic year.

Swampoodle must, therefore, determine Dan's payment for the second fall term based on his first-year Scheduled Award. Although only 6 semester hours are applicable to the first academic year, Dan receives a full payment of 1/2 of his first academic year ACG Scheduled Award since he has the remaining eligibility.

If Dan had received all of his Scheduled Award in the first two terms, e.g., he registered and was paid for 24 semester hours but did not complete all of those hours, his payment in the second fall term would be zero since he would still be completing his first academic year in that term but would have no remaining eligibility.

Lump sum payments

You may pay a student ACG or National SMART Grant funds in one lump sum for all prior payment periods for which the student was eligible within the same award year. The student must have completed the prior payment period as a full-time student.

Basic Calculation Case: student progress matches academic year progression

Basic Case: Student progress matches academic year progression

Babineaux Community College defines the academic year for Nate's ACG and National SMART Grant eligible program as 24 semester hours and 30 weeks of instruction. The program has fall and spring semester hours, each 15 weeks of instruction in length. Babineaux uses Formula One to calculate payments for payment periods and determines academic year progression based on an exact accounting, i.e., it does not assume weeks of instruction based on hours completed.

In his first year (2007-2008), Nate is enrolled for 12 credits in the fall semester, and 12 credits in the spring semester. He continues this pattern of enrollment for the next several years.

Babineaux awards Nate 1/2 of a first-year ACG Scheduled Award for each of the first and second semester hours during which he completes his first academic year. Similar payments are made for each succeeding semester from his second-year ACG and third- and fourth-year National SMART Grant Scheduled Awards. As long as receiving these amounts would not create an overaward, Nate would receive the full payment amounts for each semester as shown below.

Although for 2007-2008 there is provision for a student to earn National SMART Grant funds after their fourth academic year, students may only ever receive one fourth academic year National SMART Grant, so in Nate's 5th academic year, he is not eligible for further National SMART Grant funds, as he has already received his fourth academic year National SMART Grant.

	Fall		Spring		
2007-2008	12 credit hours	1st half ACG (Year1) \$375	12 credit hours	2nd half ACG (Year1) \$375	24 credits and 30 weeks accumulated, 1st academic year completed
	15 weeks of instructional time		15 weeks of instructional time		
	First academic year				
2008-2009	12 credit hours	1st half ACG (Year2) \$650	12 credit hours	2nd half ACG (Year2) \$650	48 credits and 60 weeks accumulated, 2nd academic year completed
	15 weeks of instructional time		15 weeks of instructional time		
	Second academic year				
2009-2010	12 credit hours	1st half National SMART (Year3) \$2000	12 credit hours	2nd half National SMART (Year3) \$2000	72 credits and 90 weeks accumulated, 3rd academic year completed
	15 weeks of instructional time		15 weeks of instructional time		
	Third academic year				
2010-2011	12 credit hours	1st half National SMART (Year4) \$2000	12 credit hours	2nd half National SMART (Year4) \$2000	96 credits and 90 weeks accumulated, 4th academic year completed
	15 weeks of instructional time		15 weeks of instructional time		
	Fourth academic year				
2011-2012	12 credit hours	No longer National SMART eligible	12 credit hours	No longer National SMART eligible	120 credits and 120 weeks accumulated, 5th academic year and program completed
	15 weeks of instructional time		15 weeks of instructional time		
	Fifth academic year				

Calculation Case: assumption method

Gallery Technical Institute (GTI) defines the academic year as 24 semester hours and 30 weeks of instruction for Chuck's National SMART Grant-eligible program. The program has fall and spring semester hours, each 15 weeks of instruction in length, and is 126 credits in length. Gallery uses Formula 1 to calculate payments for payment periods. Under the guidance applicable for the 2006-2007 and 2007-2008 award years in Dear Colleague Letter GEN-06-18, Gallery assumes weeks of instruction based on hours completed.

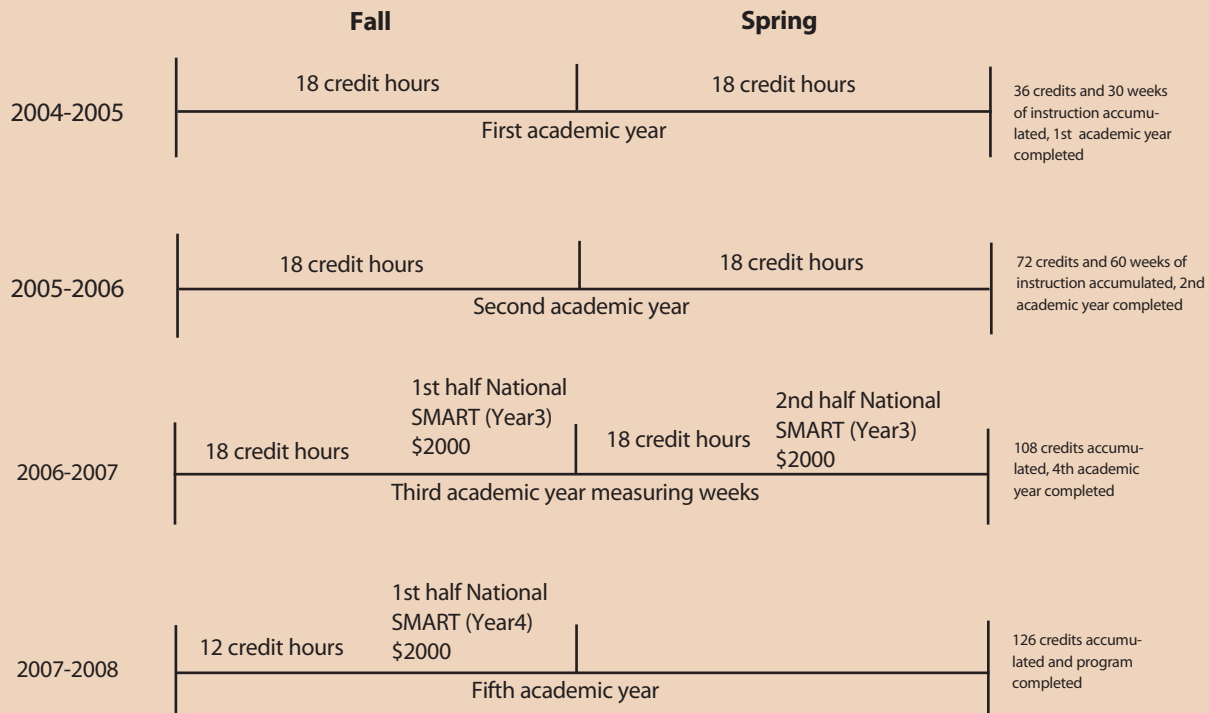
In his first year (2004-2005), Chuck enrolls for 18 semester hours in the fall semester and 18 hours in the spring semester. After he completes the Spring 2004-2005 semester, Chuck has accumulated 36 semester hours, which is enough to complete his 1st academic year. In the fall of 2005-2006, Chuck returns and attends for 18 semester hours. After this semester he has accumulated 54 semester hours. Since GTI assumes that he has enough weeks of instruction to go along with the semester hours necessary to complete his second year (60 weeks), then Chuck can be considered to have completed his second academic year. After completing the 2005-2006 spring term, Chuck now has accumulated 72 semester hours and is considered to have completed his third academic year with 72 semester hours and an assumed 90 weeks of instruction.

In the 2006-2007 terms Chuck receives his fourth academic year National SMART Grant Scheduled Award, 1/2 in the fall semester and, because he only has 90 semester hours through the fall semester, 1/2 in the spring semester. He is no longer eligible for any ACG or National SMART Grant awards after the 2006-2007 award year.

	Fall	Spring	
2004-2005	18 credit hours	18 credit hours	36 credits completed and 45 weeks of instruction assumed, 1st academic year completed
First academic year			
2005-2006	18 credit hours	18 credit hours	72 credits completed and 90 weeks of instruction assumed, 2nd and 3rd academic years completed
Second and third academic years			
2006-2007	18 credit hours	18 credit hours	108 credits completed and 135 weeks of instruction assumed, 4th academic year completed
1st half National SMART (Year4) \$2000		2nd half National SMART (Year4) \$2000	
Fourth academic year			
2007-2008	18 credit hours		126 credits completed and program completed
Fifth academic year			

Calculation Case: exact accounting instead of assumption method

Under the same circumstances as the prior example, since GTI knows that Chuck will enroll in the spring 2007-2008 semester, the Financial Aid Director decides that GTI will do an exact accounting of academic year progression as schools are free to do on a student-by-student basis under the Dear Colleague letter guidance. Why do this? The Aid Director is aware that Chuck will not have the weeks of instruction to be considered in his fourth academic year at the start of the fall 2006 term. Chuck will only have completed 60 weeks of instruction by the start of the fall 2006 term. Therefore, his National SMART Grant for 2006-2007 is his third academic year Scheduled Award. When Chuck completes his program in the fall 2007-2008 term he can receive 1/2 of his fourth academic year National SMART Grant Scheduled Award. Thus, based on an exact accounting Chuck gets a total of 1 and 1/2 National SMART Grant Scheduled Awards instead of just one under the assumption method.



SUMMER TERMS & OTHER CROSSOVER PAYMENT PERIODS

Payment periods that span two award years

As with a student's Pell Grant, if the student is enrolled in a payment period that spans two award years, the entire payment period must be considered, for ACG and National SMART Grant purposes, to occur in one award year. If more than six months of the payment period occurs within one award year, you must consider the payment period to occur in that award year. You pay the student with funds from the award year in which the student's payment period is considered to occur with the payment calculated based on the relevant academic year's Scheduled Award for that award year.

You must assign the payment for an ACG or National SMART Grant to the same award year as the student's Pell Grant. Make sure that the assignment does not result in paying a student more than their ACG or National SMART Grant Scheduled Award for the academic year of their program of study.

Enrollment status for summer terms

Students must always be enrolled full-time to receive ACGs and National SMART Grants, even during summer.

At a traditional calendar school with a nonstandard term for summer, you may define full-time summer enrollment as less than 12 credit hours for ACG or National SMART Grant purposes if the nonstandard term minimum enrollment status calculation would allow a lower full-time status than the minimum for a semester, trimester, or quarter. That definition would apply to all FSA programs. Defining full-time for summer as at least 12 credit hours, may allow a school to calculate payments for payment periods using Formula 1 or 2 even though the summer term is a nonstandard term.

RECALCULATIONS

When determining enrollment status for ACGs and National SMART Grants, you must use the same recalculation policy that you use for Pell for term-based programs. If you set a recalculation (census) date for enrollment status, it must be the same date as for Pell. For example, if your school sets a census date of 10 days into the term and a student drops below full-time on that date, then the student is not eligible for an ACG or National SMART Grant for that term. For more detail on the requirements related to recalculations, see Chapter 3 of this volume.

Payment periods that span two award years

34 CFR 691.64

Different Calculation Dates

It is possible for Pell and an ACG or National SMART Grant to be calculated on different dates and have different applicable enrollment statuses for the same term. A school may not initially calculate an ACG or National SMART Grant until after its census date while it calculated the student's Pell Grant prior to the census date (See Chapter 3 of this volume for a discussion of initial calculations).

For both Pell and an ACG or National SMART Grant, the enrollment status is the status at the time the student's award is being initially calculated. For a student whose Pell award is calculated as full-time before the school's census date who then dropped to less than full-time when ACG or National SMART Grant eligibility is determined, the student would not be eligible for an ACG or National SMART Grant for the payment period even though the student remains eligible for a full-time Pell payment.

Stafford/PLUS Loan Periods and Amounts

The rules for awarding Stafford and PLUS loans are different than for Pell Grants and other FSA programs. Annual loan limits vary by grade level, and there are aggregate limits on the total amount that may be borrowed at one time. Also, the “loan period” and the disbursements within that period may not always correspond to the payment periods that you’re using for Pell Grants. Finally, the requirement to prorate Stafford loan limits is different than the requirements for calculating Pell Grants.

A borrower's eligibility for a Stafford or PLUS Loan is calculated differently than the Pell Grant. There is no fixed table such as the Pell Grant Payment and Disbursement Schedules that determines award amounts. Stafford Loans have annual and aggregate limits that are the same for all students at a given grade level and dependency status. This chapter will describe these loan limits and how they apply to the academic year in different types of programs.

Since you must determine a borrower's eligibility for Stafford/PLUS loans in combination with other sources of aid, we'll discuss this topic in further detail in Chapter 6 on packaging.

LOAN PERIODS, ACADEMIC TERMS, & PROGRAM LENGTH

It's important to define the loan period (sometimes referred to as the *period of enrollment*) at the outset, because the length of the loan period will determine the timing and amount of disbursements. This discussion assumes that your school has already established its academic measurements. If you have not already done so, see Chapter 1 for a discussion of eligible programs, academic years, payment periods, and conversion of clock hours/credit hours.

If a program uses standard terms, such as semesters, trimesters, or quarters, the loan period must coincide with one or more of its academic terms. The *minimum* loan period is a single academic term. (For a discussion of academic terms as used in awarding aid, see Volume 3, Chapter 3.) As an example, if a student will be enrolled in the fall semester only and will skip the spring semester, you may certify a loan for that term alone. (Remember, however, that the loan amount must be based on the reduced costs and EFC for that term, rather than for the full academic year.)

CHAPTER 5 HIGHLIGHTS:

Measurements of academic and loan periods

- Loan periods, academic terms, & program length
- Scheduled Academic Year (SAY) may be used for credit-hour programs with standard terms.
- Borrower-Based Academic Year (BBAY) may be used as an alternative to an SAY for standard term credit-hour programs also offered in an SAY
- BBAY must be used for clock-hour, nonterm, and nonstandard-term programs, and for standard-term credit-hour programs without an SAY.

Annual Loan Limits

- Stafford limits for dependent undergraduates
- Stafford limits for independent undergraduates & dependent undergraduates whose parents can't get PLUS
- Undergraduate limits based on grade level
- Undergraduate limits must be prorated for programs less than an academic year or remaining portion of a program less than an academic year
- Stafford limits for graduate and professional students
- Stafford limits for teacher certification coursework

Aggregate Loan Limits

- Loan information provided through “Financial Aid History” on SAR, ISIR, and on NSLDS Web site.
- NSLDS now identifies underlying amounts for FFEL as well as Direct Consolidation Loans.

Period of enrollment (loan period)

The period of enrollment for which a Stafford or PLUS loan is intended. The period of enrollment must coincide with an academic period established by the school for which institutional charges are generally assessed (e.g., semester, trimester, quarter, length of the student's program or academic year). The period of enrollment is also referred to as the loan period.

34 CFR 682.200(b)

34 CFR 685.102(b)

Academic Year

See Volume 3, Chapter 1 for a discussion of academic year requirements.

Minimum and Maximum Loan Periods

➔ Maximum = generally school's academic year but not more than 12 months.

➔ Minimum (standard term programs) = one academic term.

➔ Minimum (clock-hour, nonterm, and nonstandard term programs) = lesser of academic year, program length, or remaining portion of academic program.

Simultaneous FFEL and DL at the same school

34 CFR 685.300(a)(8)

A school may simultaneously participate in both the FFEL and DL programs, but student or parent borrowers may not receive the same type of loan (i.e. Stafford or PLUS) for the same period of enrollment. For example, a student may not receive Stafford loans from both the FFEL and DL programs at the same school for the same period of enrollment. However, a graduate/professional student may receive a Stafford loan from one program and a PLUS loan from the other program for the same loan period.

Stafford/PLUS at multiple schools

Unlike Pell Grants, it is possible for a student who is separately enrolled and eligible at multiple schools to get a Stafford (and for a graduate/professional student or parent to receive a PLUS) at more than one school for the same period. The schools that the student is attending are responsible for coordinating to make sure that the total amount of the loans the student receives does not exceed the applicable annual loan limit. In addition, the schools must ensure that there is no duplication of non-institutional costs when determining the student's cost of attendance. (Note that loan funds awarded at one school are not to be included as estimated financial assistance by any other school the student is attending when determining the student's loan eligibility for the same period.)

Loan periods for all other programs, such as nonterm or nonstandard term programs, are based on the length of the *program* or the length of the *Title IV academic year*. These loan periods also apply to programs that are a mixture of standard terms and nonstandard terms not offered in a traditional academic calendar. The **minimum** loan period for such programs is the shortest of:

- *The Title IV academic year as defined by the school.* (At least 30 weeks of instructional time for credit-hour programs and 26 weeks for clock-hour programs, and, for undergraduate programs, at least 900 clock hours, 24 semester hours, or 36 quarter hours.)
- *The length of the student's program at the school for programs of less than an academic year.*
- *The remaining portion of the student's program when the program exceeds the academic year.*

The **maximum** loan period is generally the school's academic year but cannot exceed a 12-month period. However, you can have more than one loan in an academic year up to the annual loan limit.

ACADEMIC YEAR & LOAN LIMITS

The academic year is used as the basis for the student's annual loan limits. (The award year concept for Pell and the Campus-based programs is not a factor for Stafford and PLUS loans.)

Depending on the program, a student who has reached the annual loan limit cannot receive another Stafford Loan until he or she either begins another academic year, or progresses within an academic year to a grade level with a higher annual loan limit.

The loan period is often equivalent to an academic year, but there are also many situations where this is not the case. In this section, we'll discuss how you can match the student's loan periods to his/her enrollment and your school's academic calendar. (If you are not familiar with the definition of an academic year, see Chapter 1 of this Volume.)

Two types of academic years for annual loan limits: SAY and BBAY

There are two types of academic years that may be used to monitor annual loan limits for Stafford loans: a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY). (Note that although there is no annual loan limit for PLUS loans, PLUS loans are awarded for the same SAY or BBAY period that is used for Stafford loans.) An SAY corresponds to a traditional academic year calendar that is published in a school's catalogue or other materials (for example, fall and spring semesters, or fall, winter, and spring quarters). An SAY is a fixed period of time that begins and ends at the same time each year. A BBAY does not have fixed beginning and ending dates. Instead, it "floats" with a student's (or group of

students') attendance and progression in a program of study.

Standard-term, credit-hour programs that are offered in an SAY (that is, a traditional academic year calendar) also have the option of using a BBAY. Standard-term, credit-hour programs that are not offered in an SAY must use a BBAY. Clock-hour, nonterm, and nonstandard-term programs must also use a BBAY. However, there are significant differences between the BBAY for standard-term, credit-hour programs, and the BBAY for clock-hour, nonterm, and nonstandard-term programs.

Standard-term, credit-hour programs using a traditional academic year calendar: Scheduled Academic Year

As noted above, an SAY corresponds to a traditional academic year calendar, and usually begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). An SAY may include one or more terms that a student does not attend. Summer terms are generally not considered to be part of the SAY, but for loan limit purposes they may be treated as “trailers” or “headers” to the SAY, as explained below. An SAY must meet the Title IV requirements for an academic year, as described in Chapter 1.

For loan limit purposes, a summer term may be treated as a “trailer” to the preceding SAY or as a “header” to the following SAY. Summer minisessions can be grouped together as a single trailer or header term, or they can be treated separately and assigned to different SAYs. (See Chapters 1 and 3 for treatment of minisessions as payment periods and in determining Pell payments.) If the summer minisessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a minisession for which the student is not expected to be enrolled.

Your school has the option to establish a policy that designates its summer term as either a trailer or header to the SAY for all students. You can also choose to make different designations for different educational programs, or for different students, as long as you ensure that there is no overlap in academic years. Note that a fixed designation of the summer term can limit a student’s eligibility. For instance, if you always treat your summer term as a trailer to a preceding fall-spring SAY, a student who receives the full annual loan limit for fall-spring would have no remaining loan eligibility for summer.

The annual loan limit applies to the SAY, plus the summer trailer or header. Once the calendar period associated with all of the terms in the SAY and the summer header or trailer (if any) has elapsed, a student regains eligibility for a new annual loan limit.

Standard-term, credit-hour programs using a traditional academic year calendar: Borrower-Based Academic Year

If a standard-term, credit-hour program is offered in a traditional academic year calendar (SAY), you have the option of using a BBAY as

an alternative to the SAY for monitoring annual loan limits for an individual student. Unlike an SAY, a BBAY is not a fixed period that begins and ends at the same time each year. Instead, a BBAY's beginning and ending dates depend on the individual student's enrollment.

For standard-term, credit-hour programs offered in a traditional academic year calendar, a BBAY must include the same number of terms as the SAY that would otherwise be used (not including any summer "trailer" or "header"). For example, if the SAY includes three quarters (fall, winter, spring), a BBAY would consist of any three consecutive terms. A BBAY may include terms the student does not attend if the student could have enrolled **at least half time** in those terms, but (unlike an SAY) it must begin with a term in which the student is actually enrolled. Also, any minisessions (summer or otherwise) that run consecutively within a term **must** be combined and treated as a single term. Like an SAY, a BBAY must meet the minimum FSA requirements for an academic year. However, a BBAY that includes a summer term may include fewer than 30 weeks (or, for clock hour programs, 26 weeks of instructional time) of instructional time or fewer credit hours than the minimum number required for an SAY. This is because a summer term may be shorter than a standard term in an SAY, but is recognized as academically equivalent to a standard term when used as one of the terms in a BBAY. (NOTE: This exception applies only to a BBAY used as an alternative to an SAY for a standard term, credit hour program that is also offered in a traditional academic year calendar.)

You may use BBAYs for all students, only for students in certain programs, or on a student-by-student basis. For example, you could use a BBAY for students enrolled in a program that begins in a term other than the first term of the SAY. You can even alternate BBAYs and SAYs for a student, provided the academic years don't overlap. This treatment may allow a student to receive another loan sooner than would be allowed under an SAY standard. For instance, if you normally use an SAY consisting of Fall and Spring semesters with a Summer trailer, a student who received the maximum annual loan limit for Fall-Spring could not receive another loan until the start of a new SAY in the Fall. If the student enrolls for summer and wants a loan, you could choose to switch the student to a BBAY consisting of the Summer and Fall terms. The student could then receive a loan for the Summer term, since Summer would be the start of a new academic year. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

As with an SAY, the annual loan limit applies to the BBAY. Once the calendar period associated with all of the terms in the BBAY has elapsed, a student regains eligibility for a new annual loan limit.

Standard-term, credit-hour programs not using a traditional academic year calendar: Borrower-Based Academic Year

If a program is not offered in a traditional academic year calendar (SAY), a BBAY must be used. If the program uses semesters or trimesters, a BBAY generally consists of any two consecutive terms. If the program uses quarters, a BBAY consists of any three consecutive terms. As with the optional BBAY that may be used for programs offered in a traditional academic year calendar, the BBAY may include terms that a student does not attend (as long as the student could have enrolled at least half-time in those terms), but it must begin with a term in which the student is actually enrolled. Unlike the optional BBAY for programs offered in an SAY, there is no exception to the minimum Title IV academic year requirements for a BBAY that includes a summer term: the BBAY for programs that are not offered in a traditional academic calendar must always include enough terms to meet the minimum Title IV academic year requirements for weeks of instructional time.

The annual loan limit applies to the BBAY. Once the calendar period associated with all of the terms in the BBAY has elapsed, a student regains eligibility for a new annual loan limit.

Clock-hour, nonterm credit-hour, and nonstandard term credit-hour programs: Borrower-Based Academic Year

All clock-hour, nonterm, and nonstandard-term programs must use a BBAY that meets the minimum Title IV requirements for an academic year. This requirement also applies to programs that consist of both standard and nonstandard terms and that are not offered in a traditional academic calendar. That is, the BBAY must contain at least the number of weeks of instructional time and hours in the program's Title IV academic year. The Title IV academic year must contain at least 30 weeks of instructional time (or, for clock-hour programs, at least 26 weeks of instructional time) and the appropriate number of credit or clock hours (for undergraduate programs, at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours; for graduate programs, the number of hours a student would complete under the school's full-time standard in the weeks of the Title IV academic year, which must be a minimum of 30 weeks, or, for clock-hour programs, at least 26 weeks). The BBAY begins when a student enrolls and does not end until the student has completed the number of hours **and** the number of weeks in the academic year.

Because a student must successfully complete the minimum number of hours and weeks in an academic year before a new BBAY begins, a student's enrollment status may affect how soon the student regains eligibility for a new annual loan limit. For example, a student who is attending part-time will take longer to complete a BBAY than a full-time student. (In contrast, an SAY or BBAY for a standard term, credit-hour program ends when the *calendar period* associated with the terms in the SAY or BBAY has elapsed, regardless of how many credit hours or weeks of instruction the student completed during the SAY or BBAY.)

Clock-hour, nonterm and nonstandard BBAYs based on full-time progress

In many clock-hour, nonterm and nonstandard-term programs, students are allowed to progress at an individual pace. For example, a school that defines its academic year as 900 clock hours and 26 weeks of instructional time offers a 900 clock-hour program that most students complete in 26 weeks. However, one student might complete 900 clock hours in 22 weeks, and another in 30 weeks. You do not have to prorate the loan limit for the occasional student who completes the program in less than 26 weeks. (Note that this policy applies only to programs that are exactly one academic year in length. If a program is longer than an academic year, proration may be required for a loan covering the remaining portion of the program if a student completes more than the minimum number of hours during the first 26 weeks of instructional time. See loan limit proration example 3 on p. 3-95.

Standard Term, Credit Hour Programs using a traditional academic year calendar: SAY

The Springfield Academy offers a two-year program measured in semesters and awarding credit hours. It defines its Title IV academic year in accordance with the minimum requirements and uses an SAY that provides 30 weeks of instruction and 24 semester hours, and includes two semesters (Fall and Spring), each 15 weeks of instructional time in length. Springfield Academy also offers a Summer session that it treats as a “trailer” to the SAY.

Most of Springfield’s students do not attend the Summer session, so the aid office typically certifies Stafford loans for a period of enrollment that starts with the Fall semester (August 27) and concludes at the end of the Spring semester (May 2). However, there are some first-year students who decide to enroll in the Summer term in order to complete their studies sooner. The annual loan limit applies to the Fall through Spring SAY, plus the Summer trailer. Students who receive the maximum annual loan amount for Fall-Spring have no loan eligibility for summer and may not borrow again until the start of the next SAY in the Fall.

Academic Year for loan limit purposes = 2 semesters + summer trailer

<u>Fall</u>		<u>Spring</u>		<u>Summer</u>
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Year 1: SAY + Summer Trailer

Year 2: SAY + Summer Trailer

Clock-hour, Nonterm, and Nonstandard Term program: BBAY

Example 1: Clock-hour Program

Springfield Academy has an 1800 clock-hour program with 60 weeks of instructional time, and defines its academic year as 900 clock hours and 26 weeks of instructional time. The BBAY always begins with the student’s actual enrollment date. An enrolling student may receive two Federal Stafford Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The period of enrollment for the first loan would be the time it will take the student to successfully complete (pass) 900 clock hours and 26 weeks. The period for the second loan would be the time it takes to successfully complete the final 900 hours/26 weeks. Note that the student cannot receive the second loan until he/she has successfully completed the first 900 hours of the program AND 30 weeks of instruction.

A student who completes the first 900 hours in less than 30 weeks must still complete 26 weeks of instructional time before a new BBAY begins and the student becomes eligible to receive another loan. Similarly, a student who has completed fewer than 900 clock hours after 26 weeks of instructional time must successfully complete 900 hours before receiving another loan.

Example 2: Nonterm credit hour program

A school offers a 48 semester hour program with a defined academic year of 24 semester hours and 30 weeks of instructional time. As with the clock-hour program in example 1, a student could receive two loans for this program. The period of enrollment for the first loan would be the time needed for a student to successfully complete the first 24 hours and 30 weeks of instructional time. The period of enrollment for the second loan would be the time needed to complete the remaining hours and weeks of the program. A student must successfully complete (pass) both 24 semester hours AND 30 weeks of instructional time before receiving the second loan.

Example 3: Nonstandard term, credit hour program

A school offers a 72 quarter hour program with 60 weeks of instructional time and a defined academic year of 36 quarter hours and 30 weeks of instructional time. Courses are offered in 5-week terms; a full-time student would be expected to complete six quarter hours in each term. As with examples 1 and 2, a student could receive two loans, one for the first 36 hours and 30 weeks, and another for the remaining hours and weeks of the program.

Although this program uses terms and measures academic progress in credit hours, the terms are nonstandard terms. A student does not become eligible for the second loan until he or she has completed both 36 quarter hours and 30 weeks of instructional time, regardless of the number of terms that have elapsed. For instance, a student who completes six quarter hours during each of the first five terms of the program, but only successfully completes (passes) three quarter hours of the six quarter hours in the sixth term, must complete an additional three quarter hours before receiving the second loan.

Standard Term, Credit-Hour programs using a traditional Academic Year calendar: BBAY

Examples 1a through 1c illustrate the optional use of a BBAY for a program that is offered in an SAY consisting of two semesters, Fall and Spring, each 15 weeks of instructional time in length. (Note that in each example, the first BBAY is the same as the SAY.)

In example 1a, the initial Fall and Spring terms could be considered either an SAY or BBAY. If the student attends the Summer session at the school, the aid administrator can elect to treat the Summer term and the next Fall as a BBAY for the student. In that case, the following Spring and Summer would also constitute a BBAY. The maximum loan limit for an academic year applies to each BBAY. If these were the first three years of study for a dependent student and the student progressed a grade level each academic year, he/she would be eligible for up to the maximum Stafford amounts of \$3,500, \$4,500 and \$5,500 for the respective academic years.

A student doesn't have to attend all of the terms in a BBAY, but the BBAY cannot begin with a term that the student doesn't attend. In example 1b, the student is not enrolled in the second term (Fall) of BBAY #2. In example 1c, if the student does not attend a term that otherwise would have been the beginning of a BBAY (in this case, Spring), then the student's next BBAY cannot begin until the next term that the student attends. As with example 1a, the annual loan limit applies to each BBAY.

The same concepts apply to quarter-term programs. For instance, in example 2, the Fall, Winter, and Spring terms constitute the school's SAY. If the student attends the Summer session at the school, it can be the first term of a BBAY that includes the following Fall and Winter terms

1. BBAY where SAY contains 2 semesters

1a.

Fall	Spring	Summer	Fall	Spring	Summer
Year 1: SAY or BBAY		Year 2: BBAY		Year 3: BBAY	

1b.

Fall	Spring	Summer	Fall <small>(not enrolled)</small>	Spring	Summer
Year 1: SAY or BB		Year 2: BBAY		Year 3: BBAY	

1c.

Fall	Spring	Summer	Fall	Spring <small>(not enrolled)</small>	Summer	Fall
Year 1: SAY or BBAY		Year 2: BBAY		Year 3: BBAY		

2. BBAY where SAY contains 3 quarters

Fall	Winter	Spring	Summer	Fall	Winter
Year 1: SAY or BBAY			Year 2: BBAY		

Standard Term, Credit-Hour programs not using a traditional Academic Year calendar: BBAY

Springfield Academy also has a program that measures academic progress in credit hours and uses 15-week semesters, but is not offered in a traditional academic year calendar (SAY). New students begin the program each month, and a 15-week semester begins at that time for that cohort of students. The school must use a BBAY to monitor annual loan limits. A BBAY consists of any two consecutive semesters, beginning with a semester in which a student is enrolled:

Semester #1 (begins program)	Semester #2	Semester #3	Semester #4 (not enrolled)	Semester #5	Semester #6
Year 1: BBAY		Year 2: BBAY		Year 3: BBAY	

Stafford Loan Limits

Beginning July 1, 2007, some but not all annual loan limits increase for loans disbursed on or after that date. You may package or certify/originate before July 1, but may not disburse loans based on the increased loan limits until July 1, 2007.

HEA Sec. 425(a)(1)(A)

HEA Sec. 428(b)(1)(A)

HEA Sec. 428H(d)

FFEL — 34 CFR 682.204 and 682.201(a)(3)

DL — 34 CFR 685.203

DCL GEN 06-02

ANNUAL LOAN LIMITS

Stafford Loans have annual loan limits, based on the student's dependency status and grade level. There are higher unsubsidized Stafford annual loan limits for some health professions students, and special loan limits for certain students who are not enrolled in a degree or certificate program. In some cases, the annual loan limits must be prorated (reduced). The annual loan limits are the maximum amounts that a student may receive for an academic year.

Annual Loan Limits: Basic Principles

- Annual loan limits are for an academic year.
- For a standard term credit hour program at a school with a traditional academic calendar, you may use either a Scheduled Academic Year (SAY; usually Fall-Spring with a separate summer session) or a Borrower Based Academic Year (BBAY) that varies from the student norm (such as Summer-Fall). You may also use both the SAY and the BBAY for an individual student at different times during the student's enrollment.
- For a standard-term, credit-hour program at a school that does not have a traditional academic calendar, you must use a BBAY.
- The loan period can be less than the academic year in some cases.
- For a clock-hour, nonterm or nonstandard-term program, or for a program that combines standard and nonstandard terms not offered in a traditional academic calendar, you must use a BBAY.
- In clock-hour, nonterm and nonstandard-term programs, a borrower must successfully complete the weeks of instructional time and credit/clock hours in the program's Title IV academic year before the borrower is eligible for a new annual loan limit.
- The student's maximum annual loan limit increases as the student progresses to higher grade levels.
- In a standard-term program using credit hours, the student will become eligible for a higher loan amount within an academic year if he/she progresses to the next grade level during the academic year.

Subsidized and unsubsidized loans

There are two types of loans in the Stafford program: subsidized and unsubsidized. The federal government pays the interest on a subsidized student loan during in-school status, the grace period, and during authorized deferment periods. The student is responsible for paying the interest on an unsubsidized student loan during all periods.

Example: additional unsub for independent undergraduate

Dottie is a first-year independent undergraduate student at Ferrar's Institute. Her COA is \$9,500, her EFC is \$1,800, and she is receiving a \$2,000 Pell Grant. Dottie qualifies for a subsidized Stafford Loan of \$3,500. She may also receive the maximum additional unsubsidized Stafford Loan amount of \$4,000 (\$2,200 to cover her unmet need, plus \$1,800 to replace the EFC). Her total loan amount in subsidized and unsubsidized Stafford Loans is \$7,500.

Stafford limits for a dependent undergraduate student

Beginning July 1, 2007, you may disburse Stafford loans for undergraduate students for the new increased limits: \$3,500 for a *first-year student*, and \$4,500 for a *second-year student*. The annual loan limit remains at \$5,500 for *third-, fourth-, or fifth-year undergraduates*. You may package or certify/originate based on the higher limits earlier, but may not disburse any loan based on the higher limits until July 1. These loan limits represent the total of all subsidized and unsubsidized Stafford Loans a dependent undergraduate student may borrow at each level of study, for a single academic year.

Increased unsubsidized Stafford limits for independent students and dependent students whose parents can't get PLUS

Independent undergraduate students may borrow unsubsidized loans with additional loan limits. The additional loan limits also apply to dependent undergraduate students whose parents are unable to borrow PLUS loans due to adverse credit or other documented exceptional circumstances. The following unsubsidized loan amounts may be added to the borrower's combined subsidized and unsubsidized loan limits. An independent undergraduate student enrolled in a program of study that is at least an academic year in length may borrow additional unsubsidized loan amounts not to exceed an annual total of:

- up to \$4,000 for a *first- or second-year student*; or
- up to \$5,000 for a *third-, fourth-, or fifth-year undergraduate*.

The subsidized portion of the annual loan limit may not exceed the overall annual loan limit for a dependent student. For example, an independent student in the second year of study would be eligible to borrow a total of \$8,500 in subsidized and unsubsidized Stafford loans, but no more than \$4,500 of this total may be in the form of a subsidized Stafford loan.

Grade level progression between different academic years

As shown above, the annual loan limit for Stafford Loans increases as a student progresses in his/her studies. Generally, a student's grade level for loan limit purposes is set according to the school's academic standards. Note that progression to a higher grade level

New annual amount for same grade level

For standard-term programs, if a student is enrolled at the same grade level after a full academic year has elapsed, the student may be eligible for a new annual maximum amount. For instance, if the student maintains satisfactory academic progress, he or she could conceivably receive two \$3,500 Stafford loans while completing the first year of the program.

If the student is maintaining satisfactory academic progress, your school is not permitted to have a general policy that limits the number of times the student can receive the maximum annual loan limit at one grade level. A school may refuse to certify/originate a loan, or may certify/originate a loan for an amount less than the borrower's maximum eligibility, only on a case-by-base basis. (See "refusing to originate or certify a loan" in Volume 4, Chapter 1.)

Additional Unsubsidized Stafford

Dependent students whose parents are unable to borrow PLUS loans due to adverse credit or other exceptional circumstances may receive additional unsubsidized Stafford loans for the same amount as independent undergraduate students. The increased loan amounts do not substitute entirely for the amount a parent may borrow under the PLUS program, which may be up to the difference between COA and EFA. As a result, you should examine the parent's ability to borrow a PLUS loan using an endorser who does not have an adverse credit history before certifying or originating additional unsubsidized loan amounts for the dependent student.

Before certifying or originating a loan for increased loan amounts, you must document the basis of the dependent student's eligibility. Some basic guidelines for making this determination include the following:

- The parent's unwillingness to borrow a PLUS does not make the dependent student eligible.
- A school's decision not to participate in the PLUS program does not make the dependent student eligible.
- The aid administrator's belief that a parent should not borrow a PLUS does not make the dependent student eligible.
- Only one parent must apply for a PLUS and be denied based on adverse credit. 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.
- The parent's denial of a PLUS loan based on adverse credit in one year does not support the dependent's eligibility in subsequent years.
- The dependent student may become eligible at any time during an academic year if a parent has first been approved and then later denied a PLUS based on a subsequent application. Under these circumstances, any previous PLUS funds received during the same period of enrollment are treated as estimated financial assistance in determining the student's remaining eligibility for additional unsubsidized loan amounts.

The dependent student may also be eligible for increased unsubsidized loan amounts if you determine and document that other **exceptional** circumstances exist that will prevent a parent from borrowing a PLUS loan. The regulations provide examples, but not an exhaustive list, of the exceptional circumstances that might be used to document the dependent student's eligibility:

- The parent is incarcerated.
- The parent's whereabouts are unknown.
- The parent has filed for bankruptcy and has provided a letter from the bankruptcy court stating that as a condition of the bankruptcy filing, the parent may not incur any additional debt.
- The parent's income is limited to public assistance or disability benefits and you have documented that the parent would not be able to repay the PLUS loan.
- in the DL Program, you have examined the family financial information and documented the parent's likely inability to repay the PLUS loan due to an existing debt burden or the parent's expected income-to-debt ratio, or
- in the FFEL Program, you have evidence that a lender that makes loans to students and parents of students at your school has denied a PLUS loan or will not make a PLUS loan to a parent under its lending policy due to the parent's existing debt burden, income-to-debt ratio, likely inability to repay, or other credit standards or factors the lender has elected to adopt as provided for under the regulations.
- The 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.

If a dependent student is determined to be eligible for additional unsubsidized loan amounts under exceptional circumstances, you must re-examine and document that these exceptional circumstances continue to apply before certifying or originating additional unsubsidized loan amounts for the dependent in a subsequent year.

Monitoring Annual Loan Limits: SAY and BBAY

SAY (Standard Term, Credit Hour Programs)	BBAY (Standard Term, Credit Hour Programs)	BBAY (Clock-hour, Nonterm, & Nonstandard Term Programs)
<ul style="list-style-type: none"> ➤ Consists of a traditional academic calendar with at least two semesters or three quarters ➤ Begins/ends at same time each year ➤ Must meet statutory requirements for an academic year ➤ Student regains eligibility for new annual loan limit after SAY calendar period has elapsed ➤ Total of all loans received within SAY (including summer trailer/header) may not exceed annual loan limit ➤ After original loan, student may receive additional loans during same SAY if: <ul style="list-style-type: none"> • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent ➤ Summer term may be "trailer" or "header" per: <ul style="list-style-type: none"> • Strict policy; • By program; or • Case by case, by student ➤ Summer minisessions may be combined and treated as single trailer/header, or assigned to different SAYs (affects all Title IV) 	<p>All standard term, credit hour programs:</p> <ul style="list-style-type: none"> ➤ Floats with student's enrollment ➤ Student regains eligibility for new annual loan limit after BBAY calendar period has elapsed ➤ Total of all loans received within BBAY may not exceed annual loan limit ➤ After original loan, student may receive additional loans during same BBAY if: <ul style="list-style-type: none"> • Student did not receive maximum annual loan amount and has remaining eligibility; • Student progresses to grade level with higher annual loan limit; or • Student changes from dependent to independent ➤ Must begin with term in which student is actually enrolled ➤ May include terms student does not attend if student could have enrolled at least half-time ➤ Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard term (affects all Title IV) <ul style="list-style-type: none"> • Student need not enroll in each minisession, but must have been able to enroll at least half-time in the combined term ➤ Programs offered in SAY: May use BBAY for: <ul style="list-style-type: none"> • All students; • Certain students; or • Certain programs ➤ May alternate SAY and BBAY for a student if academic years do not overlap ➤ Length of BBAY must equal number of terms in SAY (excluding summer trailer/header) ➤ Number of hours/weeks in BBAY need not meet Title IV minimum if BBAY includes summer term ➤ Programs not offered in SAY: <ul style="list-style-type: none"> ➤ Must use BBAY ➤ BBAY consists of: <ul style="list-style-type: none"> • At least 2 consecutive semesters or trimesters; or • At least 3 consecutive quarters ➤ BBAY must meet Title IV minimum for hours/weeks 	<ul style="list-style-type: none"> ➤ Floats with student's enrollment ➤ BBAY must meet minimum Title IV requirements for academic year ➤ Begins with student's enrollment ➤ Student regains eligibility for new annual loan limit only after successfully completing minimum number of weeks and clock/credit hours in the program's defined Title IV academic year ➤ Student does not progress to next grade level until completion of BBAY ➤ After original loan, student may receive additional loans within a BBAY only if: <ul style="list-style-type: none"> • Student did not receive maximum loan amount and has remaining eligibility; or • Student changes from dependent to independent ➤ Also applies to programs that mix nonstandard terms and standard terms and that do not have an SAY

does not always coincide with the beginning of a new academic year for loan limit purposes. For example, a student in a standard-term, credit-hour program using semesters who completes only 12 semester hours during the first academic year of a 2-year program could receive another loan when the calendar period associated with that academic year has elapsed, but the student will still be classified as a first-year undergraduate at the start of the second academic year.

In contrast, progression to a higher grade level and the beginning of a new academic year for loan limit purposes always happen at the same time for a student in a clock-hour, nonterm or nonstandard-term program. A student who is enrolled in such a program must successfully complete the weeks and hours in the program's Title IV academic year, i.e., at least 30 weeks of instructional time (or, for clock-hour programs, at least 26 weeks) and the academic credit, in order to advance to the next grade level. For instance, a first-year student in a 2-year nonterm program who earns 36 quarter-credits over 24 weeks of instructional time cannot progress to the next grade level until another 6 weeks of instructional time are completed.

If a program can normally be completed in one year of full-time study, a student in that program can never receive more than the 1st-year annual loan limit in any given year, no matter how long it takes the student to finish. (Similarly, a student in a two-year program can never receive more than the 2nd-year annual loan limit for an academic year.)

Grade level progression within the same academic year

In standard term programs, a student who has already borrowed up to the annual limit within an academic year can receive additional loan funds if the student progresses to a grade level with a higher annual loan limit during that same academic year.

For instance, if a dependent student was classified as a 2nd-year student in the fall, he/she might have received as much as \$2,250 in the first Stafford disbursement. If the student achieved 3rd-year academic status based on the coursework completed in the fall semester, the student would now be eligible for the \$5,500 Stafford annual limit. If the student had sufficient financial need, you could disburse the difference between the amount the student already received and the new annual limit in the spring term (\$5,500 minus \$2,250 = \$3,250).

In all cases, the student may borrow the difference between the amount already borrowed within the academic year and the student's new loan limit. Usually, the increase in the loan amount can be made as an adjustment to the student's existing loan rather than making a new loan. Note that for a clock-hour, nonterm or nonstandard-term program, the student will never progress to a higher grade level within an academic year. In a clock-hour, nonterm or nonstandard-term program that is longer than an academic year, the student moves to a higher grade level only when he or she completes the BBAY.

Grade level progression

While the law defines minimum coursework for an academic year, it doesn't define how much coursework a student must complete to progress from one grade level to another. Unless a student's program of study or a school's academic standards clearly specify when this grade-level progression takes place, a reasonable approach would be to base grade levels on the number of credits required for the program, divided by the number of academic years it takes a typical student to earn that number of credits. For instance, if your school has a baccalaureate program that requires 120 semester hours of work and is typically completed in four academic years, then you might use a standard of 30 hours completed at each grade level.

Annual loan limits for students who transfer or change programs

The annual loan limits are based on an academic year. If a student transfers from one school to another school or changes to a different program at the same school and there is an overlap of academic years, this overlap may affect the amount that the student is eligible to borrow at the new school or for the new program.

An overlap in academic years exists if the academic year at the new school or for the new program begins before the calendar end date of the academic year at the prior school or program. A school may obtain documentation from the prior school of the specific beginning and ending dates for the prior academic year, or may consider the prior academic year to have begun with the starting date of the student's most recent loan period (as shown in NSLDS) and to have ended 30 calendar weeks later. (However, if the most recent loan period was more than 30 calendar weeks in length, the new school must consider the academic year at the prior school to have ended on the last date of the prior loan period.) Although the examples below involve students who transfer from one school to another school, the same principles would apply in the case of students who change programs within the same school.

Transfer from Graduate to Undergraduate program during an academic year

If a student transfers from a graduate program to an undergraduate program in the middle of an academic year, the undergraduate loan limit for the student's grade level applies, but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. The total amount awarded for the academic year may not exceed the higher (grad/professional) annual loan limit.

Standard-term programs

If a student enrolls in a *program with standard terms* after already having taken out a loan at another school with an overlapping academic year, the student initially may not receive more than the annual loan limit minus the amount received at the prior school. However, the student may borrow again for a subsequent term within the same academic year at the new school if the term begins after the end of the academic year at the prior school. For a subsequent term that begins after the end of the prior school's academic year, but within the initial academic year at the new school, the student may borrow up to the difference between the applicable annual loan limit and the amount already received for the new school's academic year.

Loan limits and work in a prior certificate program

A school may not link two stand-alone 1-year programs by making one a prerequisite for admission to the other so that students beginning the second 1-year program could be classified as second-year students for loan limit purposes. However, hours or credits earned in a prior certificate program could be used to classify a transfer student at a grade level higher than grade level 1, if the student transfers into a program that is greater than one academic year in length and the new school accepts a year's worth of credits/hours from the prior program. For instance, if a school admits a transfer student from a certificate program and accepts 900 clock hours that the student earned towards its 1500-hour program, the student could be eligible for the 2nd-year loan limits if other students in the program are eligible for 2nd-year loan limits after completing the first 900 hours of the program.

For example, a student receives a \$2,000 Stafford loan at School A for a loan period from May 1 to August 31. The student, a dependent undergraduate, transfers to a program at School B in September and is admitted at grade level 2. The student requests a loan for the Fall and Spring semesters (September-May). School B makes a determination that the academic year at School A ended on November 27 (30 weeks after the start of the loan period at School A). Because the academic year at School B begins before the end of the academic year at School A, the student may initially receive only up to a maximum of \$1,500 for the Fall semester at School B. This amount represents the difference between the annual loan limit (\$3,500) and the amount received at School A (\$2,000) for the overlapping academic year period. At the start of the Spring semester in January (after the end of the academic year at School A), the student may borrow up to an additional \$2,000, the difference between the annual loan limit and the amount already borrowed for the Fall-Spring academic year at School B. (As an alternative, School B could choose to place the

student on a BBAY schedule beginning with the Spring semester. The student would then be eligible to borrow up to the full annual loan limit for a Spring-Summer BBAY.)

Clock-hour, nonterm, and nonstandard term programs

If a student enrolls in a clock-hour, nonterm, or nonstandard term program after already having taken out a loan at another school with an overlapping academic year, the student is restricted to the original annual loan limit until the completion of the first academic year at the new school.

For example, a student receives the first disbursement (\$1,750) of a Stafford loan at School A for a loan period from April 1 to December 31. The student, a dependent undergraduate, leaves school A in June and transfers to an 1800 clock-hour program at School B. Because the academic years at the two schools overlap, the maximum loan amount that the student may receive for the first academic year of the program at School B (900 clock hours and 30 weeks of instructional time) is \$1,750, the difference between the first-year annual loan limit (\$3,500) and the amount received at School A (\$1,750).

Transfers & grade level

If you're awarding a Stafford loan to a student who is transferring from a program at another school to a program at your school that is greater than one academic year in length, you may use the loan limits for a student in the 2nd-year or higher level of study if your school classifies the student at that level based on the number of academic credits it accepts from the prior school, or based on the granting of advance standing in the new program. Note, however, that if an associate or bachelor's degree is required for entry into a program at your school, you *must* use the 3rd-year loan limits for a student who transfers to that program.

Note that the "Eligibility and Certification Approval Report" lists "1-year" as the highest educational program offered by the school if its longest program is 1 year or more, but less than two years in length. Students in programs longer than 1 year can be paid as 2nd year students even though the ECAR lists the school's highest offering as "1-year." For instance, if a student is enrolled in a 1500-hour program, he/she would be eligible for the 2nd-year loan limits after completing 900 clock hours and 30 weeks of instruction (or, for clock-hour programs, at least 26 weeks). However, the loan limit would have to be prorated for the remaining hours of the student's program.

Stafford Loan limits for graduate and professional students

The subsidized loan limit for a graduate or professional student is \$8,500 per academic year. The additional unsubsidized loan limit for graduate or professional students is \$12,000 per academic year, effective for loans first disbursed on or after July 1, 2007. (See the box on page 3-91 for a discussion of situations where a program combines graduate and undergraduate study, or a student with a degree is pursuing an undergraduate program.)

Increasing the loan amount when student changes grade level during the academic year

There may be two ways to make this change:

1. Certify/originate a new loan at the new grade level for the applicable amount (the difference between the new loan limit and the amount of the first loan). The loan period for the new loan must correspond to the term(s) during which the student qualifies for the higher loan limit (that is, it may not include a prior term when the student was classified at a lower grade level). If the new loan period is for a single term, the loan must be disbursed in two installments. (The school could also choose to cancel any pending disbursements of the first loan and certify/originate a new loan for an amount equal to the canceled disbursements of the first loan plus the additional amount for which the student is eligible due to the grade level change.)

2. Adjust the amount of the current loan. For FFEL, contact the lender to determine whether an increased loan amount due to grade level progression within an academic year may be processed as an adjustment without a new loan certification. For Direct Loans, change the grade level in the loan record and increase the amount of the existing loan to the new amount. For both loan programs, if the increased amount is for a single term (for example, a spring semester), it must be disbursed in two equal installments, one at the beginning of the term and one at the midpoint.

With either option, the increased loan amount must be calculated using only the costs and estimated financial assistance for the term(s) during which the student qualifies for the higher loan limit.

Increasing the loan amount when student changes dependency status during the academic year

For any type of educational program (whether term-based or nonterm, credit-hour or clock-hour), a dependent student who has already borrowed up to the annual loan limit within an academic year can receive additional loan funds if his or her dependency status changes to independent during that same academic year.

Remedial work & grade level

Remedial coursework can be counted towards the student's grade level progression, but only if the school's written and officially approved academic grade level progression policy specifies that remedial coursework can be counted for this purpose. Example: A school requires that the student complete 30 semester hours to progress to second-year grade level, and specifies that up to 10 of the hours may be in the form of remedial coursework.

Graduate & professional cites

FFEL grad/prof limits:

34 CFR 682.204(a)(5), (c)(2), and (d)(5)

DL grad/prof limits:

34 CFR 685.203(a)(5), (b), and (c)(2)(v)

Definition of graduate/professional student:

- is enrolled in a program that is above the baccalaureate level or leads to a first professional degree,
- has completed the equivalent of at least 3 academic years of full-time study at an institution of higher education (either before entrance to the program or as part of the program itself), and
- is not receiving Title IV aid as an undergraduate student for the period of enrollment.

The regulations define a graduate/professional student as a student who is enrolled in a post baccalaureate or professional program *and* has completed the equivalent of 3 academic years of full-time study at an institution of higher education. (Also, note that a student who is receiving Title IV aid as an undergraduate student can't be considered a graduate/professional student for that same period of enrollment.)

There are several rules to consider if a student is simultaneously taking undergraduate and graduate courses. A student in an undergraduate program can't get the graduate loan limits based on taking graduate coursework as a part of the undergraduate program. In contrast, a graduate student who is taking some undergraduate coursework is eligible for the graduate loan limits if the student is enrolled at least 1/2-time in courses (either graduate or undergraduate) that can be applied to the graduate program requirements. However, the student must already be admitted into the graduate program—a student with a bachelor's degree who is taking preparatory work for graduate school (or whose full admission to the graduate program is contingent upon completion of certain undergraduate courses) is not eligible for graduate loan limits.

PLUS Loan limits for Parents

The total PLUS Loan amount borrowed by one parent or borrowed separately by more than one parent (including a non-custodial parent) may not exceed the student's estimated cost of attendance minus other financial aid awarded for the period of enrollment. This is the only borrowing limit for PLUS Loans. For more on borrower eligibility, see Volume 1, Chapter 6.

PLUS Loan limits for graduate and professional students

Graduate/Professional PLUS loans may be made for up to the student's cost of attendance minus other estimated financial assistance under both the Direct and FFEL loan programs. Therefore, a graduate/professional student has additional PLUS eligibility beyond the maximum subsidized and unsubsidized loan limits.

The standard requirements of the PLUS loan program are the same for student borrowers as they were (and remain) for parent borrowers. There are also two new requirements that student borrowers must meet in addition to the existing PLUS requirements:

1) the student must complete the FAFSA.

2) the schools must determine the maximum annual subsidized and/or unsubsidized Stafford loan amount that the student is eligible to receive. In addition, we recommend that the school counsel the student on the advantages of Stafford loans over PLUS loans. However, the student is not required to receive Stafford loan funds as a condition for being allowed to apply for or be awarded a PLUS loan.

Graduate and Professional PLUS for Students

HEA Sec. 428(b)

DCL GEN-06-02

Grad/Professional PLUS loans were authorized by the Higher Education Reconciliation Act of 2005, effective July 1, 2006.

Graduate vs. Undergraduate limits: special cases

- **Combined undergraduate/graduate programs.**

Some programs combine undergraduate and graduate study, where the first years of the program are undergraduate study and the final years of the program are graduate study. For instance, in a 5-year program leading to a graduate or professional degree, the school may define the first 3 or 4 years of study as being undergraduate level.

- **Students returning for second baccalaureate degree.**

If a student with a baccalaureate degree enrolls in another baccalaureate program, his/her loan limits would be based on the amount of work that the school counts towards satisfying the requirements of the new program. For instance, if your school decides to accept 30 semester hours of a student's work in her previous baccalaureate program towards the requirements for a BS in Chemistry at your school and 30 semester hours are the amount needed to progress in grade level, then the student would be eligible for second-year undergraduate loan limits.

- **Undergraduate student with graduate degree.**

In some cases, a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program. Only the loans that the student received for the first undergraduate program are included in determining the student's remaining eligibility for loans for the second undergraduate program, up to the undergraduate aggregate limits.

Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits. For more on combined loan limits, see page 3-101.

- **BA or AA but not a grad/professional student.** A student who has an associate or baccalaureate degree that is required for admission into a program, but is not a graduate or professional student, may borrow up to the highest undergraduate annual loan limit (\$5,500 for a dependent student; additional \$5,000 in unsubsidized Stafford for an independent student or a dependent student whose parent is not eligible for PLUS), subject to the undergraduate aggregate loan limits.

Preparatory & teacher certification coursework

In Volume 1, Chapter 6, we discussed three instances in which a student may receive a Stafford loan for coursework that is not part of an eligible program. If the student and the academic program meet the conditions described in that Volume, the annual loan limits are:

- **Preparatory coursework required for enrollment in an undergraduate degree or certificate program—course of study not to exceed 12 consecutive months:** \$2,625 subsidized/unsubsidized Stafford for a dependent student; and \$4,000 additional unsub Stafford for an independent student or a dependent student whose parent is not eligible for PLUS.

- **Preparatory coursework required for enrollment in a graduate or professional program:** \$5,500 subsidized/unsubsidized Stafford for a dependent student; and \$7,000 additional unsubsidized Stafford for an independent student or a dependent student whose parent is not eligible for PLUS. The consecutive 12-month limit also applies to students taking preparatory coursework needed for enrollment in a graduate/professional program.

- **Coursework necessary for state certification (or professional credential) required for teaching—students who already have a baccalaureate degree:** \$5,500 in subsidized Stafford Loans and \$7,000 additional in unsubsidized Stafford Loans.

Stafford Loan proration

FFEL: 34 CFR 682.204(a), (d)

Direct Loans: 34 CFR 685.203(a), (c)

When and when not to prorate

You must prorate a Stafford Loan limit for an undergraduate program if:

- the academic program is shorter than an academic year; or
- the student's remaining period of study is shorter than an academic year.

Stafford Loan limits are prorated only in these two situations. Loan limits are not prorated based on a student's enrollment status, such as when a student is enrolled less than full-time or is enrolled for a period of less than a full academic year that is not a remaining period of study. In addition, Stafford Loan limits are not prorated for students enrolled in graduate or professional level programs.

Loan proration requirements also do not apply to loans made to students taking preparatory coursework or coursework necessary for teacher certification. The annual loan limit must be prorated only when a student is enrolled in a program or remaining portion of a program that is shorter than an academic year. Students taking preparatory coursework or coursework needed for teacher certification are not enrolled in a program.

Note on fractions and decimals for prorating Stafford Loans

It is acceptable to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but this conversion is not a requirement. You may still choose to multiply the annual loan limit by the original fraction. However, you should be consistent in the method you use, since the fraction and decimal calculations sometimes result in slightly different prorated loan limits. (The decimal method will generally—if not always—result in an amount that is equal to or slightly higher than the amount calculated using the original fraction.)

PRORATING ANNUAL LOAN LIMITS FOR STAFFORD LOANS (UNDERGRADUATE ONLY)

The annual maximum loan amount an undergraduate student may borrow must be prorated in certain situations:

- when the student is enrolled in a program that is shorter than a full academic year; and
- when the student is enrolled in a program that is one academic year or more in length, but is in a remaining period of study that is shorter than a full academic year.

Please bear in mind that loan limit proration determines the maximum loan amount that a student may borrow for a program or remaining balance of a program, not the loan amount that the student actually receives. In some cases, the actual loan amount that a student is eligible to receive (based on costs, EFC, and other aid) may be less than the prorated loan limit.

Prorating loan limits for programs of study shorter than a full academic year

If an academic program is shorter than a full academic year in length, you must multiply the applicable loan limit(s) by the *lesser* of —

Semester, trimester, quarter or clock hours enrolled in program

Semester, trimester, quarter or clock hours in academic year

or

Weeks enrolled in program

Weeks in the academic year (at least 30, or, for clock-hour programs, at least 26)

The result is the prorated annual loan limit for that program. (You may express these fractions as decimals to see more easily which is less or to calculate the prorated limit.)

Prorating loan limits for remaining periods of study shorter than an academic year

You must also prorate loan limits for students enrolled in remaining periods of study shorter than an academic year. This circumstance can occur when a student is enrolled in a program that is one academic year or more in length, but the remaining period of study needed to complete the program will be shorter than an academic year.

Proration is required only when it is known in advance that a student will be enrolled for a final period of study that is shorter than an academic year. If a student originally enrolls for a final period of study that is a full academic year in length, but completes the program early in less than a full academic year, it is not necessary to retroactively prorate the annual loan limit.

In a *standard-term, credit-hour* program, a remaining period of study is considered shorter than an academic year if the remaining period contains fewer terms than the number of terms covered by the school's Title IV academic year. (For programs that are offered in a Scheduled Academic Year, the number of terms covered in the school's Title IV academic year usually does not include any summer "header" or "trailer" term.) For example, a student who is enrolled in a 4-year program that is offered in a Scheduled Academic Year consisting of three quarters plus a summer "trailer" has completed four academic years of study and received four Stafford Loans. The student needs to attend an additional quarter term to complete the program requirements. The final quarter term would fall in a new academic year, and thus the loan maximum would have to be prorated, because the remaining period of study (a single quarter) is less than a full academic year. As another example, a student who is enrolled in a 2-year program without a Scheduled Academic Year where the Title IV academic year covers two 15-week semesters has completed two academic years of study, but needs to return for an additional semester to complete the program requirements. Again, the loan limit would have to be prorated if the student receives a loan for the final semester.

In a *clock-hour, nonterm, or nonstandard-term* program, a remaining period of study is considered less than an academic year if the remaining period consists of fewer clock or credit hours than the program's defined Title IV academic year.

In each of the cases where there is a remaining portion less than an academic year, the annual loan limit for the student's grade level is multiplied by the following fraction to determine the prorated loan limit:

$$\frac{\text{Semester, trimester, quarter or clock hours enrolled in program}}{\text{Semester, trimester, quarter or clock hours in academic year}}$$

Unlike proration for programs that are shorter than an academic year, there is no comparison of weeks and hours. *Only the credit or clock hours that the student is scheduled to attend or is actually attending at the time of certification or origination are used in the calculation.*

Using school's definition of academic year if > FSA minimum

A school may choose to define its academic year as longer in weeks or hours than the minimum statutory requirements. If so, then it's the school's standard – not the statutory minimum – that applies when determining whether a program or a final period of study is shorter than an academic year.

Proration examples for programs shorter than an academic year

Example 1

Program = 400
clock hrs, 12
weeks of instructional
time

Academic year = 900 clock hrs, 26 weeks of
instructional time

Jill is a dependent student enrolled in a 12-week program at Hancock Career College. HCC defines the academic year for this program as 900 clock hours providing 26 weeks of instructional time. Measured in clock hours, Jill's program is 400 clock hours long.

To determine the maximum loan amount she can borrow, convert the fractions based on weeks ($12/26 = .46$) and hours ($400/900 = .44$) to decimals. Multiply the smaller decimal (.44) by the first-year annual loan limit: $\$3,500 \times .44 = \$1,540$. The maximum combined subsidized and unsubsidized loan amount Jill can borrow for the program is \$1,540.

Example 2

Program = 24 quarter hours, 20
weeks of instructional
time

Academic year = 36 credit hrs,
30 weeks of instructional
time

Morgan is an independent student enrolled in a program at Hancock Career College that provides 24 quarter hours and 20 weeks of instructional time. HCC defines the academic year for this program as 36 quarter hours and 30 weeks of instructional time. To determine the maximum loan amount she can borrow, convert the fractions based on weeks ($20/30 = .67$) and quarter hours ($24/36 = .67$) to decimals. Multiply the smaller decimal (in this case, both are .67) by the first-year annual loan limits for subsidized and unsubsidized Stafford:

$$\$7,500 \times .67 = \$5,025 \text{ total Stafford}$$

$$\$3,500 \times .67 = \$2,345 \text{ subsidized}$$

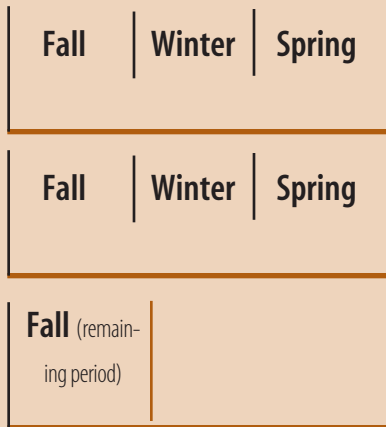
The maximum combined subsidized and unsubsidized Stafford amount Morgan can borrow for the program is \$5,025, with the subsidized loan amount limited to \$2,345.

Loan Limit Proration example for remaining period of study shorter than an academic year

Example 1

Academic year contains 3 quarters

Remaining period = 1 quarter



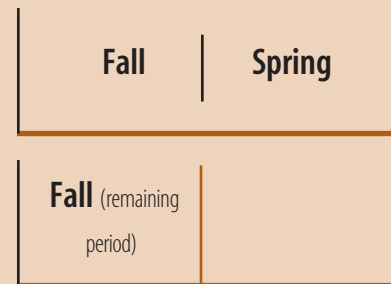
Rudy has attended 6 quarters in a 2-year program at Beulah Community College, but to finish the program, he needs to attend an additional quarter as a half-time student (6 quarter hours). Rudy is a dependent undergraduate student, and BCC defines its academic year (covering three quarters) as 36 quarter hours and 30 weeks of instructional time.

To determine the prorated Stafford loan limit, convert the fraction based on the hours that Rudy is expected to attend and the hours in the academic year to a decimal ($6/36 = .17$). Multiply this decimal by the second-year undergraduate annual loan limit: $\$4,500 \times .17 = \765 .

Example 2

Academic year contains 2 semesters

Remaining period = 1 semester



Rudy transfers to a BA program at Lacy Springs College. By taking 18 hours a semester, he will be able to graduate in the Fall term of his second year. Rudy is a dependent undergraduate student, and Lacy Springs defines its academic year (covering two semesters) as 24 credit hours and 30 weeks of instructional time.

To determine the prorated Stafford loan limit, convert the fraction based on credit hours to a decimal ($18/24 = .75$). Multiply this decimal by the fourth-year undergraduate annual loan limit: $\$5,500 \times .75 = \$4,125$.

Example 3

Program = 1800 clock hours

Academic year = 900 clock hours and 30 weeks of instructional time

Year 1: Student completes 1050 clock hours in 26 weeks
Year 2: 750 clock hours remaining in program

Knox Career College has an 1800 clock-hour program and defines its academic year as 900 clock hours and 26 weeks of instructional time. Sally, a dependent undergraduate student, successfully completes the first 900 clock hours of the program in 26 weeks of instructional time. However, she must complete an additional four weeks of instructional time before she may receive a second loan. After 26 weeks of instructional time have elapsed, Sally has successfully completed 1050 clock hours. She may then receive a second loan, but the loan limit must be prorated based on the number of clock hours remaining in her program at this point.

To determine the prorated loan limit for Sally's second loan, convert the fraction based on the clock hours remaining to a decimal ($750/900 = .83$). Multiply this decimal by the second-year undergraduate annual loan limit:

$$\$4,500 \times .83 = \$2,905$$

Proration example for remaining period of study with a scheduled period of non-enrollment

O'Donnell Institute has an academic year that covers three quarters: fall, winter, and spring. Milton will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter.

Because the fall quarter is in the same academic year as Milton final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which he will not enroll. O'Donnell Institute may award Milton a single loan for the fall and spring quarters (costs for the winter quarter must be excluded), or separate loans for fall and spring. In either case, the annual loan limit must be prorated. (Note that if Milton decided to enroll for the winter quarter on a less-than-half-time basis, his remaining period of study — three terms — would be equal to a full academic year and proration would not be required for a loan covering the fall and spring quarters.)

Fall	Winter	Spring
enrolled	not enrolled	enrolled

Aggregate Loan Limits

FFEL: 34 CFR 682.204(b), (e)

DL: 34 CFR 685.203(d), (e)

Effect of change in student status on aggregate loan limits

In some cases, a student may qualify for higher loan limits, but then lose the eligibility for the higher limits. This situation could occur because a dependent student's parent received a PLUS loan after having been denied in previous years, and the student therefore could no longer borrow at the independent student loan levels, or because a student with a graduate degree entered an undergraduate degree program.

In these cases, you only count the loan amounts that the student would have received under his/her current eligibility as an undergraduate or dependent student against the applicable undergraduate aggregate loan limit.

For instance, if a dependent student was treated as an independent student for loan limit purposes and received additional unsubsidized Stafford amounts for the first 3 years at your school because a parent was denied a PLUS loan for each of those years, but a parent was eligible to borrow PLUS for the student's fourth year, the student would be eligible for the following Stafford amounts:

1st year (independent student loan limit) = \$7,500

2nd year (independent student loan limit) = \$8,500

3rd year (independent student loan limit) = \$10,500

4th year (dependent student loan limit) = \$5,500

The additional unsubsidized Stafford Loan amount of \$13,000 that the student received in the first three years of the undergraduate program is not counted against the \$23,000 dependent undergraduate aggregate loan limit. Excluding the additional unsubsidized amount, the student received only \$13,500 for the first three years. The student may therefore receive the entire 4th year maximum loan amount, even though the student's total outstanding Stafford Loan amount is \$32,000.

Resolving negative information in NSLDS

If you can document that the student is eligible for FSA funds despite the information shown on NSLDS, you may award and disburse aid. An example would be if the NSLDS Financial Aid History page of the SAR or ISIR shows that the student has a defaulted loan, but you have obtained documentation from the holder of the loan that the borrower had made "satisfactory arrangements to repay."

GEN-96-13, Q&A 37

AGGREGATE LOAN LIMITS

A borrower who has reached his or her aggregate borrowing limit may not receive additional loans. Once the loans are repaid, in full or in part, the borrower may apply for additional Stafford Loans. Although certain *annual* loan limits have increased for loans disbursed on or after July 1, 2007, no *aggregate* loan limits have increased.

The maximum outstanding **total subsidized and unsubsidized Stafford Loan debt** is:

- \$23,000 for a dependent undergraduate student,
- \$46,000 for an independent undergraduate student (or a dependent undergraduate student whose parents do not qualify for PLUS loans). No more than \$23,000 of this aggregate amount may be in the form of subsidized loans.
- \$138,500 for a graduate or professional student (including loans for undergraduate study). No more than \$65,500 of this aggregate amount may be in the form of subsidized loans.

The loan amounts counted towards these maximums include any outstanding amounts borrowed in the form of Stafford Loans or Supplemental Loans for Students program (the discontinued SLS program). In the case of a Consolidation Loan, the outstanding amount of the Consolidation Loan representing any underlying Stafford or SLS loans that were paid off by the Consolidation Loan is counted towards the aggregate Stafford Loan limits.

Checking loan amounts on NSLDS

If a student at your school has FSA loans that were received at other schools, you may need to check the National Student Loan Data System (NSLDS) Web site to make sure the student still has remaining eligibility under the aggregate loan limits.

As long as there is no conflicting information, you may rely on the financial aid history (provided on the ISIR as well as the NSLDS Web site) and the Transfer Student Monitoring process to tell you if a student is about to exceed the aggregate Stafford Loan limits. (The NSLDS financial aid history may affect eligibility for other FSA programs, so it is discussed in more detail in Volume 1, Chapter 3.)

If you need to review your student's loan history on NSLDS, keep in mind that the loan amounts for any Stafford or SLS loans that were once in repayment status may include accrued interest, collection cost, fees, and/or capitalized interest. None of these charges should be included when you're checking to see how much the student has borrowed against the aggregate limits for subsidized Stafford Loans and total Stafford borrowing.

The aggregate loan limits do not include accrued interest and other charges. To avoid counting interest and other charges when determining a student's remaining loan eligibility using NSLDS, use the **aggregate outstanding principal balance (Agg OPB)** shown in NSLDS for each of the student's outstanding Stafford Loans. For instance, if the student has been making payments on a \$3,500 loan and the aggregate outstanding principal balance is now \$3,100, count the \$3,100 towards the student's aggregate loan limit.

Using NSLDS to establish the subsidized and unsubsidized Stafford portions of a Consolidation Loan

The **Agg OPB** shown in NSLDS for a Consolidation Loan may include payoff amounts on the underlying loans that should not be counted toward the aggregate Stafford Loan limits.

The subsidized and unsubsidized amounts of Direct Consolidation Loans have always been reported to NSLDS along with the total loan amount. The specific amounts for underlying subsidized and unsubsidized loans are not available for FFEL Consolidation Loans from private lenders, but NSLDS now provides an estimate of the Subsidized, Unsubsidized, and "Unallocated" amounts included in an FFEL Consolidation Loan.

Since Stafford and Perkins loans are reported to NSLDS, the system will be able to properly categorize those loans. (Perkins Loans are not counted towards the Stafford Loan limits, but loans from the SLS program in the 1980s are included, because SLS was a forerunner of today's unsubsidized Stafford Loan.)

However, the FFEL Consolidation Loan may also include some non-FSA loans that NSLDS can't identify, such as loans from the Health and Human Services (HHS) programs. If NSLDS can't determine from the reported underlying loans whether part of a FFEL Consolidation Loan should be counted in the subsidized or unsubsidized category, it will report that portion as "Unallocated."

Treatment of consolidated Perkins Loans

A consolidated Perkins Loan is not counted toward the aggregate Stafford Loan limits in either the FFEL or Direct Loan program.

When to review "unallocated" amounts for an FFEL Consolidation Loan

Beginning January 1, 2006, you do not have to review unallocated amounts in NSLDS. NSLDS does not add the amount of unallocated loans when triggering the close to or exceeds aggregate limits flags.

NSLDS on the Web

You can review the complete student loan history for your students and generate reports on the NSLDS Web site for aid professionals:

<https://www.nslsdfap.ed.gov/>

NSLDS guides & help center

Guides for Enrollment Reporting, Transfer Student Monitoring and other user documentation are currently posted on IFAP under "Current FSA Publications" or "On Line References."

Also see NSLDS Newsletter #6 on IFAP for more specific information on how the OPB and Agg OPB are calculated in NSLDS.

Technical assistance for NSLDS is available at:

1-800-999-8219

Financial Aid History Requirement & NSLDS

To ensure that a student doesn't exceed the annual and aggregate Stafford Loan limits, the student's FAFSA data is matched with the National Student Loan Data System and the student's loan history is included in the ISIR. If a student transfers to your school, you must inform NSLDS so that it can begin the Transfer Student Monitoring process. More detailed information on how this requirement applies to all of the FSA programs can be found in Volume 1, Chapter 3 of the FSA Handbook.

School's responsibilities for checking NSLDS data

In some instances, because of timing or coding problems by lenders and guaranty agencies, all of the loans that made up a consolidation loan will not be included in the NSLDS. Schools will be responsible only for the data contained in the NSLDS and are not expected to research further or to make assumptions regarding other non PC loans contained in NSLDS.

GEN-96-13, Q&As 54 and 55

HERA Changes to how to handle unallocated amounts in NSLDS

NSLDS Newsletter 11, online at <http://ifap.ed.gov/nslsmaterials/attachments/Newsletter11.pdf>

Example: Consolidation and Stafford Loan Limits

An independent undergraduate student transfers to your school to complete her fourth year of baccalaureate study. She applies for a Stafford Loan and has financial need for the maximum annual loan amount (\$5,500 in subsidized Stafford and \$5,000 in unsubsidized Stafford). Her NSLDS record indicates that she has an Agg OPB of \$24,625 on a Consolidation Loan made by a FFEL lender. Because the undergraduate aggregate subsidized limit is \$23,000, you cannot disburse any subsidized loan funds unless you can determine that the total amount of subsidized Stafford Loans represented in the consolidation amount is less than \$23,000.

The student’s loan record shows that her Consolidation Loan was made on August 30, 2006. She previously had three subsidized loans that were paid through consolidation (PC) earlier in July and August. The Disbursed Amounts for her loans are: \$2,625 for her first-year loan, \$3,500 in her second year, and \$5,500 in her third year. The NSLDS record also shows two unsubsidized loans, paid-in-full in July and August, which she received in her second and third years, when she qualified as an independent student.

STAFFORD LOANS (CONSOLIDATED)	STAFFORD LIMIT	REMAINING ELIGIBILITY
Subsidized \$2,625		
Subsidized \$3,500		
Subsidized \$5,500		
TOTAL SUBSIDIZED \$11,625	\$23,000	\$11,375
Unsubsidized..... \$4,000		
Unsubsidized..... \$5,000		
TOTAL SUB + UNSUB \$20,625	\$46,000	\$25,375

Adding the loans up, we can see that the student has received a total of \$11,625 in subsidized Stafford and an overall total of \$20,625 in Stafford funds.* Therefore, you may pay the student her full loan amounts (\$5,500 subsidized and \$5,000 unsubsidized) without exceeding the aggregate Stafford Loan limits for an independent undergraduate.

*There are several possible reasons why the \$25,000 Consolidation Loan is greater than the total Stafford borrowed (\$20,625)— the Consolidation amount may include Perkins or health loans that have been consolidated, or it may include capitalized interest or other charges.

Method used in NSLDS to estimate subsidized and unsubsidized FFEL amounts

- **Calculated Subsidized Agg. OPB**
- **Calculated Unsubsidized Agg. OPB**
- **Calculated Unallocated Agg. OPB**

NSLDS takes the total amount originally disbursed for all of the identified underlying subsidized loans and divides that amount by the originally disbursed amount of the Consolidation Loan, which approximates the percentage of the total original consolidation loan that can be attributed to the subsidized loans. This percentage is then applied to the current outstanding balance of the Consolidation loan with the result being the amount that is included in the NSLDS calculation of the total amount of Subsidized loans for the student.

A similar process is followed to allocate the unsubsidized amount.

NSLDS subtracts the total of the calculated subsidized and unsubsidized outstanding balance amounts from the actual outstanding balance of the consolidation loan. Any balance is considered to be “unallocated.”

NSLDS assumes the amount was borrowed from the FFEL or Direct Loan programs and is included in the total combined balance. However, none of the “unallocated” amount is included in the Subsidized balance as it is unlikely to have come from a Subsidized Loan.

EFFECT OF OVERBORROWING

A student who has inadvertently received more than the annual or aggregate Stafford loan limits is ineligible to receive *any* FSA funds until the overborrowing is resolved. The student can regain eligibility for aid by repaying the amount that exceeded the Stafford annual or aggregate loan limits, or by making satisfactory arrangements with the Stafford lender (or the DL servicer) to repay the excess amount. The holder of the loan may choose to develop a repayment plan that has the borrower reaffirm that he or she will repay the excess according to the terms and timing of the original promissory note. If the inadvertent overborrowing occurred at your school, you should work with the student and the loan holder to ensure that the necessary actions are taken to restore the student’s eligibility.

Once you have documented that the student has either repaid the excess loan amount or has made satisfactory arrangements with the loan holder to repay the excess amount, you may award additional aid. However, the student may or may not be eligible to receive additional Stafford loan funds, depending on the circumstances. For example, a dependent undergraduate who inadvertently exceeded the \$23,000 aggregate Stafford limit could not receive any additional Stafford Loan funds as a dependent undergraduate unless the outstanding debt was paid down below the \$23,000 limit. However, the student could receive additional non-Stafford aid. An independent undergraduate who inadvertently exceeded the \$23,000 subsidized limit (but who has not reached the \$46,000 combined aggregate loan limit for independent undergraduates) could borrow additional unsubsidized Stafford once he or she makes satisfactory arrangements to repay the subsidized amount that exceeds \$23,000. For more on overborrowing and over-awards, see Volume 5.

Consolidation of loan amounts that exceed the annual or aggregate loan limit

If a borrower who inadvertently received more than the annual or aggregate Stafford Loan limits has consolidated the loan(s) that caused the borrower to exceed the loan limit, the consolidation loan is considered to be a satisfactory arrangement to repay the excess amount that restores the borrower’s eligibility for Title IV aid. (Note, however, that consolidation of an amount that exceeded the aggregate Stafford Loan limits does not automatically make a student eligible for additional Stafford Loan funds. See the discussion on this page under “Effect of Overborrowing.”)

Example: Resolving cases of overborrowing

Beth, an independent undergraduate student, is applying for a Stafford Loan for her fifth and final year of baccalaureate study at your college. Beth has remaining loan eligibility under the \$46,000 combined aggregate loan limit for independent undergraduates and at first, she appears to be within the aggregate limit for undergraduate subsidized Stafford Loans.

However, you have recently become aware that Beth previously borrowed Stafford Loans while attending a community college several years prior to coming to your college.

STAFFORD LOANS

Subsidized BANK ONE 1991	\$2,625
Subsidized BANK ONE 1992	\$3,500
Subsidized BANK TWO 1998	\$2,625
Subsidized BANK TWO 1999	\$3,500
Subsidized BANK TWO 2000	\$5,500
Subsidized BANK THREE 2001	\$5,500
TOTAL SUBSIDIZED	\$23,250

In fact, your review of her NSLDS records indicates that Beth has borrowed \$250 in subsidized Stafford Loans in excess of the aggregate undergraduate limit. Because the loan made by BANK THREE was the one that exceeded the loan limit, Beth needs to make arrangements with BANK THREE to repay the amount for which she was not eligible.

When BANK THREE has confirmed that Beth has made satisfactory arrangements to repay the excess loan amount, you may make other FSA awards to Beth, including unsubsidized Stafford Loans.

You can't make a subsidized Stafford Loan to Beth until she has repaid the \$250 that exceeds the aggregate subsidized Stafford Loan limit and further repaid enough of her outstanding balance to be eligible for the Stafford amount that you intend to award to her. (For instance, you could not award her a new \$5,500 Stafford Loan until she has reduced her outstanding balance to \$17,500.)

Annual Limits for Stafford Loans

		<i>Subsidized</i>	<i>Total (subsidized & unsubsidized)</i>
<i>Dependent Undergraduates</i>			
First Year	Note: All undergraduate annual loan amounts are subject to proration.	\$ 3,500	\$ 3,500
Second Year		\$ 4,500	\$ 4,500
Third Year and Beyond		\$ 5,500	\$ 5,500
<i>Independent Undergraduates, etc.</i>			
First Year		\$ 3,500	\$ 7,500
Second Year		\$ 4,500	\$ 8,500
Third Year and Beyond		\$ 5,500	\$ 10,500
<i>Graduate & Professional Students</i>			
All Years of Study		\$ 8,500	\$ 20,500

Aggregate Limits for Stafford Loans

	<i>Subsidized</i>	<i>Total (subsidized & unsubsidized)</i>
<i>Dependent Undergraduates</i>	\$ 23,000	SAME
<i>Independent Undergraduates, etc.</i>	\$ 23,000	\$ 46,000
<i>Graduate & Professional Students</i>	\$ 65,500	\$ 138,500

Note: Certain health professions students may qualify for higher annual & aggregate limits—see discussion at the end of this chapter.

Example: Combined Loan Limits

An independent student receives the following loan amounts for a first undergraduate program and a graduate program:

	First undergraduate program:	Graduate program:	Total:
subsidized	\$20,500	\$45,000	\$65,500
unsubsidized	\$10,000	\$40,000	\$50,000

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's undergraduate aggregate loan limit. Because the total amount received for the first undergraduate program (\$30,500) does not exceed the aggregate loan limit for an independent undergraduate (\$46,000, maximum \$23,000 subsidized), the student has remaining loan eligibility of up to \$15,500 for the second undergraduate program.

However, the loans received for the graduate program must be considered in determining whether the student has exceeded the total aggregate loan limits. In this case, the total subsidized amount already received (\$65,500) is the maximum subsidized amount that a student may receive for undergraduate and graduate study combined. Therefore, the student may receive only unsubsidized loans for the second undergraduate program.

Increased Eligibility for Health Professions Students

The Health Education Assistance Loan (HEAL) Program, a loan program for health professions students administered by the Department of Health and Human Services, was gradually phased out beginning in 1995. The phaseout has now been completed, and no further HEAL Program loans are being made. To replace loan funds that otherwise would have been available under the HEAL Program, certain health professions students may borrow increased unsubsidized Stafford Loan amounts.

With the complete phaseout of HEAL, the Department has removed the earlier restrictions that limited participation to schools that had disbursed HEAL loans in fiscal year 1995 and to students who, as of October 1, 1995, were not HEAL borrowers.

Increased unsubsidized amounts

For any loan period beginning on or after May 1, 1999, schools may award the increased unsubsidized amounts to students who are enrolled at least half-time in a health professions discipline that (1) was eligible under the HEAL Program and (2) is accredited by an approved accrediting agency. (See "Dear Partner" Letter GEN-99-21.) The disciplines that were eligible under the HEAL Program and the approved accrediting agencies for these disciplines are shown in the loan limit chart for the increased unsubsidized amounts on page 3-104. Note that the HEAL Program required a need analysis test, while need analysis (represented by the EFC) is not required for unsubsidized Stafford loans.

NOTE: Foreign schools were not eligible to participate in the HEAL Program, and they may not award the increased unsubsidized Stafford Loan amounts.

Increased annual loan limits

Because the increased annual unsubsidized Stafford Loan limits are intended to replace funds that would have been available previously under the HEAL Program, the annual loan limits for the increased unsubsidized amounts are the same as the HEAL Program annual loan limits. The chart at the end of this chapter shows the annual loan limits for the increased unsubsidized amounts, which vary by discipline and academic year (AY) length, as well as the approved accrediting agency for each discipline.

Increased aggregate loan limits

The combined subsidized/unsubsidized aggregate loan limit for graduate and professional health professions students who are eligible to receive the increased unsubsidized amounts is \$189,125 (not more than \$65,500 of this amount may be in subsidized loans).

Increased unsubsidized loan amounts for naturopathic medicine students

In addition to the health professions disciplines that were eligible under the HEAL Program, domestic schools may also award additional unsubsidized Stafford Loan amounts to students enrolled in certain Naturopathic Medicine programs. To qualify for the additional unsubsidized amounts, the student must be enrolled in a program that leads to a Doctor of Naturopathic Medicine (N.M.D.) degree or a Doctor of Naturopathy (N.D.) degree, and the program must be accredited by the Council on Naturopathic Medical Education (CNME).

The authority to award additional unsubsidized Stafford Loan amounts to eligible Naturopathic Medicine students is effective for any loan period that begins on or after May 1, 2005. The maximum annual additional unsubsidized amount is \$20,000 for a program with an academic year covering nine months, and \$26,667 for a program with an academic year covering 12 months. (For a program with an academic year covering 10 or 11 months, the annual additional unsubsidized loan limit must be prorated as described in the chart on the following page.)

The increased aggregate Stafford Loan limit for eligible Naturopathic Medicine students is \$189,125 (not more than \$65,000 of this amount may be in subsidized loans).

For additional information, see Dear Colleague Letter GEN-05-09.

Effect of transfer to non-health profession program of study

If a student receives the additional Stafford loan amounts on the basis of study in a health profession program, but then leaves that program and enters a program in a different field, the student is no longer eligible for the increased Stafford loan limits. However, the additional loan amounts received on the basis of health professions study are not counted toward the normal aggregate Stafford Loan limit for that student.

Programs Eligible for:

Additional \$20,000 in Unsubsidized Loans for an Academic Year Covering 9 months
 Additional \$26,667 in Unsubsidized Loans for an Academic Year Covering 12 months

Doctor of Allopathic Medicine	Accreditation: Liaison Committee on Medical Education
Doctor of Osteopathic Medicine	Accreditation: American Osteopathic Association, Bureau of Professional Education
Doctor of Dentistry	Accreditation: American Dental Association, Commission on Dental Accreditation
Doctor of Veterinary Medicine	Accreditation: American Veterinary Medical Association, Council on Education
Doctor of Optometry	Accreditation: American Optometric Association, Council on Optometric Education
Doctor of Podiatric Medicine	Accreditation: American Podiatric Medical Association, Council on Podiatric Medical Education

Additional \$12,500 in Unsubsidized Loans for an Academic Year Covering 9 months
 Additional \$16,667 in Unsubsidized Loans for an Academic Year Covering 12 months

Doctor of Pharmacy	Accreditation: Accreditation Council for Pharmacy Education
Graduate in Public Health	Accreditation: Council on Education for Public Health
Doctor of Chiropractic	Accreditation: Council on Chiropractic Education, Commission on Accreditation
Doctoral Degree in Clinical Psychology	Accreditation: American Psychological Association, Committee on Accreditation
Masters or Doctoral Degree in Health Administration	Accreditation: Accrediting Commission on Education for Health Services Administration

PRORATION OF ANNUAL LOAN LIMIT FOR ACADEMIC YEAR COVERING 10 OR 11-MONTHS: For programs with an academic year covering 10 or 11 months, the annual additional unsubsidized loan limit must be prorated. If the academic year covers 10 or 11 months, the prorated annual loan limit is determined by dividing the applicable loan limit for an academic year covering 9 months by 9, and then multiplying the result by 10 or 11.

EXAMPLE OF ANNUAL LOAN LIMIT: The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular Stafford annual loan limits. For example, a student enrolled in a 9-month Doctor of Dentistry program is eligible for the regular Stafford subsidized/unsubsidized annual loan maximum for a graduate/professional student (\$20,500, not more than \$8,500 of which may be subsidized), plus the maximum increased unsubsidized amount of \$20,000, for a total Stafford loan maximum of \$40,500.

Awarding Campus-Based Aid

Your school has more latitude in selecting recipients of its Campus-Based funds than in Pell or Stafford/PLUS. This chapter discusses the criteria that you must consider when selecting Campus-Based recipients, and the amounts that you may award to them. In addition, the student must meet the general eligibility criteria discussed in Volume I, and your Campus-Based awards may not exceed the student's financial need, as described in Chapter 7 on packaging.

GENERAL CAMPUS-BASED AWARD RULES

Selecting independent & part-time students

If any part of a school's FSEOG, FWS, or Federal Perkins Loan allocation is directly or indirectly based on the financial need of independent students or students who are attending part-time, then you must offer a *reasonable proportion* of the FSEOG allocation, the FWS allocation, and the dollar amount of the loans made from the Perkins revolving fund to such students. This requirement includes part-time students at eligible branch campuses as well as part-time students on the home campus. A policy that excludes part-time or independent students is not acceptable.

"Part-time students" also include correspondence students. To be considered enrolled in a program of correspondence study, the student must be enrolled in a degree-seeking program and must have completed and submitted the first lesson.

Uneven costs/unequal disbursements

If the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, you may make unequal disbursements of FSEOG and Perkins. There is no explicit provision for unequal disbursements in FWS. However, because FWS wages are disbursed as work is performed, usually on a weekly or bi-weekly schedule, total disbursement amounts are likely to be different from one payment period to the next. In addition, as we'll discuss in the FWS section, a student may be paid for work performed during certain periods of non-attendance.

Summer school and special sessions

A student who enrolls as a regular student in an eligible program during summer school or a special session may receive Campus-Based aid if he or she meets the same general eligibility requirements that apply to a student enrolled in a regular session. If a student is not enrolled during the summer or special session, the student is not eligible to receive Campus-Based aid during the period of **nonattendance**, except in the case of an FWS job. (See FWS discussion in this chapter.)

CHAPTER 6 HIGHLIGHTS

- **FSEOG:**
 - Undergraduate only — see Volume 1 for rules.
 - Maximum \$4,000, Minimum \$100.
 - Priority order for FSEOG recipients is based on Pell eligibility and lowest EFCs.
- **Perkins:**
 - Undergraduate/graduate eligibility.
 - Undergraduate: \$4,000 per year and \$20,000/agg.
 - Graduate: \$6,000/year and \$40,000/agg.
 - Selection based on exceptional financial need as defined by school.
 - Also note Equal Credit Opportunity requirements.
- **FWS**
 - Undergraduate/graduate eligibility.
 - Awards based on academic workloads & other factors, packaged based on net earnings, after taxes and job-related costs are subtracted.
 - Student may be employed during certain periods of nonattendance.
- **Related Information:**
 - See Chapter 7 of this Volume for a discussion of packaging Campus-based aid with other assistance so as not to exceed the student's financial need.
 - See Volume 1 for rules on undergraduate vs. graduate status.
 - See Volume 4 for rules governing timing of disbursements & general FSA funds management.
 - See Volume 6 for information on operating an FWS or Perkins Loan program, including allowable types of employment, JLD and Work-Colleges, due diligence in making Perkins loans, terms of repayment, etc.

Selecting independent and part-time students

34 CFR 674.10(b), 675.10(c), 34 CFR 676.10(b)

FSEOG cites

Selection Procedures 34 CFR 676.10
Frequency of disbursements 34 CFR 676.16(a) and (e)
Minimum and maximum awards 34 CFR 676.20

Award year & payment period

“Award year” is defined as “the period of time from July 1 of one year through June 30 of the following year.”

Institutional Eligibility regulations, 34 CFR 600.2

As discussed in Chapter 1 of this volume, the payment period for a program that uses standard academic terms is a semester, trimester, or quarter. See Chapter 1 for a description of payment periods in programs not using terms or not using standard terms.

Payment period defined: 34 CFR 668.4

Selecting FSEOG Prohibitions

A school would not be in compliance with the Higher Education Act, as amended, and with the FSEOG regulations were it to award FSEOGs on a first-come, first-served basis or were it to arbitrarily set expected EFC benchmarks (cutoffs) from below which it would select FSEOG recipients. Such a practice might exclude otherwise eligible students from the selection process. Furthermore, professional judgment is not an appropriate means of attempting to resolve the indicated circumstance; professional judgment is applicable only to making an adjustment or adjustments to an expected EFC or to a cost of attendance amount, not as a means to circumvent the FSEOG selection policy.

Crossover payment period example

Brian and Brad are enrolled at Scruples Business School in a payment period that begins in June 2006 and ends in August 2006, and both are among those students with the lowest EFCs who will also receive Pell Grants in that payment period. Brian is receiving a 2005-2006 Pell Grant disbursement for that payment period and Brad is receiving a 2006-2007 Pell Grant disbursement for that payment period—both students have met the FSEOG first selection group requirement for that crossover payment period.

AWARDING FSEOG

Award Amounts

The maximum Federal Supplemental Educational Opportunity Grant (FSEOG) for a full academic year is usually \$4,000. However, you may award as much as \$4,400 to a student participating in a study-abroad program that is approved for credit by the home school. The minimum FSEOG amount is \$100, but you may prorate this amount if the student is enrolled for less than an academic year.

The FSEOG maximum award for a student applies to both the Federal share and the required non-federal share. However, when your school has a waiver of the non-federal share, the FSEOG maximum applies to just the FSEOG federal funds. When there is no waiver, the FSEOG federal dollars awarded to a student are considered to be 75 percent of that student’s total FSEOG award and the school must account for the remaining 25 percent non-federal share, regardless of the type of school resources used and the method used to match. For more detail on the requirements of federal and non-federal shares, see Volume 6, Chapter 1.

Selecting FSEOG Recipients

When awarding FSEOG funds for an award year, you must first select students with the lowest expected family contributions (EFC) who will also receive Pell Grants in that award year. This group is known as the FSEOG first selection group. If your school has remaining FSEOG funds after making awards to all Pell Grant recipients for that award year, you must next select students with the lowest EFCs who are not receiving Pell Grants. This group of students is known as the FSEOG second selection group.

A student who will also receive a Pell Grant in that award year is a student who has demonstrated Pell Grant eligibility for the same award year based upon an EFC that you have calculated for the student, or the EFC on the student’s SAR or ISIR.

You must keep documentation of the eligible EFC that was calculated for the student, and you must confirm Pell Grant eligibility prior to disbursement of the FSEOG. If the FSEOG recipient does not actually receive a Pell Grant during the award year, but the documentation shows that the FSEOG award and disbursement was made in good faith, you are not required to recover the FSEOG funds. If the student loses Pell Grant eligibility prior to disbursement of the FSEOG, you must cancel the FSEOG award.

Crossover payment period

Certain flexibilities exist when determining whether a student is considered to be in the FSEOG first selection group during a crossover payment period, that is, a period that begins before July 1 of any award year and ends after July 1 of that same award year. If a student will also receive a Pell Grant during a payment period that occurs in two award years and the student is among those students with the lowest EFCs, the student satisfies the FSEOG first selection group requirements

for the same crossover period regardless of which award year the Pell Grant funds are attributed.

In order to be considered part of the FSEOG first selection group, a student does not necessarily have to receive a Pell Grant in the same crossover payment period. A student can also be awarded FSEOG funds under the FSEOG first selection group requirements during a crossover payment period, from either award year's allocation, as long as the student will also receive a Pell Grant in the award year to which the crossover payment period is attributed for Pell Grant purposes.

Establishing categories of students

Your selection procedures may specify categories of students to ensure that the students in each category have an opportunity to be awarded FSEOG funds. Categories may be based on class standing, enrollment status, program, date of application, or a combination of factors. You may choose to assign a percentage or dollar amount of FSEOG funds to each category; there is no requirement to make the percentage or dollar amount proportional to the need of students in a particular category or even to the number of students in the category.

However, categorization may not be used to exclude certain students or groups of students from consideration. If you know that your school's funds are so limited as to effectively exclude year after year categories that come later in the sequence, your school may not be in compliance with the "reasonably available" provision.

Your school's written selection procedures must ensure that FSEOG recipients are selected on the basis of the lowest EFC and Pell Grant priority requirements over the entire award year. If your school enrolls students as often as monthly or weekly, FSEOG funds can be reserved for use throughout that award year (on the basis of your school's experiences from previous periods), and selection practices can be applied in a manner that would assure a reasonable consistency over the entire award year.

When you use categories to package FSEOG, within each category you must first award the assigned FSEOG funds to students with the lowest EFCs who will also receive a Pell Grant. If FSEOG funds assigned for that category still remain, you must next award FSEOG funds to students in the category with the lowest EFCs who will not receive a Pell Grant.

Frequency & amount of FSEOG disbursements

If you're awarding an FSEOG for a full academic year, you must pay a portion of the grant during each payment period, *even if the student's program doesn't use standard academic terms.* (See Chapter 1 for an explanation of payment periods.)

To determine the amount of each disbursement, you would usually divide the total FSEOG award by the number of payment periods the student will attend. However, you are allowed to pay an FSEOG in unequal amounts if the student has costs or resources that are

Categories of students for FSEOG selection

This guidance is based on Dear Colleague Letter
CB-91-8.

FSEOG Award of less than \$501

The FSEOG award for purposes of being allowed to make a single payment FSEOG award when the award for a full academic year is less than \$501 consists of both the federal share and required nonfederal share (unless your school has a waiver of the nonfederal share).

When there is no waiver, the FSEOG federal dollars awarded to a student are considered to be 75 percent of that student's total FSEOG award and the school must account for the remaining 25 percent non-federal share, regardless of the type of school involved and the method used to match. For more detail on the requirements of federal and non-federal shares, see Volume 6, Chapter 1.

Perkins citations

Selection procedures: 34 CFR 674.10
Exceptional need: 34 CFR 674.10(a)(1)
Must have estimate of Pell eligibility: 34 CFR 674.9(d)
Selection of independent & part-time students:
34 CFR 674.10(b)
Equal credit opportunity: 34 CFR 674.20

Example: Perkins selection procedures

When packaging aid, Barton University first awards Perkins Loans to third-year students whose financial need is at least \$500 after their EFCs, Pell Grants, and any scholarships received have been subtracted from the cost of attendance. Next, the University awards Perkins Loans to second-year students whose financial need is at least \$750. The school continues to award Perkins Loans to such pre-defined groups until the Fund is exhausted or all exceptional financial need is met.

Grad/undergrad status in teacher certification program

A student enrolled in a teacher certification program may be considered either an undergraduate or a graduate student. If a teacher-certification student has already borrowed the maximum aggregate allowed for an undergraduate, but your school considers him/her to be a graduate student, the student is eligible to receive an additional Perkins Loan. At the point the school classifies and treats this student as a graduate student, he/she would only be eligible for graduate level Title IV aid.

Perkins overawards prior to 1999 regulatory revision

Because previous aggregate loan maximums were not tied to the completion of two academic years of undergraduate work, some schools may have inadvertently created an overaward by awarding more than \$8,000 to borrowers who had not completed two undergraduate years. Schools are not required to resolve such overawards if they were made prior to the publication of the revised statutory maximums. (The revised statutory maximums were first published in the Federal Register on July 29, 1999.)

different for different payment periods. There's another exception—if the total amount awarded a student under the FSEOG Program is less than \$501 for an academic year, only one payment is necessary.

You may make payments *within* a payment period in whatever installments will best meet the student's needs.

AWARDING PERKINS LOANS

The maximum amount an undergraduate student may borrow is \$4,000 per award year; the maximum for a graduate or professional student is \$6,000 per award year.

Like Stafford Loans, Perkins also have aggregate loan limits:

- \$8,000 for any student who has not completed two academic years of undergraduate work.
- \$20,000 for an undergraduate student who has completed two academic years and is pursuing a bachelor's degree.
- \$40,000 for a graduate or professional student, including loans borrowed as an undergraduate student.

The aggregate loan limits now include only unpaid principal. (Previously, a student who had borrowed the maximum cumulative amount for a graduate or professional student would not be eligible for another loan even if the student had repaid part or all of the amount he or she had borrowed.)

The annual maximums and aggregate maximums include any amounts borrowed previously under the Federal Perkins Loan Program, including National Direct/Defense Student Loans.

Perkins selection criteria

When awarding Perkins Loans, you must give priority to those students with exceptional financial need, as defined by your school. Your school's Perkins selection procedures must be in writing, uniformly applied, and kept on file at the school. See Volume 2 for record retention and consumer information requirements.

Before you may award a student a Perkins Loan, you must determine the student's Pell Grant eligibility. You may use an unofficial calculation to determine Pell Grant eligibility before a student has filed a *Free Application for Federal Student Aid* (FAFSA). However, your school may not disburse the Perkins Loan until you have received the student's official EFC for that award year (on the student's SAR or ISIR).

Increased loan eligibility to cover higher costs of study abroad

If the reasonable costs of the foreign study program exceed the cost of attending the home school, the awarded Perkins Loan may exceed the annual and/or aggregate loan limits by up to 20%. A

Equal Credit Opportunity Act (ECOA) rules

A school making Perkins loans is subject to the requirements of the ECOA. With only limited exceptions, the ECOA prohibits a lender from considering the applicant's age, race, color, religion, national origin, sex, marital status, or receipt of public assistance when evaluating loan applications. Lenders are not permitted to consider whether the applicant has a telephone, whether the applicant's sources of income are from retirement benefits or part-time employment, or whether the applicant might bear or rear children.

In the case of a "special purpose credit program" that uses financial need as a criteria for the loan, a lender may collect certain borrower information. The Perkins program is considered a special purpose credit program, therefore you "may request and consider, in determining an applicant's eligibility for the program, information regarding the applicant's marital status; alimony, child support, and separate maintenance income; and the spouse's financial resources." This information is collected on the FAFSA.

ECOA regulations: 12 CFR 202

school may disburse a Perkins Loan to a student engaged in a program of study abroad if the student meets all eligibility requirements and is enrolled in an eligible program at the school that will accept credits earned abroad.

AWARDING FEDERAL WORK-STUDY (FWS)

Unlike the other two Campus-Based programs, the FWS Program does not require that priority be given to students who have *exceptional* financial need. However, you must make FWS jobs reasonably available, to the extent of available funds, to all eligible students. Your selection procedures must be in writing, uniformly applied, and kept in your school's files.

There are no specific award limits for FWS earnings, other than the requirement that the amount of the FWS award not exceed the student's financial need. For a full discussion of packaging FWS with other aid, see Chapter 7 in this volume.

When deciding on an appropriate FWS award for a student, you should consider the student's academic workload and any other factors that might affect the hours that a student could work each week.

Basing FWS awards on net work earnings

The *gross* amount of the award is based on the total number of hours to be worked multiplied by the anticipated wage rate. For awarding and packaging purposes, you should use the student's *net* FWS earnings, which exclude taxes and job-related expenses. To determine the student's *net* FWS earnings, you should subtract any job-related costs and non-refundable taxes from the student's *gross* FWS earnings. If you are certain that the student's federal or state taxes paid will be refunded, you should not subtract those taxes paid from the student's gross earnings.

Job-related costs are costs the student incurs because of his or her job. Examples of job-related costs include uniforms, the cost of meals at work, and transportation to and from work. For work during vacation periods, job-related costs can include room and board as long as the FWS student incurs these costs only because of the FWS employment. For example, room and board during the summer *cannot* be

Calculating Maximum Gross Earnings Example

Chris has unmet financial need of \$1,000 at Peterson University. Because Chris has a Social Security tax of 7.65% (that will not be refunded) and \$108 in job-related costs, the school may allow Chris to earn an FWS award amount that is higher than his \$1,000 unmet financial need in order for him to earn the allowable \$1,000 net FWS earnings.

To calculate the FWS award amount to reflect the maximum gross FWS earnings that Chris may earn without the net FWS earnings exceeding the student's \$1,000 financial need, the school must do the following:

1. Add the amount of job-related costs to the amount of his unmet need ($\$108 + \$1,000 = \$1,108$) for a total of \$1,108.
2. Account for the Social Security tax by determining that his net FWS earnings are 92.35% of his gross earnings ($100\% - 7.65\% = 92.35\%$) or (.9235).
3. Divide the total in step 1 by the ratio in step 2 ($\$1,108 / .9235 = \$1,199.78$) for a result of \$1,199.78 (\$1200 after rounding).

Peterson University may give Chris a \$1,200 FWS award and his net FWS earnings will not exceed his \$1,000 unmet financial need.

Taxes and job-related costs cite

34 CFR 675.25(a)

Work during nonattendance

For further information about working during vacation periods or periods of nonattendance, see the discussion of enrollment requirements in Volume 1.

FWS for period preceding study abroad

A student in an eligible program of study abroad may be employed during a period of nonattendance preceding the study abroad if he or she will be continuously enrolled in his or her American school while abroad and if the student's study is part of the American school's own program. In such a case, a student may be employed in a qualified position in the United States, at the American school's branch campus in a foreign country, or at a U.S. government facility abroad.

included in job-related costs if the FWS student also takes summer courses.

Earnings for the next period of enrollment

Many FWS students must pay the bulk of their education costs in the beginning of each period of enrollment, before they have had a chance to earn FWS wages. Therefore, you may allow a student to earn FWS wages to cover educational expenses in the next period of enrollment that your school offers. The student must be planning to enroll in that next period of enrollment and must demonstrate financial need for that period of enrollment. The next period of enrollment is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year.

A student may earn FWS funds for the next period of enrollment during any period of enrollment, including a period of enrollment that is comprised, in whole or in part, of mini-sessions. A student may also earn FWS wages towards the next period of enrollment during a period of nonattendance, as discussed below.

Working during periods of nonattendance

A student may be employed under FWS during a period of nonattendance, such as a summer term, an equivalent vacation period, the full-time work period of a cooperative education program, or an unattended fall or spring semester. To be eligible for this employment, a student must be planning to enroll for the next period of enrollment and must have demonstrated financial need for that period of enrollment. The student's net earnings (earnings minus taxes and job-related costs) during this period of nonattendance must be used to cover expenses associated with his or her financial need for the next period of enrollment.

When a student who had an FWS job in a period of non-attendance fails to enroll in the next academic period, you must be able to demonstrate that the student was eligible for employment and that, at the time the FWS was awarded, you had reason to believe the student intended to enroll in the next period. At a minimum, you must keep a written record in your files showing that the student had accepted the school's offer of admittance for the next period of enrollment. If during the period of nonattendance you learn that the student will no longer enroll in the next period of enrollment, the student must immediately stop working under FWS.

FWS and minisessions

If your school combines a series of mini-sessions or modules into one term (e.g., three summer mini-sessions into one summer semester), an FWS student attending any of the mini-sessions may earn FWS wages at any time throughout that term. You may apply those earnings towards the student's financial need for the mini-session(s) attended and/or the next period of enrollment. You must base the student's financial need for attending the summer term on the period when the student is actually enrolled in the mini-sessions.

The amount of FWS wages a student may earn at any given point in the term does not depend on whether or not the student is enrolled in a mini-session at that point in time. You have some flexibility in deciding with the student how to distribute the hours worked throughout the summer term. (See the example in the sidebar.)

Minisession example

Cohogs University has a summer term made up of three mini-sessions. Ted enrolls in classes for the June and August mini-sessions, but does not enroll in any classes for the July mini-session. Ted has a financial need of \$500 for his attendance in two of the summer mini-sessions. Ted also plans to enroll in the following fall semester and has a remaining need of \$250 for that semester. Ted is given a \$750 FWS award in the summer (\$500 for the two summer mini-sessions and \$250 for the fall semester). Ted knows his June mini-session courses will be very demanding and he will not have time to work. So, Ted earns \$500 during the July mini-session when he has no classes. Ted has classes again in August, but his academic workload is lighter. In August, Ted earns \$250 towards his education costs in the upcoming fall semester.

Packaging Aid

Once you've received the student's FAFSA information (including EFC) and calculated the student's Pell eligibility, you can package the student's aid. The general rule in packaging is that the student's total financial aid and other Estimated Financial Assistance (EFA) must not exceed the student's financial need (Need = Cost minus the EFC). If you discover that the student has other EFA that cause the aid package to exceed the student's need, you must attempt to adjust the aid package to eliminate the overaward. If the overaward can't be eliminated, you must follow the overaward procedures in Volume 5.

In Chapters 3, 4, and 5, we describe how to calculate student awards, based on costs, period of enrollment, and statutory award maximums. Except for Pell Grants, FSA award amounts are also constrained by the other aid that a student receives, known as *estimated financial assistance* (EFA). The general rule is that the student's total aid may not exceed the student's financial need. (Need = Cost of Attendance minus EFC.)

The process of awarding aid without exceeding the student's financial need is traditionally called packaging. Packaging is a process that varies from school to school, depending on the types of scholarship and other aid available at the school, and the characteristics of the student population. Schools may have different packaging philosophies, but they generally try to find the best combination of aid to meet the financial need of the students they serve.

To help you package Federal student aid with your other aid awards, we provide a Packaging module in EDEXpress. You can enter information about your school's student aid programs and set up factors to be considered in packaging, and then use the software to automate the packaging process.

Most schools use some form of packaging software, whether EDEXpress or software from a commercial vendor. You are not required to use EDEXpress to package FSA awards, and you do not have to report the student's aid package to the Common Origination and Disbursement system.

CHAPTER 7 HIGHLIGHTS:

- Related software: EDEXpress Packaging Module
→ Available at <http://www.fsadownload.ed.gov>
- Packaging Principles
 - Pell Grants packaged first; not reduced for other aid.
 - ACG/SMART package may be reduced to eliminate an overaward.
 - Campus-based and Subsidized Stafford Loans based on Pell, eligibility, EFC, and estimated financial assistance.
 - Subsidized Stafford Loans based on Pell, eligibility, EFC, and estimated financial assistance.
 - Unsubsidized Stafford Loans and PLUS based on Pell eligibility and estimated financial assistance.
- Treatment of need-based earnings
- Treatment of other aid: special cases
 - Americorps and veterans educational benefits
 - Vocational rehabilitation assistance
 - Bureau of Indian Affairs grants

Hurricane Information

Special Federal Student Aid awarding/packaging guidance for hurricane affected schools can be found at <http://ifap.ed.gov/eannouncements/katrina.html>

Financial need

$$\begin{array}{r} \text{Cost of Attendance} \\ - \text{EFC} \\ \hline \text{Financial Need} \end{array}$$

Some key points from Chapter 5 (Calculating Stafford/PLUS Awards)

- Before you certify or originate a Stafford Loan, you must determine the student's eligibility for a Pell Grant.
- You may certify or originate a subsidized Stafford Loan only for the amount of student's financial need—the student's costs minus the student's EFC and estimated cost minus financial assistance.
- A student may qualify for a combination of subsidized and unsubsidized Stafford loans.
- If they meet program requirements, the parents of a dependent student can take out a PLUS loan to pay for the student's cost of attendance. There is no fixed loan limit for PLUS loans—the maximum loan amount is based on the student's financial need.
- If the student is independent, or his/her parents can't borrow a PLUS, the student is eligible for additional unsubsidized Stafford amounts.
- Unsubsidized Stafford loans and PLUS loans can be used to replace the EFC, as well as to cover the student's unmet need.
- PLUS Loans are now available to graduate and professional students

Pell can't be used to pay loan

If the student's aid package includes a loan and the package must be adjusted to prevent an overaward, the Pell funds can't be used to pay back the loan—a loan repayment isn't an educational expense.

Estimated Financial Assistance

HEA: Sec. 428(a)(2)(C)(ii)
FFEL: 34 CFR 682.200(b)
DL: 34 CFR 685.102(b)

PELL GRANTS AS FIRST SOURCE OF AID

Pell Grants are considered to be the first source of aid to the student, and packaging FSA funds begins with Pell eligibility. The Department issues Pell payment schedules that base the award solely on the student's cost of attendance, EFC, and enrollment status. As we'll see, aid from the other FSA programs must be awarded to ensure that the student's need is not exceeded, unless certain types of aid are used to replace the EFC, as permitted.

Traditional financial aid practice suggests that you would also adjust non-federal aid awards, if necessary, to ensure that the student's financial need is not exceeded. But it's possible that the student will receive a scholarship or other aid that you can't adjust and is large enough (in combination with the Pell Grant) to exceed the student's need. In this case, the student is still eligible for a Pell Grant based on the payment schedule. However, you can't award any FSA funds other than the Pell Grant.

For instance, the National Collegiate Athletic Association's rules for athletic aid sometimes permit a school to award athletic aid that exceeds the student's need. You must still pay the full Pell Grant to the student, but you may not pay other FSA funds to the student, because his/her financial need has already been met.

PACKAGING RULES FOR ACG/SMART, CAMPUS-BASED AID AND STAFFORD/PLUS LOANS

You should consider a number of things when developing a packaging policy. For instance, some schools give more grant assistance to beginning students, who may have more difficulty adjusting to campus life, increasing the proportion of loans and work-study in subsequent years.

For the Campus-Based programs and other programs where the available funds may not be sufficient to meet every eligible student's need, some schools decide to give a higher proportion of aid to the neediest students. Other schools award funds as an equal proportion of each student's need.

Examples of Estimated Financial Assistance

Estimated Financial Assistance includes any educational benefits paid because of enrollment in postsecondary education, such as:

- the student's Pell Grant eligibility;
- unsubsidized and subsidized Stafford and PLUS (Federal Family Education Loans and Direct Loans);
- Chapter 1607/REAP Benefits;
- long-term loans made by the school, including Federal Perkins Loans (short-term emergency loans are not considered to be Estimated Financial Assistance);
- grants, including Federal Supplemental Educational Opportunity Grants (FSEOGs), ACG/National SMART

grants, state grants, and Reserve Officer Training Corps (ROTC) living allowances;

- scholarships, including athletic scholarships and ROTC scholarships, and scholarships that require future employment but are given in the current year;
- waivers of tuition and fees;
- fellowships or assistantships;
- income from insurance programs that pay for the student's education;
- net income from need-based employment; and
- AmeriCorps funds;
- veterans educational benefits

NOTE:

- You may exclude from Estimated Financial Assistance, up to the amount of any subsidized DL or FFEL that you award to the student when the student received AmeriCorps or Chapter 30 benefits.
- When awarding subsidized DL or FFEL, you may exclude the entire amount of Americorps benefits or Chapter 30 veterans educational benefits from Estimated Financial Assistance.

Many schools use software, such as the Packaging module in EDEExpress, that can be configured to implement the school's packaging philosophy. For instance, in EDEExpress, you can specify the order in which aid sources are to be applied to the student's unmet need, and set overall percentage limits on the amount of gift (grants/scholarships) and self-help aid that will be included in the aid package.

Estimated Financial Assistance

In contrast to Pell, you must take other aid into account when awarding ACG/SMART, campus-based aid, Stafford or PLUS loans. As noted earlier, the other aid that must be considered is called "estimated financial assistance" (EFA).

In general, the term *estimated financial assistance, as defined for the Campus-Based programs, and ACG/National SMART Grants*, refers to aid from the FSA programs, as well as grants, scholarships, loans, and need-based employment that you can reasonably anticipate at the time you award aid to the student, whether the assistance is awarded by the school or by an individual or organization outside the school.

The term *estimated financial assistance* is used in the same way for Stafford/PLUS purposes as for the Campus-Based programs. However, there are differences in the treatment of Americorps Chapter 30 benefits (discussed later in this chapter).

The regulations specify that "estimated financial assistance" is aid that the student will receive for the same period of enrollment as the Stafford or PLUS loan. As noted in Chapter 1, it's usually best to certify a Stafford or PLUS loan for a period that matches the academic year or other period that you're using to award funds from other FSA programs.

Considering grants and subsidized loans first

The law requires aid administrators to find out whether the student is eligible for certain other FSA programs that would reduce the need for borrowing.

If your school participates in the Federal Pell Grant Program, you must include the student's estimated Pell Grant eligibility as Estimated Financial Assistance when making Campus-Based awards, whether or not the student has received the Pell Grant at the time you make your Campus-Based award.

Similarly, you must determine an undergraduate student's Pell Grant eligibility before certifying a subsidized or unsubsidized Stafford Loan for that student. In addition, you may not certify an unsubsidized Stafford Loan without first determining the student's need for a subsidized Stafford Loan. (The difference between subsidized and unsubsidized Stafford Loans is explained in *Chapter 5* of this Volume.) However, if the amount of the subsidized Stafford is \$200 or less and the amount can be included as part of an unsubsidized Stafford Loan, you are not required to certify a separate subsidized loan.

HERA Change to Estimated Financial Assistance

HEA Sec. 480(j), DCL GEN 06-05

If the source of assistance is a State and is designated by the State to offset a specific component of the student's COA, the amount of that assistance may be excluded from both COA and Estimated Financial Assistance. You may exclude such assistance on a student-by-student basis, but if it is excluded, it must be excluded for both COA and Estimated Financial Assistance. If the amount excluded is less than the allowance provided in the student's COA, you must exclude the lesser amount.

Prepaid tuition plans

GEN-06-05, HEA Sec. 480(f) & (j)

prepaid tuition plans, as well as Coverdell education savings accounts and 529 savings accounts are no longer considered EFA; instead, the distribution from the value of the account is considered an asset of the owner of the account, unless the owner of the account is a dependent student. When the owner is a dependent student, the value of the account is excluded from the reported amount of both the student's and parents' assets.

Packaging when choosing not to borrow Stafford

Note that if the student for whom a parent is borrowing a PLUS Loan chooses not to apply for a Stafford Loan, the Stafford Loan amount that the student would have been eligible to receive is *not* counted as estimated financial assistance when determining the amount of the PLUS Loan.

Note that the same principle applies when a graduate/professional student is eligible for Stafford, but chooses to borrow only PLUS. The Stafford amount that the student would have been eligible to receive is not counted as EFA when determining the PLUS amount that the student may borrow.

Requirement to consider grants and sub loans first

34 CFR 682.201(a), 34 CFR 685 200(a)

Use net FWS earnings when packaging

To determine the net amount of a student's FWS earnings that will be available to help pay for the student's costs, you must subtract estimated taxes and job-related costs from the student's gross FWS earnings (see Chapter 6 - Campus-Based Awards).

Basic packaging example

Cost=\$12,500	unmet need 10,000	\$12,500 Cost
	EFC \$2,500	- 2,500 EFC
		\$10,000 Need

Andrew is a dependent student, returning as a sophomore to Lebold College. For academic purposes, Lebold College considers him to be a 2nd-year student. His cost of attendance is \$12,500, and his EFC for the current year is 2500; therefore, the packaging process begins with \$10,000 in unmet need.

Cost=\$12,500	unmet need \$5,700	\$12,500 Cost
	Pell, ACG, WCF \$4,300	- 2,500 EFC
	EFC \$2,500	- 1,600 Pell Grant
		- 1,300 ACG Grant
		- 1,400 Scholarship
		\$ 5,700 Remaining Need

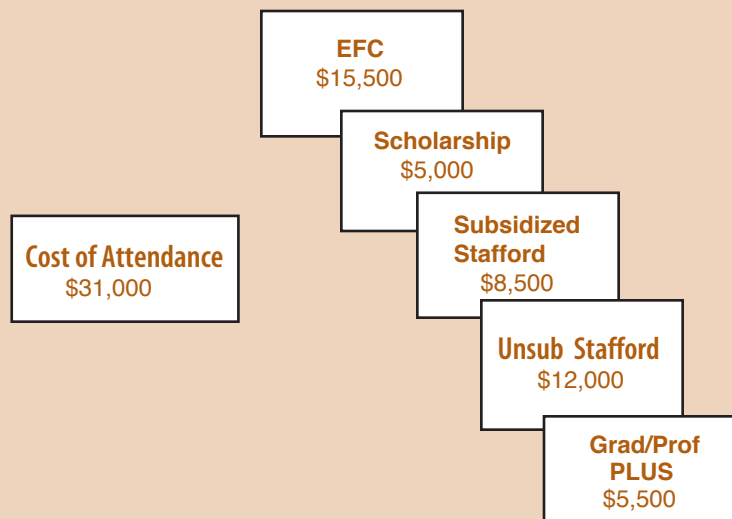
The aid administrator at Lebold College begins by awarding ACG and Pell Grants and applying the outside scholarship before awarding Campus Based aid. Andrew's Estimated Financial Assistance is a \$1,600 Pell, a \$1,300 ACG and a \$1,400 outside scholarship from the Wildwood Conservation Fund, so he has sufficient need for the maximum awards that the aid administrator can make under Lebold's policy for Campus-Based funds: \$800 FSEOG, a \$900 Perkins Loan, and \$1,800 in FWS employment.

Cost=\$12,500	unmet need \$2,200	\$12,500 Cost
	C-B Aid \$3,500	- 2,500 EFC
	Pell & WCF \$3,000	- 1,600 Pell Grant
	EFC \$2,500	- 1,300 ACG Grant
		- 1,400 Scholarship
		- 800 FSEOG
		- 900 Perkins
	- 1,800 FWS	
		\$ 2200 Remaining Need

The aid administrator at Lebold College finishes the packaging process by awarding Title IV loans available to meet Andrew's need. As a 2nd-year student, Andrew's Stafford loan limit is \$4,500. Because his remaining need is \$2,200, he can receive that amount as a subsidized Stafford Loan. If he chooses, he can borrow up to \$2,300 unsubsidized Stafford to partially cover the EFC. Since he is a dependent student, his parents can borrow up to the remaining amount of the EFC in the form of a PLUS Loan. As an alternative to Andrew borrowing an additional \$2,300 in unsubsidized Stafford, his parents could borrow that full amount in a PLUS.

Graduate/Professional PLUS Packaging Example

Kent enrolls in a graduate-level program at Falcon University with a total Cost of Attendance \$31,000. Kent has already been awarded a graduate scholarship of \$5,000. Kent is a graduate student, so his annual loan limit is \$20,500 (maximum \$8,500 subsidized). Kent is eligible to receive a subsidized Stafford loan of \$8,500. Kent now has \$2,000 in remaining need. Next, he can receive \$12,000 in unsubsidized Stafford (\$2,000 in need and \$10,000 partially covering the EFC) Finally, Kent can receive a PLUS loan for \$5,500 to cover the remaining portion of the EFC.



Using Loan Funds to Replace the EFC: Dependent example

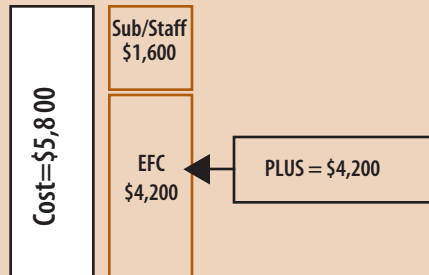
Darien is a first-year dependent student at Bald Eagle Community College. His cost of attendance is \$5,800 and his ISIR shows that he has an EFC of 4,200, so his financial need is \$1,600. Darien's EFC makes him ineligible for a Pell Grant, and BECC does not participate in the Campus-Based programs. The Stafford annual loan limit for a first year dependent student is \$3,500. Darien qualifies for a \$1,600 subsidized Stafford loan, and has no remaining need.

\$ 5,800	Cost
- 4,200	EFC
<u>\$ 1,600</u>	Need

Since an unsubsidized Stafford Loan can replace the EFC and Darien hasn't reached the Stafford annual loan limit, he can borrow an additional \$1,900 in the form of an unsubsidized Stafford Loan to cover part of the EFC. (\$3,500 Stafford annual loan limit - \$1,600 subsidized Stafford Loan=\$1,900 unsubsidized Stafford eligibility.) Darien could borrow \$1,900 in unsub Stafford to partially cover the EFC. His parents could then borrow \$2,300 in PLUS to cover the remaining EFC. Alternately, his parents could borrow up to \$4,200 in the form of a PLUS loan.

\$ 5,800	Cost
- 1,600	Sub Stafford
- 1,900	Unsub Stafford
- 2,300	PLUS
<u>\$ 0</u>	Need

Replaces EFC



Using Loan Funds to Replace the EFC: Independent example

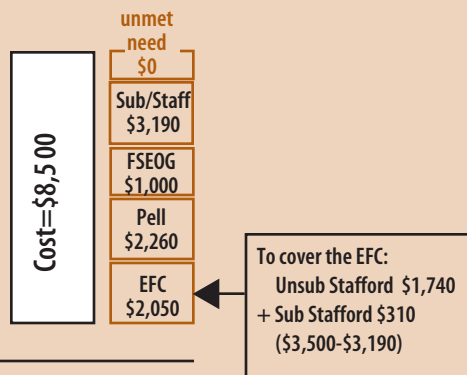
Holly Beth enrolls in Vincent Technical College as a 1st-year independent student with an \$8,500 cost of attendance and VTC has received an ISIR for her with an EFC of 2,050. She is eligible for a \$2,260 Pell Grant and VTC also awards her a \$1,000 FSEOG. Her remaining need is \$3,190, so she can receive that amount in a subsidized Stafford Loan (the maximum subsidized Stafford loan for a 1st-year student is \$3,500).

\$ 8,500	Cost
- 2,050	EFC
<u>\$ 6,450</u>	Need

Since Holly Beth is an independent student, she can take out an additional unsubsidized Stafford loan to replace the EFC, and as "self-help" to meet the EFC. Thus, VTC is able to award Holly Beth an additional \$2,050 in unsubsidized Stafford Loan funds (\$1,740 in unsubsidized Stafford and \$310 in subsidized Stafford).

\$ 8,500	Cost
- 2,260	Pell Grant
- 1,000	FSEOG
- 3,190	Sub Stafford
- 2,050	Unsub Stafford
<u>\$ 0</u>	Need

Unmet Need + EFC



Packaging Graduate/Professional PLUS

A PLUS loan does not count against a graduate/professional student's unsubsidized Stafford annual or aggregate loan limits.

For a dependent student, you may certify a PLUS and disburse Parent PLUS funds without determining the student's Pell Grant and subsidized Stafford Loan eligibility. Determining Pell eligibility is not relevant for Grad PLUS, but (unlike Parent PLUS) your school must determine a grad/professional student's maximum subsidized/unsubsidized Stafford eligibility before the student applies for PLUS.

Substituting unsubsidized loans for the EFC

A school may substitute certain types of loans for the student's expected family contribution (EFC). Generally, loans that may replace the student's EFC include unsubsidized Stafford Loans, PLUS Loans, state loans, private education loans, and any other non need based loans. If these loans are used to substitute for EFC, loan amounts that exceed the EFC are counted as estimated financial assistance.

You must package Campus-Based funds and subsidized Stafford loans before unsubsidized loans; as such, treatment of unsubsidized loans only becomes a factor when awarding unsubsidized Stafford and PLUS loans. When awarding Stafford/PLUS loans, unsubsidized loan amounts are only counted in *estimated financial assistance* if they exceed the EFC.

COUNTING NEED-BASED EARNINGS AS ESTIMATED FINANCIAL ASSISTANCE

The treatment of earnings from a job sometimes presents a problem—should the earnings be reported as income in need analysis or should they be counted as a form of student aid in the packaging process?

Net earnings from *need-based employment* are considered to be student aid. "Need-based employment" means employment that is awarded by the school itself or by another organization to a student on the basis of financial need to meet educational expenses for the award year. Only income from *need-based* employment may be considered as student aid. A Federal Work-Study job is clearly a form of need-based student aid. Employment with a state is considered to be student aid if that employment is based on the student's financial need for assistance to pay for educational expenses.

Non-need-based earnings are not to be considered as a resource for the current award year because they will be reported as income on the Free Application for Federal Student Aid (FAFSA) for the subsequent award year and will be used in calculating the future EFC. An example of non-need-based employment would be a job a student locates on her own with a private employer such as a local grocery store. Another example would be a job cleaning the labs in the Chemistry Department on campus, if the Chemistry Department hired the student using non-need-based criteria and funds.

CROSSOVER PERIODS

Crossover periods are payment, award, or loan periods that overlap two award years. In general, you may choose which award year EFC to use for a student, with two exceptions: When more than six months of a Pell Grant or ACG/SMART grant recipient's payment period falls into one award year, the payment period must be placed in that year, and when awarding FWS to a student not attending classes, the EFC for the next period of enrollment must be used.

The following chart summarizes the key flexibilities and options in handling crossover payment periods in the major Title IV programs. Note that for the award year selected, the student must have an official EFC calculated by the CPS, and for a Pell Grant the CPS must also have processed a valid SAR or ISIR.

Crossover in Pell

For more detail on calculating Pell awards in crossover, summer, minisession, and transfer situations, see Volume 3, Chapter 3.

EFCs for periods other than 9 months

For detail on how to handle FFEL, Direct Loans, and Campus-Based Programs that are based on an enrollment period of other than 9 months, see Alternate EFCs in Chapter 3 of Volume 1 of the FSA Handbook.

Handling Crossover Periods for Title IV Programs						
FSA Program	Applicable crossover period	Choice of award year EFC?	Use same award year EFC for all students in crossover period?	Use same award year, EFC, COA, and need to award a student other aid from FSA?	Use funds from the same award year as EFC?	Choice of academic year for annual loan limit regardless of award year EFC used?
Pell Grant	Payment period	Yes, unless more than 6 months of payment period is in one award year	No	Not applicable	Yes	Not applicable
ACG/National SMART	Payment period	Yes	No	Yes, except for Pell Grant	No, disbursement from award year in which Pell Grant was received	Not applicable
Perkins	Payment period	Yes	No	Yes, except for Pell Grant	No	Yes, but it is an award year limit. Choice still applies regardless of the disbursement award year
FWS	Award period	Yes, if student attending classes. (If student not attending, must use EFC for next period of enrollment)	No	Yes, except for Pell Grant	No, disbursement from award year in which hours were worked	Not applicable
FSEOG	Payment period	Yes	No	Yes, except for Pell Grant	No	Not applicable
FFEL/DL	Loan Period	Yes	No	Yes, except for Pell Grant	Not applicable	Yes, for term-based credit-hour programs using SAY. Not relevant for BBAY.

Veterans and Americorps benefits

The definition of “estimated financial assistance” in the FFEL and DL regulations includes veterans *active duty benefits* (veterans’ educational benefits paid under Chapter 30, 31, 32, and 35 of Title 38) and *national service education awards or post-service benefits* under title I of the National and Community Service Act of 1990 (AmeriCorps). An exception in the HEA to the above is that Chapter 30 is not considered Estimated Financial Assistance when determining eligibility for a subsidized Stafford loan.

FFEL: 34 CFR 682.200

DL: 34 CFR 685.102

Your school may exclude a portion of a subsidized Stafford loan from resources, not to exceed the amount of Chapter 30 veterans benefits or Americorps benefits, is described in the General Provisions for the Campus-Based programs.

34 CFR 673.5(c)(4)

Treatment of Combat Pay

GEN-05-16, Q&A # 17

PACKAGING VETERANS BENEFITS, AMERICORPS, VOCATIONAL REHABILITATION FUNDS, & BIA GRANTS

Veterans and Americorps benefits

For FSA purposes, veterans education benefits are treated as estimated financial assistance (EFA), not as income, and therefore are not reported as income on the FAFSA. Americorps benefits are also considered Estimated Financial Assistance. However, you may exclude as EFA a portion of any subsidized DL or FFEL loan that is equal to or less than the amount of the student’s Chapter 30 Montgomery GI Bill benefits and/or Americorps benefits paid for the cost of attendance.

Note that the income earned from the Veterans Affairs Student Work-Study Allowance Program (VASWSAP) is not treated as a veterans education benefit, so it is *not* considered estimated financial assistance. It should be reported as untaxed income (not income earned from work) on the FAFSA.

Chapter 30 Montgomery GI Bill benefits and Americorps benefits are *not* included in estimated financial assistance when determining eligibility for *subsidized* Stafford loans, but they *are* included for *unsubsidized* Stafford loans.

Noneducational veterans benefits are not counted as estimated financial assistance. Noneducational veterans benefits include Death Pension and Dependency and Indemnity Compensation (DIC) benefits, and income from the Veterans Affairs Student Work-Study Allowance Program (VASWSAP). The student must report these noneducational benefits as nontaxable income on the FAFSA.

Packaging example: Veteran educational benefits exclusion

Penny is a first-year, independent undergraduate student with an EFC of 1800, a Pell Grant of \$2,560, and Chapter 30 Montgomery GI Bill benefits of \$9,600. She enrolls in a four-year program at Frisson College, where her need is \$13,100 (\$14,900 COA - 1800 EFC). After considering her Pell grant and GI Bill benefits, Penny's remaining need is \$940, so it appears that she is eligible for a subsidized Stafford loan for that amount.

	\$14,900 COA
less	<u>\$1,800 EFC</u>
	\$13,100 Need
less	<u>\$2,560 Pell Grant</u>
	\$10,540
less	<u>\$9,600 Ch 30 VA Benefits</u>
	\$940 remaining need

However, Chapter 30 veterans' benefits do not count as Estimated Financial Assistance for subsidized loans. Penny's need less her Pell Grant without consideration for the Chapter 30 VA benefits produces a need of \$10,540. As a 1st year independent undergraduate student, she can receive the full annual maximum of \$3,500. At this point her aid package includes the following:

	\$13,100 need
less	<u>\$ 2,560 Pell</u>
	\$10,540
less	<u>\$3,500 Subsidized Stafford</u>
	\$7,040 remaining need

Frisson can now consider her for Campus-Based aid if they choose to exclude the subsidized loan (up to and not to exceed the amount of the VA active-duty benefits). For example Penny has \$13,100 remaining need, less her \$2,560 Pell Grant, less \$9,600 in VA benefits:

	\$13,100 Need
less	<u>\$2,560 Pell</u>
	\$10,540
less	<u>\$9,600 VA Benefits</u>
	\$940 Remaining need
less	\$940 FSEOG

So, Penny's aid package totals as below:

	\$2,560 Pell
	\$9,600 VA Benefits
	\$ 940 FSEOG
	<u>\$3,500 Subsidized Stafford</u>
	\$16,600

Even though Penny's assistance now totals \$16,600 (more than her COA of \$14,900), which exceeds her need AND her cost of attendance, this is not considered an overaward or overpayment.

Vocational rehabilitation funds

If you have a student who qualifies for both FSA funds and for vocational rehabilitation assistance funds, you should determine the student's package exclusive of both the costs related to the student's disability and anticipated vocational rehabilitation assistance. In this way, the student with disabilities will be offered the same aid package as a student who is in the same financial situation but who doesn't have disabilities; the student with disabilities will also receive the maximum amount of vocational rehabilitation aid to which he or she is entitled. If the vocational rehabilitation agency doesn't fully meet the student's disability costs, you may wish to include the unmet disability expenses in the student's cost of attendance, and increase his or her aid award.

Although the vocational rehabilitation funds shouldn't be considered estimated financial assistance when you initially package aid for the student, you must coordinate funds available from the vocational rehabilitation agency and from institutional, state, and federal student financial assistance programs to prevent an overaward. The amount of assistance from the vocational rehabilitation agency must be documented in the student's file.

Coordination with Bureau of Indian Affairs grants

When packaging campus-based aid for a student who is or may be eligible for a Bureau of Indian Affairs (BIA) grant, you must first develop a financial aid package without considering any BIA funds. If the total aid package—after BIA funds are added—does not exceed the student's need, no adjustment may be made to the aid package. If the total package plus the BIA grant does exceed need, you must eliminate the excess in the following sequence: loans, work-study awards, and grants other than Pell Grants. (You may *not* reduce a Pell Grant or BIA grant.) You may alter this sequence of reductions upon the student's request if you believe it would benefit the student. We encourage you to consult with area officials in charge of BIA postsecondary financial aid when packaging FSA funds with BIA grants.

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 identify contingency operations that qualify for benefits under Chapter 1607.

Vocational rehabilitation agreements with state agencies

Some state vocational rehabilitation agencies have established agreements with schools that specify how vocational rehabilitation assistance will be coordinated with other forms of financial aid. Check with your school's vocational rehabilitation coordinator to see if it has such an agreement.

Vocational Rehabilitation Packaging

Trevor has \$4,000 in vocational rehabilitation aid for the 07-08 academic year. At Friedman University, Trevor has a COA of \$5,000. He is eligible for a \$4,000 Pell Grant. Friedman must coordinate funding with the vocational rehabilitation agency to ensure that Trevor's total financial aid package, including both Title IV and vocational rehabilitation, does not exceed his need. Trevor has \$2,000 of disability costs that are not met by his vocational rehabilitation award, so \$2,000 may be added to his COA.

BIA Grants

34 CFR 673.6

Packaging Byrd Scholarships with other FSA funds

Under Byrd regulations that took effect in September 1993, the State Education Agency awarding the Byrd Scholarship must ensure that the total amount of federal financial aid awarded to the Byrd Scholar does not exceed the scholar's total cost of attendance. If any federal loans are part of the scholar's financial aid package, they must be reduced prior to reducing the Byrd Scholarship. If the scholar is receiving a Pell Grant, though, the Byrd Scholarship must be reduced prior to reducing the Pell Grant. Section 419 J of the Higher Education Act, as amended, states that a Federal Pell Grant must not be reduced on the basis of the receipt of a Byrd Scholarship.

**Reserve Educational Assistance Program
(REAP/Chapter 1607)**

DCL GEN-05-16

As with all veterans benefits, Chapter 1607 benefits are not taxable and will not be used in the EFC calculation. However, Chapter 1607 benefits are considered EFA under the Campus-Based regulations (34 CFR 673.5) and under the FFEL and the Direct Loan Program regulations (34 CFR 682.200 and 34 CFR 685.102).

A school must account for REAP/Chapter 1607 benefits as “estimated financial assistance,” beginning with the 2005-2006 award year, excluding retroactive payments made for previous award years.

TREATMENT OF OVERAWARDS

Campus-based overaward thresholds

Campus-based aid need not be reduced if the overaward doesn't exceed \$300, which is the overaward threshold for all Campus-based programs. Note that the \$300 threshold is allowed only if an overaward occurs after Campus-based aid has been packaged and the school was unaware, the student would receive additional funds.

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 5 - Overawards, Overpayments, & Withdrawal Calculations.)

If, at any time during the award period, the student receives additional Estimated Financial Assistance that were not considered in calculating the student's eligibility for Campus-Based and/or ACG/SMART aid and if the Estimate Financial Assistance combined with the expected financial aid will exceed the student's need, the amount in excess of the student's need is considered an overaward.

The treatment of overawards in the Stafford/PLUS programs depends on whether the loans have been fully disbursed. See Chapter 1 of *Volume 5* of the *FSA Handbook* for a full discussion of overawards.

There is a \$300 overaward tolerance for the Campus-Based programs. If the student's package is overawarded by \$300 or less (as a result of a late outside award, not the school's awarding methodology) and Campus Based funds are part of the package, you can consider the student to not be overawarded; however, this overaward tolerance does not apply if the student has a ACG/SMART grant as part of his/her aid package.

ACG/SMART Overaward limitation

HEA 401A(d)(1)(B)(i)

34 CFR 691.62(c)

Introduction to Volume 4

The purpose of this publication is to provide participating schools with guidance on how to request, disburse, manage and report on the use of Federal Student Aid funds.

Here, we provide a summary of the changes and clarifications presented in greater detail in the chapters that follow. **Alone, the text herein does not provide schools with the guidance needed to satisfactorily administer the Title IV, HEA programs.** For more complete guidance, you should refer to the text in the chapters cited, the Code of Federal Regulations (CFR) and the Higher Education Assistance Act (HEA) as amended:

Throughout this volume, new information is indicated with the following symbol:



When the text represents a clarification rather than a change, it is indicated with this symbol:



When we believe that historically there might be some misunderstanding of a requirement, we indicate that with:



or



Finally, if we want to point out a bit of helpful information we indicate it with:



Major Changes

On February 8, 2006, the president signed The Higher Education Reconciliation Act of 2005 (HERA). Effective July 1, 2006, HERA established two new types of grants for certain Pell Grant-eligible college students:

1. The Academic Competitiveness Grant (ACG), and
2. The National Science and Mathematics Access to Retain Talent Grant (National SMART grant).

In addition, the HERA created a new category of eligible PLUS loan borrowers – graduate and professional students.

Chapter 1 – The MPN and the Stafford/PLUS Loan Process

- ☛ We explain that as a result of the HERA, for loans certified or originated on or after July 1, 2006, graduate and professional students are now eligible to borrow under the PLUS Loan Program in both the FFEL and Direct Loan programs.
- ☛ We have added a section explaining the processing of PLUS loans for graduate and professional students.
- ☛ We note the limitations on using the multi-year feature of the PLUS MPN at foreign schools.
- ☛ We explain what graduate/professional students must do in order to be eligible to apply for PLUS Loans.

Chapter 2 — Disbursing Federal Student Aid Funds

- ☛ We remind schools that a student begins earning Title IV funds on his or her first day of attendance, and that even if a student withdraws before a school's census date, the school must perform a Return calculation using the number of days or the number of scheduled clock hours the student attended class as the numerator in STEP 2, Part H.
- ☛ We remind schools that they must return funds disbursed to a student who failed to begin attendance immediately after discovering that he or she failed to begin attendance, and that a school may not ignore information available to any office at the school indicating that a student failed to begin attendance.
- ☛ We explain that the statutory provisions providing schools with low default rates leeway in disbursing Stafford loans have been restored.
- ☛ We explain what information a school must provide when it contacts a student before making a late disbursement of Title IV funds.
- ☛ We describe the flexibility schools have in contacting students before making late disbursements.

- We describe the conditions under which a school may make a late disbursement of ACG or National SMART Grant funds.

Chapter 3 – Requesting and Managing FSA Funds

No major changes.

The MPN and the Stafford/ PLUS Loan Process

CHAPTER 1

In this chapter, we'll cover the process of making a loan, describing the actions and information required of the borrower, parent, and school. The order of the elements that we list below may vary from school to school or between the FFEL and Direct Loan programs, but each of the elements is required to make a loan.

The Higher Education Act of 2005 (HERA) made a number of changes to the terms and conditions of Stafford and PLUS loans. Until revised Stafford and PLUS Master Promissory Notes (MPNs) reflecting the changes made by the HERA are developed, promissory note addenda explaining the HERA changes must be used with the current Stafford and PLUS MPNs. In addition, the Stafford and PLUS Plain Language Disclosures (PLDs) have been revised to explain the HERA changes to borrowers receiving loans made under previously signed MPNs.

For additional information on the use of the promissory note addenda and revised PLDs, as well as copies of these documents, refer to DCL FP-06-05 for the FFEL Program, and to the Electronic Announcement posted on 05/19/2006 that can be found at

<http://www.ifap.ed.gov/eannouncements/0519HERAOPSGUIDEPNOTE.html>

STUDENT APPLIES FOR AID & COMPLETES MPN

A student who wishes to receive a Stafford Loan must complete a Free Application for Federal Student Aid (FAFSA) and a Master Promissory Note (MPN). Depending on the lending program, a student may obtain an MPN from a school, a lender, guaranty agency or the Department. Because an MPN can be used to make multiple loans for multiple years of borrowing, the loan amount and loan period are not reported on the MPN.

In the traditional paper process, a Stafford MPN might be completed at the school by the student and submitted to the lender or school. In other cases, the school certifies or originates the loan based on the student's acceptance of the aid package, and the lender, the school or ED sends the MPN to the student for his or her signature. Regardless of the method used, the *Borrowers' Rights and Responsibilities Statement* must be provided to the student with the MPN.

Paper copies of MPN

Copies of the Master Promissory Note are provided to borrowers and schools by lenders and guarantors (for FFEL) or the Department (for Direct Loans). Ordering instructions for Direct Loan schools are posted under "Publications and How to Order" on the Schools Portal (fsa4schools.ed.gov).

Cites
 FFEL: 34 CFR 682.401(d)
 DL: 34 CFR 685.402(f) and definition of *Master Promissory Note* 34 CFR 685.102.

For your reference, sample copies of the MPN and related materials are available online :

FFEL Stafford Loan
<http://ifap.ed.gov/dpccletters/GEN0207.html>
 Direct Stafford and PLUS loans
<http://www.ed.gov/DirectLoan/mpn.html>
 DL MPN on the Web
<http://dlenote.ed.gov>

Power of Attorney completing the MPN

A third party with *power of attorney* for the borrower may sign the promissory note if the borrower is unable to sign. Use of a power of attorney when signing an MPN limits the use of the MPN to one loan. If the borrower submits his or her MPN through the school, the school must retain a copy of the original power of attorney and submit a copy of the power of attorney with the MPN to the loan holder. A photocopy or a fax of the power of attorney is acceptable.

If the note is signed with a power of attorney, the student must authorize the school in writing to credit the loan funds to his or her account at the school. In addition, the school must pay any remaining balance to the student for living expenses.

See Chapter 3 for further discussion of ED approval needed to use a power of attorney for disbursements.

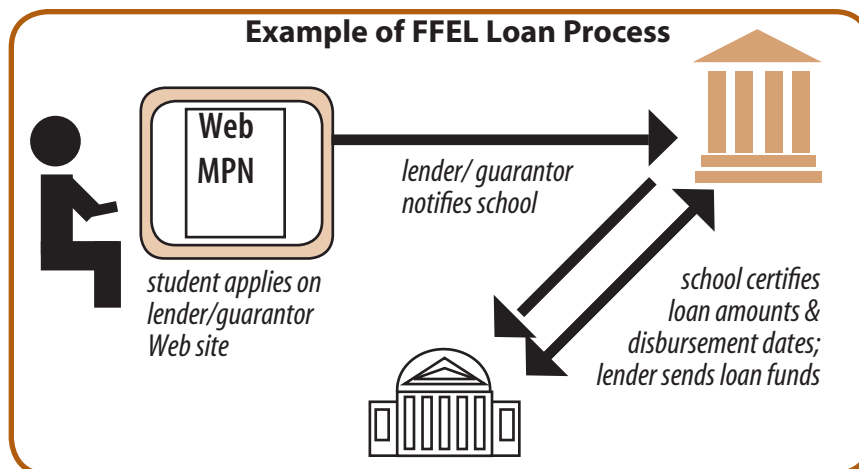
Schools may also offer borrowers the option of completing and signing an electronic MPN. (Note, however, that schools may not require borrowers to use an electronic MPN. A borrower who wishes to complete a paper MPN must be given that option.) In most cases, the promissory note will be completed through a Web site, and the organization operating the site will be responsible for authenticating the borrower and obtaining the borrower's electronic signature. In the Direct Loan program, you can notify ED if you want it to accept electronic promissory notes for your school, and whether you want ED to only accept electronic promissory notes for borrowers who have an origination record from your school. Student and parent borrowers can log onto the Web and complete the MPN for Direct Stafford and PLUS loans at

<http://dlenote.ed.gov>.

If your school participates in the FFEL program, you should make arrangements with participating lenders or another intermediary (such as a guarantor Web site or ELM) for the receipt of electronic documents.

In the FFEL program, electronic completion of the MPN does not always include electronic signatures. A school or borrower could require/insist upon "wet" signature even if the MPN is otherwise completed electronically. In the Direct Loan Program, a borrower who wishes to complete an electronic MPN must sign the MPN electronically. If a school or borrower does not want an MPN signed electronically, a paper MPN must be completed.

If a borrower is completing and signing the promissory note at a Web site, using the Department's PIN or an alternate signature process provided by the intermediary's Web site, the *Borrowers' Rights and Responsibilities* statement must be incorporated into the electronic process. In most cases, the intermediary operating the Web site will notify you when a student completes the promissory note online and designates your school.



Required borrower information on MPN

The MPN collects identifying information for the borrower, including name, permanent address, date of birth, Social Security Number, driver's license number and two references with U.S. addresses. Some of this information may be preprinted on the MPN. The borrower must read, sign, **and date** the MPN.

In completing the FFEL MPN, the borrower must also provide the name of a lender. As a convenience, many schools give their borrowers a list of lenders who have made loans to students at the school. However, a **borrower has the right to choose his or her lender, even if that lender is not one that the school has previously used and a school may not refuse to certify a loan based on a borrower's choice of lender or guarantor.** (Section 432(m)(1)(B) of the HEA.)

Using the MPN for multiple loans within an academic year

Note that the MPN may be used to make multiple loans within the same academic year. Even schools that are not authorized or choose not to use the multi-year feature of the MPN can make more than one loan under an MPN within the same academic year.

Important

Special notes about Direct PLUS MPNs for graduate/professional borrowers:

Graduate and professional borrowers completing a Direct PLUS master promissory note (MPN) electronically should select ***Complete New MPN for Student Loans*** on the left-hand side of the page on the Direct Loan eMPN Web site (www.dlennote.ed.gov) then choose the Graduate PLUS option.

Graduate and professional borrowers completing a paper Direct PLUS MPN do not have to complete the U.S. Citizenship Status box, Question 7, in Section A of the form.

MULTI-YEAR USE OF THE MPN & WHEN A NEW MPN IS REQUIRED

The MPN, when used as a multi-year document, enables student and parent borrowers to get additional loans without having to sign a new MPN.

There are several circumstances that require a borrower to complete a new MPN. A new MPN is required if the borrower's lender (for an FFEL) changes, unless the lender changes as a result of a merger or acquisition. A new MPN is also required in certain transfer situations where:

- the borrower transfers to a school that is not eligible to use, or chooses not to use, the multi-year feature of the MPN.
- the borrower transfers from an FFEL school to a Direct Loan school, and there's no valid Direct Loan MPN on file with ED. Similarly, a borrower would need a new MPN if transferring from a Direct Loan to an FFEL school, unless there is a valid MPN on file with the lender that the borrower uses. (New MPNs would also be required if the school itself changes from using DL to FFEL or vice versa.)

Lender of Last Resort

A student who is otherwise eligible for a subsidized Stafford loan and, after not more than two rejections, who has been unable to find an FFEL lender willing to make such a loan, should contact the guaranty agency in his state of residence or the guaranty agency in the state in which his school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity and must respond to the student within 60 days. An LLR cannot make a loan that exceeds the borrower's need, and it is not required to make a loan for an amount less than \$200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards.

Each guaranty agency is required to develop rules and procedures for its LLR program.

- a school's lender requests that a school no longer use the multi-year feature of the MPN.

Also, borrowers may request their MPN be an annual MPN, or may request that no additional loans be made using their current multi-year MPN. Requests that no additional loans be made using current multi-year MPNs must be in writing.

In some cases, a new MPN will have to be executed because the maximum period for use of the MPN has expired. At Direct Loan schools, additional loans may no longer be made under an MPN after the earlier of:

1. the date ED or the school receives the borrower's written notification that no further loans may be made;
2. if no disbursement is made during the 12-month period, one year after the date ED received the MPN; or
3. ten years after the date ED received the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

Lender of last resort cite

34 CFR 682.401(c)

Note: Although the Direct Loan Program regulations allow the second and third expiration conditions to be based either on the date the borrower signed the MPN or the date COD receives the MPN, COD currently uses the date the MPN is received.

Declining the use of the multi-year MPN

Schools are not required to use the multi-year feature of the MPN. You may decide that you want some or all of the borrowers at your school to sign a new MPN each year. If this is the case, you should notify your lenders. (Also note that lenders have the option to require a new MPN for each loan.) If you're at a Direct Loan school and don't want to use the multi-year feature for any of your students, contact the COD School Relations Center. See Direct Loan Bulletin DLB-03-02.

Student loan borrowers may decline to use the multi-year feature of the MPN. Borrowers may also cancel authorization for subsequent loans to be made under an MPN after the first loan is made by notifying the school or lender (for FFEL) in writing. Direct Loan borrowers may send their written notification to the Direct Loan Servicing Center (DLSC) or to their school to forward to COD. The effective date is the date the school, lender, COD, or DLSC receives the written cancellation request. If the borrower cancels the multi-year authorization on a loan that has not been completely disbursed, the school may make remaining disbursements on existing loans, unless the borrower tells the school to cancel or adjust the disbursements. To obtain additional loans, the borrower will need to complete a new MPN.

At FFEL Program schools, additional loans may no longer be made under an MPN after the earlier of:

1. the date the lender receives the borrower's written notification that no further loans may be made;
2. if no disbursement is made during the 12-month period, one year after the date the borrower signed the MPN; or
3. ten years from the date the student signs the MPN. If a portion of a loan is made on or before the 10-year limit, remaining disbursements of that loan can be made.

A crucial step in multi-year use of the MPN is the confirmation process. Confirmation helps the student or parent maintain control over the borrowing process. The confirmation process may be designed to be part of the required notices and disclosures (discussed in chapter 2), or it may be a separate process that supplements those notices and disclosures.

To help ensure student borrower control over the borrowing process, a student borrower must accept, either actively or passively, the loan amount offered.

- **Active confirmation** — the school does not disburse the loan until the borrower either affirmatively requests or accepts the proposed loan type and amount or requests changes to the proposed loan package.
- **Passive confirmation** — the school does not disburse the loan until the borrower is notified of the proposed loan package and the time given to the borrower to respond has elapsed. (The notification can come from the school, lender and/or guarantor.) The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may be used as part of either an active or passive confirmation process. For active confirmation, the borrower would be asked to confirm the loan amount offered by responding to your school's offer. For passive confirmation, the borrower would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

Consumer information for the borrower

Borrowers need to be fully advised on the costs and responsibilities of borrowing.

Accordingly, the law requires that the borrower receive the following information:

1. At the same time as the MPN, a **Borrower's Rights and Responsibilities Statement**.
2. At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans (usually provided by the lender or by COD).
3. For any subsequent loans provided under an existing MPN, a **Plain Language Disclosure** (PLD) provided by the lender or ED. (The PLD is an abbreviated version of the **Borrower's Rights and Responsibilities Statement** that was provided along with the MPN.)

Some of this information should be reviewed with the borrower as a part of entrance and exit counseling (see *Volume 2, School Eligibility and Operations*).

ESTABLISHING A CONFIRMATION PROCESS FOR YOUR STUDENTS

As long as regulatory requirements and the Department's guidelines are met, schools, lenders, and guarantors are free to establish their own confirmation process — for example, a process that combines elements of active and passive confirmation and/or a shared responsibility among the school, lender and/or guarantor. Schools and the lending community have considerable discretion in setting up these processes, including the timing of confirmation, provided the goals of the confirmation process are accomplished.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are disbursed or at some other appropriate time. The confirmation process could cover the entire loan for the academic year or loan period or, instead, could require that the student confirm each loan disbursement. DCL GEN 98-25 provides examples of each of these confirmation approaches.

The most effective processes will likely vary among schools. Participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, card technologies and voice response.

Generally, schools (in both the Direct Loan and FFEL programs) should use the same confirmation process for all borrowers. However, in some cases, a school may want to establish more than one confirmation process to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students. For example, a school could have a policy that requires active confirmation for undergraduate students and passive confirmation for graduate students.

Regardless of the process(es) used, schools and FFEL lenders must document their confirmation procedures. A school (and lenders in the FFEL Program) must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely, because it must be submitted to the Department, upon request, if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information just as they do for other school policies, such as refunds and academic progress.

Changes due to the HERA

As a result of the HERA, for loans certified or originated on or after July 1, 2006, graduate and professional students are now eligible to borrow under the PLUS Loan Program in both the FFEL and Direct Loan programs. Note that the HERA did not create a new loan program, it made a new group of borrowers eligible to participate in the existing loan program.

Note on terminology

Unless otherwise noted, the terms **PLUS** and **PLUS borrower** refers to both parent and graduate/professional PLUS borrowers.

PLUS MPN

Parents and graduate/professional students applying for a PLUS loan must complete a PLUS Application and Master Promissory Note. All student PLUS borrowers must complete a FAFSA. A parent borrower must complete a FAFSA if required by their child's school. All PLUS borrowers must receive the *Borrowers' Rights and Responsibilities Statement* with the loan application.

Note: Loan counseling requirements do not apply to PLUS borrowers.

At U.S. domestic schools a parent may obtain additional loans for the same dependent student based on the original MPN for up to 10 years after the date the parent first signed it under the same conditions discussed for the Stafford Loan MPN under *Multi-year use of the MPN* and *When a new MPN is required*. A separate PLUS MPN is required for each dependent student, or if both parents want to borrow individually on behalf of the same student. A new PLUS MPN would also be required under the same conditions discussed for the Stafford Loan MPN under *Multi-year use of the MPN* and *When a new MPN is required*. A graduate or professional student PLUS borrower may also obtain additional loans under the original MPN for up to 10 years after the date the MPN was signed.

If a graduate or professional student PLUS borrower is also a parent who is borrowing a PLUS Loan for one or more dependent students, the borrower must sign one PLUS MPN to borrow for himself/herself and a separate PLUS MPN to borrow for each dependent student. As with parent PLUS borrowers, a student PLUS borrower may choose to sign a new PLUS MPN for each new PLUS loan even if that would not otherwise be required. A school or lender may also require a new PLUS MPN for each new PLUS loan.

PLUS MPN approval for foreign schools

Foreign schools must get approval from ED to be able to use the multi-year feature of the PLUS MPN. If the foreign school does not have this approval, the parent will have to sign a new PLUS MPN for each new loan period.

Grad PLUS MPN at foreign schools

A graduate or professional student attending an eligible foreign institution will only be able to use the multi-year feature of the PLUS MPN if the school has been expressly approved by the Department to have its student and parent borrowers do so. No eligible foreign institution is approved for this purpose at the current time. As a result, until the Department approves foreign institutions for this purpose, a graduate or professional student PLUS borrower attending an eligible foreign institution will need to sign a new PLUS MPN for each new loan period.



Establishing Grad/Professional Eligibility

The terms and conditions applicable to Parent PLUS Loans also apply to Graduate/Professional PLUS loans. These requirements include a determination that the applicant does not have an adverse credit history. In order to establish eligibility to apply for graduate/professional PLUS Loans students must also –



- complete a Free Application for Federal Student Aid (FAFSA); and
- apply for the annual loan maximum eligibility under the Federal Subsidized and Unsubsidized Stafford Loan Programs.

Note that a graduate or professional student is not required to receive Federal Stafford Loan funds as a condition for receiving a Federal PLUS Loan, and a school may not require a graduate or professional student to receive Federal Stafford Loan funds before the student may apply for a Federal PLUS Loan.

PLUS borrower certification

Because a parent or graduate/professional student may borrow up to the student's cost of attendance minus other estimated financial assistance for the loan period, it is especially important that the parent or student borrower specify the amount that he or she wants to borrow. Each school and lender must establish and document the process by which one of the parties will collect the requested loan amount from PLUS Loan borrowers. A PLUS loan may not be made for more than the amount the borrower requests.

Your school must collect this information before certifying the PLUS Loan and may use various means such as the PLUS Certification form (for FFEL – see sidebar), a borrower response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests or other means. If your school participates in the FFEL program, you may also make arrangements with FFEL lenders for them to collect this information from PLUS borrowers before approving the loan.

Whether your school or the lender collects the information, you must establish and document how the PLUS borrower's loan amount request will be collected. You (or the lender) also must maintain a record of any requests by the borrower (in writing, by phone or electronically) for any adjustment to the loan amount.

For parent PLUS applicants, before certifying the loan, you must determine the Title IV eligibility of the dependent student on whose behalf the parent is borrowing. Moreover, because a parent may not borrow on behalf of a student who is ineligible for Title IV aid, for a parent PLUS

PLUS Certification Form (FFEL only)

The Department has developed a paper *Federal PLUS Loan Information and School Certification* (PLUS Certification form) to be used by FFEL schools that do not complete loan certification electronically. This form was approved as part of the PLUS MPN documents package and is printed and distributed by lenders and guaranty agencies.

The PLUS Certification form includes a *Borrower and Student Information* section. If you elect to secure the loan information and initiate the process, you may send the Certification form to the borrower for completion of the borrower/student information. Alternatively, if the lender or guarantor secures this information, the borrower/student section would be pre-filled and you would only secure the borrower's signature and provide the school certification data.

Loan, you must not certify the application until you have obtained the dependent student's complete financial aid history. Also, when certifying a parent PLUS loan, you must certify the dependent student's enrollment status and anticipated completion/graduation date.

Your school must confirm the student's dependency status when determining whether a parent is eligible to borrow under the PLUS Program or the dependent student is eligible for additional unsubsidized Stafford loan limits.

If your school participates in the FFEL program and is eligible to use the multi-year PLUS MPN, the borrower's PLUS Loan request for subsequent years is sufficient documentation to make additional loans—there is no separate confirmation process for PLUS loans—but the PLUS borrower's PLUS Loan amount request must be secured for each loan made using an MPN. Direct Loan schools using the PLUS Loan MPN as a multi-year note are required to have an active confirmation process.

Adverse credit history & use of endorser

To borrow a PLUS Loan, the applicant must not have an adverse credit history. Adverse credit is defined in the regulations as the applicant being 90 days or more delinquent on a debt or having been subject in the last five years to a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment or write-off of an FSA debt. The absence of any credit history is not considered adverse credit. FFEL lenders may establish more restrictive credit standards for determining adverse credit.

When determining whether a PLUS borrower is ineligible for a PLUS Loan based on an adverse credit history, the lender, or the Department for Direct Loans, must obtain a credit report on the parent from at least one national credit bureau. To provide a more accurate determination of adverse credit, the report must be obtained within a timeframe reasonably related to the loan period. If the PLUS borrower requests additional funds for an existing loan period (resulting in a loan amount adjustment, not a new loan), the lender is not required to obtain a new credit report, but may elect to do so.

If a PLUS borrower has an adverse credit history, the applicant has the option of receiving a PLUS Loan using an endorser who does not have an adverse credit history. If an endorser will be used, a separate Endorser Addendum is required for each PLUS Loan. Any loan that requires an endorser must be made under a new PLUS MPN, with a new Endorser Addendum, because the endorser is liable only for the specific loan or loans he or she has agreed to endorse. The Endorser Addendum includes the requested loan amount. Any increase in the requested loan amount by the parent borrower must be approved by the Endorser and requires a new MPN and Endorser Addendum.

Additional eligibility for dependent students whose parents cannot borrow PLUS

If a dependent student's parents have not been able to borrow a PLUS loan, the student may be eligible for higher unsubsidized Stafford borrowing limits. See *Volume 3, Chapter 4*.

SCHOOL CERTIFIES/ORIGINATES A STAFFORD LOAN

School Responsibilities

Certifying an FFEL:
34 CFR 682.603
Originating a Direct Loan:
34 CFR 685.301

The school's primary responsibility in the loan application process is to certify that the borrower is eligible for the loan amounts requested based on annual and aggregate loan limits. In addition, if your school initiates or receives an MPN, it must ensure the completeness and accuracy of the MPN based on information it has available to it.

In Direct Loans, the certification information is part of the loan origination record sent electronically through COD. An FFEL school may submit the certification to the lender electronically or on the paper Federal Stafford Loan School Certification form. You must provide this certification each time you make a loan under an MPN.

Certifying eligibility

You must certify that a student is an eligible borrower (see *Volume 1—Student Eligibility*). The school's certification also includes the borrower's grade level, loan period and the amounts of the disbursements (using the rules described in *Volume 3, Chapter 4*), as well as the borrower's enrollment status and anticipated completion/graduation date.

For Stafford loans, if a student previously attended another college, check the student's financial aid history on NSLDS before disbursing funds to ensure that the student has remaining eligibility under the maximum loan limits. (See the discussion of annual and aggregate loan limits in *Volume 3, Chapter 4*.)

Schools are no longer required to provide need analysis information to the lender. However, you must document the student's cost of attendance, Expected Family Contribution and estimated financial assistance in the student's file. This information must be made available to the lender, the guarantor or the Department upon request.

You may not certify a loan for more than the:

- amount the borrower requests,
- borrower's unmet financial need (see *Packaging* in *Volume 3, Chapter 6*),
- borrower's cost of attendance, or
- borrower's maximum borrowing limit (as discussed in *Volume 3, Chapter 4*).

Certification Options During Verification

If you have reason to believe that the information included on the FAFSA is inaccurate, you may not certify, originate or disburse a Stafford Loan for the student until he or she verifies or corrects the information.

If you have no reason to believe that the information included on an application is inaccurate prior to verification, regardless of whether ED-selected or school-selected, you have the option of certifying or originating a Stafford Loan, but the loan funds may not be disbursed until verification has been completed.

Cite
34 CFR 668.58

If a subsidized Stafford Loan applicant has been selected for verification, whether by ED or the school, you may wait until verification has been completed to certify/originate the Stafford Loan, or you may certify/originate if there is no information that conflicts with that provided by the applicant. If you choose to certify/originate the loan without waiting for verification, you may not credit the loan funds to the borrower's account or pay the borrower directly until verification has been completed.

Refusing to originate or certify a loan

On a case-by-case basis, you may refuse to certify/originate the loan for a borrower. Similarly, you may certify/originate a loan for an amount less than the borrower's maximum eligibility. However, you must ensure that these decisions are made on a case-by-case basis, and don't constitute a pattern or practice that denies access to borrowers because of race, sex, color, income, religion, national origin, age, handicapped status or selection of a particular lender or guarantor. Also note that your school cannot engage in a practice of certifying Stafford loans only in the amount needed to cover the school charges, or to limit unsubsidized Stafford borrowing by independent students.

When you make a decision not to certify/originate a loan or to reduce the amount of the loan, you must document the reasons and provide the explanation to the student in writing.

A financial aid administrator should be aware of the responsibility incurred in certifying/originating a loan. **The school, not the lender, determines the student's or parent's eligibility for a Stafford or PLUS Loan.** (An eligible foreign school is also responsible for determining eligibility, although such schools may contract with a guaranty agency or a consultant for assistance.) Schools that certify/originate loans for ineligible borrowers, or for loan amounts that exceed loan limits or the borrowers's need, are subject to administrative actions such as a fine, limitation, suspension and termination, as well as liabilities such as repayment to the government of interest and special allowance costs it has paid on the ineligible loans.

**Authority to refuse to originate/
certify a loan cite**

FFEL 34 CFR 682.603(e)

Direct Loans 34 CFR 685.301(a)(7)

Checklist for Loan Certification

For all Stafford and PLUS Loan applications, the school must:

- confirm that the student (and parent) meet the definition of eligible borrower, including –
 - ✓ determining the student’s enrollment status and satisfactory academic progress status,
 - ✓ reviewing the NSLDS information on the ISIR to ensure that the student (or both the student and parent in the case of a PLUS Loan) is not in default on any FSA loan and does not owe a refund on any FSA grant or scholarship and will not exceed the annual or aggregate loan limits applicable to the borrower,
- ensure that the amount of the loan, in combination with other aid, will not exceed the student’s financial need or the annual or aggregate loan limit.

For a Stafford Loan, the school must also:

- determine the student’s Pell Grant eligibility (for a subsidized Stafford Loan, the need analysis must use an official EFC calculated by the Department to determine the student’s financial need), and if eligible, include the grant in the student’s aid package,
- for an unsubsidized Stafford Loan, first determine the student’s eligibility for a subsidized Stafford Loan,
- prorate the Stafford annual loan limit for an undergraduate enrolled in a program of study that is shorter than an academic year, or a remaining period of study that is less than an academic year in length, and
- ensure that the loan disbursement dates meet the cash management and disbursement requirements for Stafford Loans.

Pushed cash schools must return funds

In general, a school may use the federal cash it draws down for any eligible student. However, all cash that ED sends to a school through the pushed cash method are student specific. They are intended solely for disbursement to the students specified on the *Funded Disbursement Listing* report.

If you do not disburse the funds to the intended recipients (on the *Funded Disbursement Listing Report*), you must return those funds as excess cash to ED.

SCHEDULING LOAN DISBURSEMENTS

Time frame for disbursing or returning loan funds

Though based on different regulatory requirements, when a school receives Direct Loan cash from the Department or FFEL cash through electronic funds transfer (EFT) the school must disburse the funds within three days or return the funds to the Department or the lender as appropriate.

Submission of Direct Loans award & disbursement data

Schools to which ED pushes cash do not request funds directly through GAPS. COD pushes funds (automatically sends electronic payments) through GAPS to these schools based on disbursement records submitted and accepted by COD. Similarly, schools on Reimbursement or Heightened Cash Management do not request funds directly through GAPS. These schools receive funds based on disbursement records accepted by COD and approved by a reimbursement analyst.

Schools that receive funds through the Advanced Payment method must request funds directly through GAPS. Advance Pay schools are not required to submit disbursements prior to requesting funds. These schools receive an initial Current Funding Level (CFL) against which they can draw funds. As these schools submit disbursement records that substantiate the school's drawdowns in a timely manner (within 30 days of the disbursement date) the school's CFL will increase to a level that should allow the school to request the funds it needs to make its scheduled Direct Loan disbursements.

In order to comply with the excess cash regulations, when requesting funds with which to make Direct Loan disbursements, schools must ensure they do not draw down more cash than they can disburse over the next three days.

Scheduling FFEL disbursements with a lender

The rules for when loan payments can be disbursed to borrowers are discussed in Chapter 2 of this volume. Once the anticipated dates of the disbursement to the borrower have been established, you can specify to the lender the dates on which you need to receive the loan funds. (In the certification process, the term "disbursement" usually refers to the transfer of funds from the lender to the school, but for purposes of the Handbook, we use the term when referring to the school's payment of funds to borrowers.)

In keeping with the standard 3-day turnaround time for payment of FSA funds to students, the Cash Management regulations stipulate that a school cannot ask the lender to provide the Stafford or PLUS loan funds via EFT or master check any sooner than 3 days before the earliest date that it is allowed to pay the funds to borrowers. Note that this rule parallels but is not the same as the excess cash rule at 34 CFR 668.166.

If you are requesting a check that requires the endorsement of a borrower, you may not ask the lender to provide the check any sooner than 30 days before it could be disbursed. (See sidebars.)

FFEL Lender/guarantor approval

The lender or guarantor will match the information included by the school on the certification (electronic or paper) to the MPN by comparing the borrower's identifying information. The lender or guarantor should check the permanent address information on the MPN to see if it has changed. The school must supply the borrower's cost of attendance, EFC and estimated financial assistance to the lender or guarantor upon request.

FFEL three-day rule

34 CFR 668.167(b)(2)

Requesting check from a Stafford lender that requires endorsement of the borrower

A school may not request a lender to provide it with Stafford loan funds earlier than:

- The first day of classes of the first payment period for a 1st-year, 1st-time Stafford borrower, or
- 30 days before the first day of classes for any subsequent payment period for a 1st-year, 1st-time Stafford borrower or for any payment period for all other Stafford borrowers.

PLUS: A school may not request a lender to provide it with PLUS loan funds earlier than 30 days before the first day of classes for any payment period.

Cite

(34 CFR 668.167)

Requesting EFT or master check from lender

Stafford: A school may not request a lender to provide it with Stafford loan funds earlier than:

- 27 days after the first day of classes of the first payment period for a 1st-year, 1st-time Stafford borrower, or
- 13 days before the 1st day of classes for any subsequent payment period for a 1st-year, 1st-time Stafford Loan Program borrower or for any payment period for all other Stafford borrowers.

PLUS: A school may not request a lender to provide it with PLUS loan funds earlier than 13 days before the first day of classes for any payment period.

Cite

(34 CFR 668.167)

Blanket Agreements for Guaranty Approval

A lender must receive guaranty agency approval for an FFEL in order for the lender to disburse the loan and, if applicable, be eligible for payment of federal interest benefits. Under the 1998 Amendments, a guaranty agency may offer eligible lenders participating in the agency's guaranty program a blanket guaranty that permits the lender to make loans without receiving prior approval from the guaranty agency for individual loans.

Cite
Section 428(n) of the HEA

The lender will also check to make sure that the school is eligible to use the multi-year feature of the MPN. If a borrower transfers to an eligible foreign school that is not eligible to participate in the multi-year process and continues to use the same lender, the lender is responsible for obtaining a new signed MPN for each loan at the new school.

An FFEL lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age or disabled status. However, a lender may decline to make loans to students who do not meet the lender's credit standards or to students at a particular school because of the school's default rate, or to students enrolled in a particular program of study. A lender may decline to make FFELs for less than a specified amount; for example, a lender could refuse to make a loan for less than \$500.

Once guaranty agency approval is obtained and the lender has determined that it has an active MPN for the borrower, the lender will send Stafford loan funds to your school in the appropriate amount for each disbursement to the borrower or parent. At the request of the borrower, the lender will send the funds directly to the borrower if he or she is enrolled in a foreign school. For a PLUS, loan funds are sent in at least two disbursements to the school by EFT or by a check made copayable to the school and the parent borrower.

Review of the Stafford MPN Process

The process for completing the MPN for a Stafford Loan and making the initial loan includes the following elements, though the process may be a bit different for the FFEL and Direct Loan Programs and some school and lender procedures may be in a slightly different order.

Student Applies for Aid.

The student fills out the FAFSA (or a renewal FAFSA) and an MPN for the initial loan.

School Determines Eligibility and Loan Amount.

The school confirms the student's eligibility for federal student aid, determines the loan period and loan amount and packages the loan(s) requested.

Certification/Origination.

For FFEL loans, the school certifies the student's loan eligibility. For Direct Loans, the school originates the loan

- In the FFEL Program, the loan is approved by the lender or guaranty agency.
- In the Direct Loan Program, the school submits an origination record to COD and receives an acknowledgment from COD.

Student completes MPN.

The student fills out an MPN for the initial loan.

- The Borrower's Rights and Responsibilities Statement must be given to the borrower with the MPN.

Disclosure & Entrance Counseling.

Either before or at the time of the first disbursement, the borrower must be given a disclosure statement with specific information about the types of loans the borrower is getting, anticipated disbursement amounts, anticipated disbursement dates and instructions on how to cancel the loans. (The disclosure is often provided by the lender or COD.)

- First-time Stafford borrowers must complete entrance counseling before a disbursement can be made. (See Volume 2, chapter 6.)

Disbursement to the Borrower.

The school (after checking that the borrower is still eligible) disburses the loan funds to the student's account or directly to the borrower, and notifies the borrower of each disbursement. (See chapter 2 of this Volume.)

☛ Making Subsequent Loans.

If the MPN is used as a multi-year note, a new MPN is not required for subsequent loans. However, your school must use a confirmation process (either active or passive) for subsequent loans, and the borrower must receive a Plain Language Disclosure, at or prior to the disbursement of any subsequent loans provided under an existing MPN. (The Plain Language Disclosure is usually sent to the borrower by the lender or COD.) If the MPN is not used as a multi-year note, a borrower completes a new MPN for each subsequent loan period.

Copies of the Master Promissory Note are provided by lenders, guarantors or the COD to borrowers and schools. For your reference, sample copies of the MPN and related materials are available online :

FFEL Stafford Loan MPN: <http://ifap.ed.gov/dpclatters/GEN0207.html>

Direct Stafford Loan MPN: <http://www.ed.gov/DirectLoan/mpn.html>

Disbursing Federal Student Aid Funds

CHAPTER 2

These rules apply to the following programs: Pell Grant, ACG, National SMART Grant, FSEOG, Perkins Loan, Direct Loan, FFEL. We have indicated when a rule applies to FWS. This chapter will discuss the rules for crediting Federal Student Aid (FSA) funds to the student's account and making direct disbursements to the student or to the parent (PLUS), with provisions for early disbursements, delayed disbursements and late disbursements.

NOTIFICATION OF DISBURSEMENT

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made. If the funds include a Stafford Loan (whether Direct Loan or FFEL), the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. A school must provide the best information that it has regarding the amount of FSA program funds a student can expect to receive. Because the actual disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), you may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

A school must also notify the student or parent in writing (in writing means on paper or electronically) when Perkins, Stafford or PLUS loan funds are being credited to a student's account. This notification must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account. The notification must include the:

- date and amount of the disbursement,
- student's (or parent's) right to cancel all or part of the loan or disbursement, and
- procedures and the time by which the student (or parent) must notify the school that he or she wishes to cancel the loan or disbursement.

Note that in the case of FFEL loan funds received from a lender by a means other than EFT payment or master check, the notice to the student or parent need not include information on the right of the student or parent borrower to cancel all or a portion of the loan. This is because

CHAPTER 2 HIGHLIGHTS

- ❖ **Notifications & Authorizations**
 - notification of disbursement
 - required student/parent authorizations
 - notification/authorization by electronic means
- ❖ **Method of disbursement**
 - credit to student's account (school may hold credit balance if authorized)
 - disbursement directly to student or parent
- ❖ **Disbursement rules**
 - timing of multiple disbursements
 - FWS students must be paid at least once a month
 - funds may be disbursed up to 10 days before classes begin (in most cases)
 - disbursements to 1st-time, 1st-year Stafford borrowers must be delayed 30 days
 - requirement to successfully complete coursework in clock-hour and nonterm credit-hour and certain nonstandard term credit-hour programs
 - school may make unequal FSEOG/Perkins disbursements to meet uneven costs
 - under certain conditions, late disbursements must be made to students
- ❖ **Prompt disbursement rules**
 - usually 3 day timeframe for school to disburse to student/parent after receiving funds
 - exception: school may delay returning Stafford/PLUS funds to lender in some cases
 - exceptions in case of verification
- ❖ **Related topics**
 - See *Volume 3* and *Volume 5*, chapter 2 for information on Post-Withdrawal Disbursements
 - See *Volume 4*, chapter 1 for information on loan disclosure statement (usually provided by lender or COD)
 - See *Volume 5* for discussion of payment periods if student reenters a program after withdrawing.

A note on terminology

Traditionally, the FFEL regulations have referred to the lender’s disbursement of funds to the school, and the school’s “delivery of the loan proceeds” to the student. More recently, the Cash Management regulations have used the term disbursement to refer to the payment of FSA funds to the 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, payment to the borrower.

Borrower notification via email

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

Proration of loan fees for returned FFEL funds

Anytime a school returns an FFEL disbursement or any portion of an FFEL disbursement to a lender, the origination fee and insurance premium are reduced in proportion to the amount returned.

If a student returns the full amount of a loan within 120 days of disbursement, the loan is cancelled and the origination fee and insurance premium are eliminated.

If a student borrower not in repayment returns an FFEL disbursement or any portion of an FFEL disbursement to the lender within 120 days after disbursement, the origination fee and insurance premium are reduced in proportion to the amount returned.

For information on how returning Direct Loans affects loan fees and accrued interest, see DLB-04-07.

FFEL 34 CFR 682.202(c)(7)(i); 682.209 DL 34 CFR 685.202(c)(4) & 685.211

a student or parent who receives a disbursement via check has the opportunity to refuse the funds by not endorsing the check or by returning it to the lender.

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

If the student or parent borrower wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor a request if it receives the request before the start of the payment period, or if it receives the request within 14 days after it sent the notice to the borrower. If the school receives a student’s or parent’s request for cancellation after these dates, the school may, but is not required to, honor the request. Regardless of when the request is received, the school must inform the student or parent of the outcome of the request.

When acting upon a loan cancellation request, your school must return the loan proceeds and/or cancel the loan as appropriate. A school is not responsible for returning any portion of a loan that was disbursed to a student or parent directly before the request for cancellation was received. However, you are encouraged to take an active role in advising the borrower to return the funds already received.

REQUIRED STUDENT/PARENT AUTHORIZATIONS

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

- Disburse FSA funds (including FWS wages) by EFT to a bank account designated by the student or parent.
- Use FSA funds (including FWS) to pay for allowable charges other than tuition, fees and room and board if the student contracts with the school.
- Hold an FSA credit balance.
- Apply FSA funds to minor prior-year charges.

A school may not require or coerce the student or parent to provide the authorization and must clearly explain to the student or parent how to cancel or modify the authorization. The student or parent may cancel or modify the authorization at any time.

A cancellation or modification is not retroactive—it takes effect on the date that the school receives it from the student or parent. If a student or parent cancels an authorization to use FSA program funds to pay for allowable charges other than tuition, fees and room and board (if

Notices and Authorizations cite

34 CFR 668.165(a)

the student contracts with the school), or minor prior-year charges, the school may use FSA funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible, but no later than 14 days after the school receives the notice.

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

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

Unless otherwise specified, a student or parent may authorize a school to carry out the activities for which authorization is provided for the entire period that the student is enrolled at the school. As mentioned above, a student or parent may cancel or modify an authorization at any time.

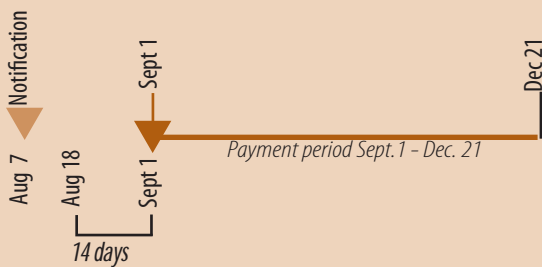
Self-Assessment Tool For Disbursement Procedures:

You can evaluate your Disbursement related procedures by referring to the Fiscal Management module of the FSA Assessments at:

<http://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html>

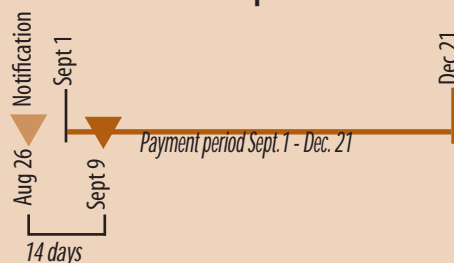
14-day cancellation period examples

Example 1



In the first example, the school notified the student that the loan was being disbursed 3 weeks before the payment period began. Since the notification was sent more than 14 days before the start of the loan period, the school must accept a loan cancellation request that is received anytime before the payment period begins.

Example 2



In the second example, the school did not send the notice until a week before the start of the payment period. Therefore, the school must cancel or reduce the loan if the student makes the request within 14 days (by September 9).

Defining the date of disbursement

(These rules apply to the FWS program as well)

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must notify a student of a loan disbursement no sooner than 30 days before the date of disbursement and no later than 30 days after the date of disbursement.

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

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

- FSA program funds received from the Department or an FFEL lender, or
- School funds labeled as FSA program funds in advance of receiving actual FSA program funds (except as noted below).

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

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

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

USING ELECTRONIC PROCESSES FOR NOTIFICATIONS & AUTHORIZATIONS

The Department continues to encourage and support schools' use of electronic recordkeeping and communications. So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically. You may also use an electronic process to provide required notices and make disclosures by directing students to a secure Web site that contains the required notifications and disclosures.

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

The individual notice must —

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

Of course, any time a school uses an electronic process to record or transmit confidential information or obtain a student's confirmation, acknowledgment or approval, the school must adopt reasonable safeguards against possible fraud and abuse. Reasonable safeguards a school might take include:

- password protection,
- password changes at set intervals,
- access revocation for unsuccessful log-ins,
- user identification and entry-point tracking,
- random audit surveys, and
- security tests of the code access.

The Gramm-Leach-Bliley (GLB) Act

requires that schools 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. (For information on the GLB Act, see *Volume 2, chapter 9*.)

THE E-SIGN ACT

E-Sign Act

The Electronic Signatures in Global and National Commerce Act (E-Sign Act) was enacted on June 30, 2000. The E-Sign Act provides, in part, that a signature, contract or other record relating to a transaction may not be denied legal effect, validity or enforceability solely because it is in electronic form, or because an electronic signature or electronic record was used in its formation.

Section 2 of the Department's *Standards for Electronic Signatures in Electronic Student Loan Transactions* provides some additional information on the applicability of electronic transactions to student loans.

You can find it at

<http://ifap.ed.gov/dpcletters/gen0106.html>.

The E-Sign Act permits lenders, guaranty agencies and schools to use electronic signatures and electronic records in place of traditional signatures and records that, under the HEA and underlying regulations, otherwise must be provided or maintained in hard-copy format.

The E-Sign Act provides specifically for the creation and retention of electronic records. Therefore, unless a statute or regulation specifically requires a school to provide or maintain a record or document on paper, your school may provide and maintain that record electronically. Similarly, unless a statute or regulation specifically requires schools to obtain a pen and paper signature, you may obtain the signature electronically as long as the electronic process complies with the E-Sign Act and all other applicable laws.

Before conducting electronic transactions that require financial information to be provided or made available in writing to a recipient of FSA funds, the recipient 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. (For example, if you are going to send financial information by email, you could send a request for consent to the recipient via email, require the recipient to respond in a like manner, and maintain a record of that response.) The recipient's consent must be voluntary and based on accurate information about the transactions to be completed.

Voluntary Consent Required

Voluntary consent to participate in electronic transactions is required for all financial information provided or made available to student loan borrowers, and for all notices and authorizations to FSA recipients required under 34 CFR 668.165.

METHOD OF DISBURSEMENT

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

Credit to the student's account

When a school disburses FSA program funds to a student by crediting a student's account, it may do so only for allowable charges.

Allowable charges include:

- current charges for tuition and fees as defined in *Volume 3, chapter 2* and room and board (if the student contracts with the school); and
- other current charges that a student has incurred for educationally-related activities if you obtain the student's written authorization or the parent's written authorization – in the case of PLUS loan funds).

If an educationally related charge does not meet the definition of tuition and fees as described in Section 472 of the HEA (with the exception of contracted room and board charges), the school must obtain the student's permission (or parent's, if applicable) to use FSA program funds to pay for the charge.

In general, FSA funds may only be used to pay for the student's costs for the period for which the funds are provided. However, you may credit a student's account to pay minor prior-year school charges if you get the student's or parent's written authorization to pay the prior-year charges. If the prior-year charges are \$100 or more, you must determine that disbursement would not prevent the student from paying for his or her current educational expenses (including both school charges and any other costs of attendance).

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

Method of disbursement cites

- Credit to students account: 34 CFR 668.164(c)
- Direct disbursements: 34 CFR 668.164(c)
- Releasing a Pell check: 34 CFR 690.78(c)
- Direct Loans credited to student charges before other costs: 34 CFR 668.164(d)(3)
- Cost of attendance: Section 472 of the HEA
- Prior-year charges: 34 CFR 668.164(d)

Current charges

Charges assessed by the school for the current award year or the loan period for which the school certified or originated an FFEL or Direct Loan.

Tuition and fees cite

Section 472 of the HEA

When disbursing FSA funds

to students enrolled in programs equal to or less than one year in which students do not receive grades or credits until the end of the program your school must –

1. have an SAP standard as described in Volumes 1 and 2 of the *FSA Handbook*;
2. measure a student's standing vis-a-vis SAP by the time the student has completed one-half of the program; and
3. not make second disbursements of FSA funds to a student who is not making satisfactory academic progress.

For programs greater than one year in length in which students do not receive grades or credits until the end of the program, your school must –

1. have an SAP standard as described in Volumes 1 and 2 of the *FSA Handbook*;
2. measure a student's standing vis-a-vis SAP at least once a year; and
3. not award FSA funds for any additional period to a student to a student who is not making satisfactory academic progress.

Crediting Direct Loan funds to student charges first

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

Direct disbursement to the student

Direct payments cite

34 CFR 668.164(c)

Self-assessment tool for disbursement procedures

You can evaluate your school's procedures by referring to *Disbursing Aid* in the *Managing Funds* module of *FSA Assessments*.

<http://ifap.ed.gov/qamodule/DisbursingAid/AssessmentE.html>

FWS Disbursements cite

34 CFR 675.16.

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

There are four ways that a school may disburse FSA funds directly to the student or parent:

1. *Issuing a check or other instrument* payable to and requiring the endorsement or certification of the student or parent (a check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup).
2. Initiating an *electronic funds transfer* (EFT) to a bank account designated by the student or parent (after fulfilling the requirement specified earlier under Required Student/Parent Authorizations).

We include transferring funds to stored-value cards and debit cards to disburse FSA funds under this method of direct disbursement. For more information on stored-value and debit cards, please see the discussion under Credit Balances later in this chapter.

3. Disbursing to the student in *cash*, provided that your school obtains a signed receipt from the student or parent, or
4. *Releasing a FFEL check* sent by a lender. A school may receive a borrower's Stafford Loan funds from a lender in the form of an individual bank check made payable to the borrower or co-payable to the borrower and the school. In the case of a co-payable check, the school and the borrower must endorse the check.

Co-payable PLUS Loan checks must be sent directly to a school by a lender. A school must disburse PLUS proceeds to a parent borrower within 30 days of receiving a check. However, a school is not required to endorse a PLUS check before sending it to a parent borrower. The school may require the parent borrower to endorse the check and return it to the school for the school's endorsement. The school then endorses the check, deposits it and disburses the funds.

Paying Pass-through Charges

The law allows a school to credit a student's account with FSA funds only to pay for institutionally provided housing. However, it is not necessary that the school actually own the student housing. The school may enter into a contract with a third party to provide the institutional housing.

If a school enters into a contract with a third party to provide institutional housing, the school may credit FSA funds to a student's account to pay for housing provided by a third party.

Keep in mind that other FSA requirements apply to both the funds used for the housing payment and to the physical location of the housing. For instance –

1. A school must include the cost of housing as an institutional charge in any Return calculation required when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment. (See *Volume 5, chapter 2*.)
2. The school is required to report statistics concerning the occurrence of crimes in the third party housing. (See *Volume 2, chapter 6*.)
3. The third party must comply with the civil rights and privacy requirements contained in the school's Program Participation Agreement. (See *Volume 2, chapter 3*.)

Credit balances cite

34 CFR 668.164(e)

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

Credit balances under \$1

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

Delivery of FSA funds must be cost-free

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

CREDIT BALANCES

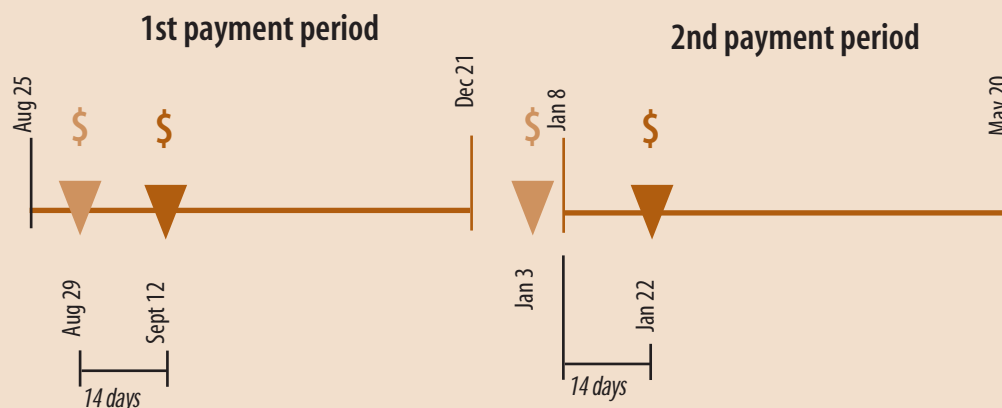
An FSA credit balance occurs whenever your school credits FSA program funds to a student's account and the total amount of those FSA funds exceeds the student's allowable charges.

Paying credit balances

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

- the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or
- the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

14-day timeframe for paying credit balances



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

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

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize your school (in writing) to transfer the proceeds of a PLUS Loan to a student directly or to a bank account in the student's name.

You have the latitude to determine which FSA program funds create an FSA credit balance. At this time, the Department does not specify how a school must determine which FSA program funds create an FSA credit balance, except to say that Direct Loan funds must be applied to unpaid institutional charges before they can be applied to other charges or disbursed to the student.

Please see *Volume 5* for a discussion of credit balances when a student withdraws.

FSA credit balance example

An FSA credit balance occurs only if the total amount of FSA program funds exceeds allowable charges

For example, Ms. Inu Nagar enrolls at Eaglewood Technical Institute as a computer student, and her total allowable charges for the fall term amount to \$1,500. ETI credits \$2,000 to her account, comprising \$1,000 in FSEOG, \$500 in private scholarship funds, and \$500 in Pell Grant funds. Although there is an excess of \$500 on the account, this does not constitute an FSA credit balance because the total amount of FSA funds (\$1,500) does not by itself exceed the amount of allowable charges (\$1,500).

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

Stored-Value and Prepaid Debit Cards (DCL GEN 05-16)

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.

Typically, a school enters into an agreement with a bank under which the bank issues stored-value cards directly to students identified by the school. In a payroll or credit balance transaction, the school 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 school's account to the bank, so long as the school 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.

Under the following conditions, a school may use stored-value cards as a way to make direct payments to students (such as credit balances and Federal Work Study (FWS) wages).

1. A school must obtain a student's authorization to use a stored-value card for paying credit balances or FWS wages, in the same way a school must obtain authorization before making an electronic funds transfer to a student's checking account.
2. The value of the card must be convertible to cash (e.g., a 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. We would not expect a school to limit the use of the card to specific vendors.
3. A student should not incur any fees for using the card to withdraw the disbursement 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 a 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.
4. A student should not be charged by either a school or the affiliated bank for issuing a stored-value card, but it would be reasonable if a student was charged for a replacement card.
5. 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.
6. In order for the disbursements to the stored-value card to be treated as payments made to a student, a school 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.
7. Since the stored-value card is being set up to disburse Federal Student Aid funds to a student, the 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.

A bank may wish to use its relationship with a 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.
8. A school must inform a student of any terms and conditions associated with accepting and using the stored-value card.
9. A school must ensure that its stored-value card process meets all regulatory time frames. (For example, a 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.)¹
10. A 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.

1. If a school fails to obtain a student's authorization, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations, and at no cost to the student.

When a school uses third-party servicers to disburse FSA funds

Schools 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 schools to provide these types of services in some instances become third-party servicers.

Additionally, in the contract between the school and the servicer, both parties must agree to comply with all statutory and regulatory provisions governing the FSA programs, and agree to be jointly and severally liable for any violation by the servicer of these provisions. Also, unless a third-party servicer has only one client, the servicer must submit an annual audit of the activities it performs on behalf of the school to the Department.

A third-party servicer is an entity that contracts with a school to administer any aspect of its FSA programs. Thus, if a school contracts with a company to perform activities that are the school’s responsibilities under the FSA programs, the company is a third-party servicer.

So long as a school cannot recall or receive a payment from an account that is not specifically initiated or authorized in writing by the student, the Department considers the electronic transfer of funds to a bank account a servicer opens on behalf of a student to be the equivalent of a school’s transfer of funds to a student’s account and the equivalent of making a direct payment to a student.

Schools are ultimately responsible

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

Important

Additional elements of a third-party agreement cite

34 CFR 668.25 (c).

Third-party servicer audits cite

34 CFR 668.23(c)

ED may prohibit holding credit balance

If the Department has placed a school on reimbursement or determines that the school has failed to meet financial responsibility standards, it may choose to prohibit the school from holding a credit balance for any student.

School-issued stored-value cards

When a school pays an FSA credit balance to a student by making those funds available through a **school-issued** stored-value card **over which the school exercises control**, the school is, in effect, holding a student’s FSA credit balance. Therefore, all of the conditions on holding credit balances apply.

Holding credit balances

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

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

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

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. The FSA regulations do not set specific rules for determining which funds created a credit balance. However, we encourage schools to return FSA funds to loan programs first to reduce the borrower’s loan balance.

Important

The school is permitted to retain any interest earned on the student’s credit balance funds.

Escheating prohibited—unclaimed funds

A school must take all reasonable measures to locate a student in order to deliver the student’s Title IV credit balance. When the student cannot be located, the school must ensure that FSA funds do not escheat to the state or revert to the school or any other party. For instance, if a check containing FSA funds is not cashed by the expiration date, the FSA funds must be restored to the applicable FSA program(s).

Undelivered Perkins funds

If a portion of the undelivered credit balance consists of Perkins funds, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income on line 24, Part III, Section A of the FISAP.

A school must have a process through which it identifies a credit balance that remains on a student's account beyond the payment deadline or is undelivered to the student (or parent, if applicable) and returns those funds to the FSA programs on behalf of the student. The search for the student should end and the refund/return to the Department (or lender in the case of FFEL funds) should be completed prior to the date the funds would otherwise escheat, but no later than a few days after a check to the student would cease to be negotiable (usually 180 days).

POWER OF ATTORNEY

Power of attorney in disbursing FWS and Perkins

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

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

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

Power of attorney for foreign study (Stafford/PLUS)

If a student who is enrolled at a foreign school requests it, the lender may disburse Stafford and PLUS funds directly to an eligible foreign school, or to a domestic (home) school in the case of a study-abroad arrangement. The borrower (the student or the parent, in the case of PLUS) must provide power-of-attorney to an individual not affiliated with the school to endorse the check or complete an electronic funds transfer authorization.

Power of attorney

Perkins: 34 CFR 674.16(h)

FWS: 34 CFR 675.16(d)

FFEL: 34 CFR 682.207(b)(1)(v)(C)(2) and (D)(2)

CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT

Reminder

Interim disbursements to students selected for verification

A school can make an interim disbursement of certain types of FSA funds to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). If the school has any conflicting documentation or other reason to believe that it does not have a valid output document, it may not make such a disbursement. See the *Application and Verification Guide*, chapter 3, for more details.

Disbursements to students on leave of absence

A school **may** disburse Pell, FSEOG, Perkins funds to a student on a leave of absence. However, a school must not disburse FFEL/Direct funds to a student on a leave of absence.

Because FSA credit balance funds are funds that have already been disbursed, a school must pay an FSA credit balance to a student on leave of absence in accordance with 34 CFR 682.604(c)(4).

Liability for incorrect payments

A school is liable for any incorrect payments made to the student due to school error. A school official is subject to a \$10,000 fine, a prison sentence, or both if he or she knowingly makes false or misleading statements.

Before you awarded funds to a student, you confirmed that he or she was an eligible student and was making satisfactory academic progress (See *Volume 1, Student Eligibility*). However, before disbursing FSA funds, you must determine and document that a student remains eligible to receive them. That is, you must confirm that:

- the student is enrolled for classes for the period;
- a student enrolled in a non-term program has completed the previous period (credits and weeks or clock hours);
- if the disbursement occurs on or after the first day of classes, that the student has begun attendance;
- for loans, the student is enrolled at least half time;
- for all ACG Grants, the student is enrolled full time;
- for second year ACG Grants, at the end of the first academic year, the student has at least a 3.0 cumulative GPA on a 4.0 scale; and
- for National SMART Grants, the student –
 - a) is enrolled full time;
 - b) has at least a 3.0 cumulative GPA on a 4.0 scale, and
 - c) is enrolled in an eligible major.

In the case of Stafford and PLUS loans, you have already certified that the student is eligible when you sent the loan information to the lender (see chapter 1). However, you must also ensure that the student has maintained continuous eligibility before you disburse the loan. The most common change that would make a student ineligible for a Stafford or PLUS disbursement is if the student has dropped below half time, so it is important that your office have a system to check the student's enrollment status at the time of disbursement.

If the student has dropped below half time temporarily, you may still make a Stafford or PLUS disbursement after the student resumes at least half time enrollment. However, you must make sure that the student continues to qualify for the entire amount of the loan—the change in enrollment may have resulted in a significantly lower cost of attendance. The aid administrator must document this review in the student's file.

Also remember that, as we'll discuss at the end of this chapter, your school cannot retain the loan funds indefinitely.

TIMING OF DISBURSEMENTS

We've already described how disbursements are calculated in *Volume 3*; now we'll discuss the timing of disbursements. Schools disburse FSA program funds by payment period or at the beginning and calendar midpoint of a loan period. Typically, the amounts that you award to a student for an academic year are divided into lesser amounts among the payment periods or other subdivisions.

The timing of disbursements is especially important for Pell Grant and Stafford/PLUS loan funds, because you must schedule disbursement dates with the Department and/or private lenders. (See Chapters 1 and 2 for information on reporting Pell disbursements to COD and certifying/originating a Stafford/PLUS loan.)

Basic rules for early & delayed disbursements

The earliest that a school may disburse FSA funds by crediting the student's account or by paying directly to the student or parent is 10 days before the first day of classes for that payment period. For clock-hour and credit-hour nonterm or nonstandard term programs, the earliest that a school may disburse FSA funds (other than FWS wages) by crediting the student's account or disbursing directly to the student or parent is the later of 10 days before the first day of classes for that payment period or the date the student completed the previous payment period for which he or she received FSA funds. In some cases, as we'll discuss, other restrictions apply.

If a student is in the first year of an undergraduate program and is a first-time Stafford borrower, your school may not disburse the first installment of the Stafford loan until 30 calendar days after the student's program of study begins.

Exceptions to disbursement rules for schools with low default rates

Effective for any disbursement made on or after February 8, 2006, the exemption of institutions with low cohort default rates from certain multiple disbursement requirements has been reinstated in the law. Institutions with cohort default rates of less than 10 percent for each of the three most recent fiscal years for which data are available, including eligible foreign institutions, may once again disburse, in a single installment, loans that are made for one semester, one trimester, one quarter or a four-month period. Such institutions also are no longer required to delay the delivery or disbursement of a first disbursement of a loan for 30 days for first-time, first-year undergraduate borrowers.

Disbursement timing citations cite

- Disbursement by payment period:
34 CFR 668.164(b)
Section 428G(a) of the HEA
- Disbursement by calendar midpoint:
34 CFR 682.604(c)
- Early disbursements: 34 CFR 668.164(f)
- 30-day delay for 1st-time Stafford borrowers
FFEL : 34 CFR 682.604(c)(5)
DL: 34 CFR 685.303(b)(4)

Perkins & FSEOG disbursements cite

- Payment by payment period:
34 CFR 674.16(b) and 676.16(a)
- Uneven costs/uneven payments:
34 CFR 674.16(c) and 676.16(b)
- Paying prior to student beginning attendance: 34 CFR 674.16(f) and 674.16(d)



Low cohort default rate exemptions cite

Section 428G(a)(3) and (b)(1) of the HEA

Disbursement rules for terms made up of modules

When a student is attending a modular program, but won't attend the first module, the date when classes begin for making disbursements is the starting date of the first module that the student will actually attend.

The earliest the school can pay a student who is scheduled to begin attendance in the second of three 5-week modules that make up the payment period is 10 days before the first day of the second module. (Or 30 days after the second module begins, if the student is a first-time, first-year borrower and the school does not meet the requirements for a waiver in 34 CFR 6882.604(c) (5) and 34 CFR 685.303(b)(4).)

For example, if the student is enrolled in the first semester (running from September 1, 2005 to December 14, 2005) of a program that is made up of three 5-week modules, but the student is not enrolled in the first two modules of that semester, the school has to wait until 30 days after classes from the third module begins to disburse the funds.

Special rules for Pell and FSEOG Disbursements to students in correspondence courses

Generally, Federal Pell Grant Program and FSEOG Program disbursements can be made up to 10 days before the first day of classes for a payment period. However, there are special rules for students enrolled in correspondence study programs.

FSEOG Program

A correspondence student must submit his or her first completed lesson before receiving an FSEOG payment.

FSEOG Program disbursements cite

34 CFR 676.16(f)

Federal Pell Grant Program

For a non-term-based correspondence portion of a program of study the school must make the –

- first payment to a student for an academic year after the student submits 25% of the lessons, or otherwise completes 25% of the work scheduled for the program or the academic year, whichever occurs last; and
- second payment after the student submits 75% of the lessons, or otherwise completes 75% of the work scheduled for the program or the academic year, whichever occurs last.

For a term-based correspondence portion of a program of study the school must make the payment to a student for a payment period after the student completes 50% of the lessons or otherwise completes 50% of the work scheduled for the term, whichever occurs last.

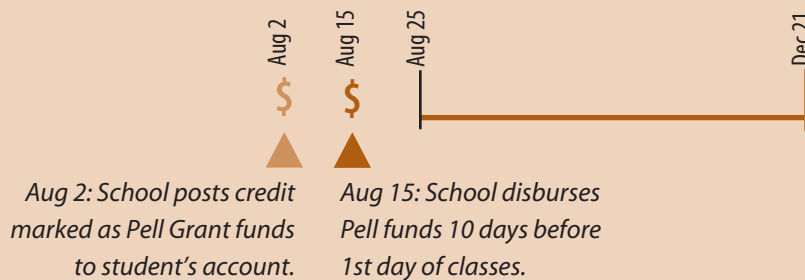
Federal Pell Grant Program disbursements cite

34 CFR 690.66

Timing of Pell disbursements

34 CFR 690.76

Early disbursement & advance credit to account



The earliest that a school may disburse Pell funds is 10 calendar days before the first day of class in the term or payment period.

Some schools post a credit to the student's account before this date, but the date the Pell is considered to be disbursed for FSA purposes is the actual date Pell funds are applied to the student's charges (August 15 in this example).

Returning funds for students who do not register or fail to begin attendance

- 34 CFR 668.21
- 34 CFR 690.78(b)(1)&(2)
- 34 CFR 674.16(f)(1)&(2)
- 34 CFR 676.16(d)(1)&(2)
- 34 CFR 682.604(d)(3)&(4)
- 34 CFR 685.303(b)(3)

Recalculating Pell eligibility when a student fails to begin attendance in all classes

- 34 CFR 690.80(b)(ii)

Reminder

When a student withdraws before a school's census date

A student begins earning Title IV funds on his or her first day of attendance. Therefore, even if a student withdraws before a school's census date, the school must perform a Return calculation described in Volume 5, Chapter 2.

Important

When a student fails to begin attendance

If your school disburses Pell, Perkins or FSEOG funds, but the student never actually begins attending any classes, you must return the disbursed amounts to the respective programs. If the student begins attending some but not all of his or her classes, you will have to recalculate the student's Pell Grant award based on the student's actual enrollment status—see *Volume 3, chapter 3*.

If your school disburses Stafford or PLUS funds but the student does not register for the period of enrollment for which the loan was made, or a registered student withdraws or is expelled prior to the first day of classes of the period of enrollment for which the loan is made, you must return the loan funds that the school has to the lender.

If your school disburses Stafford or PLUS funds but the student doesn't begin attendance or you cannot document that the student ever began attendance, you must return any loan funds that were credited to the student's account, as well as the amount of any payments that the student made to your school. (The total amount to be returned is limited to the original amount of the Stafford and PLUS disbursements.)

All schools must return¹ funds disbursed to a student who failed to begin attendance immediately after discovering that the student failed to begin attendance. Moreover, a school may not ignore information available to any office at the school indicating that a student failed to begin attendance.

At a school that is required to take attendance, it would be reasonable to expect the school to return disbursed funds immediately following the 14-day period the school is allowed to determine that a student is not attending classes.

At a school that is not required to take attendance but that has a census date on which it reports its enrollment levels to a state, local jurisdiction or outside agency, it would be reasonable to expect the school to return funds immediately following the census date.

At all schools, after the start of classes, Title IV funds should not be disbursed without schools confirming that students have begun attendance.

1. A school may satisfy this requirement either by redepositing the funds in its federal funds account and disbursing them within three days to another eligible student, or by returning them to the appropriate Title IV program using the refund function in GAPS.

When students whose home schools are low default rate schools are enrolled in study abroad programs

A school can make a loan disbursement to a first-year borrower within the normal time frame (without waiting 30 days) if the borrower is enrolled in a study-abroad program approved for credit by the home school and the home school had a Stafford loan default rate of less than 5% in the single most recent fiscal year for which data is available (34 CFR 682.604(c)(5)(ii) and 34 CFR 685.303(b)(4)(i)(B)).

For disbursements made after February 8, 2006, a school (including an eligible foreign school) can make a loan disbursement to a first-time, first-year borrower within the normal time frame (without waiting 30 days) if the school had a Stafford loan default rate less than 10% in the three most recent fiscal years for which data is available (34 CFR 682.604(c)(5)(i) and 34 CFR 685.303(b)(4)(i)(a)).

After February 8, 2006, if a borrower is enrolled in a study-abroad program approved for credit by the home school and the home school had a Stafford loan default rate less than 5% in the single most recent fiscal year for which data is available, AND the loan is for one semester, one trimester, one quarter or a four-month period, the school may make a single disbursement of the loan proceeds (34 CFR 682.604(c)(10)(ii) and 34 CFR 685.301(b)(8)(i)(B)).

In addition, after February 8, 2006, if a borrower is enrolled at a school that had a Stafford loan default rate less than 10% for the three most recent fiscal years for which data is available AND the loan is for one semester, one trimester, one quarter or a four-month period, the school may make a single disbursement of the loan proceeds (34 CFR 682.604(c)(10) and 34 CFR 685.301(b)(8)(i)(A)).

Effective for loans disbursed on or after July 1, 2006, if a borrower is enrolled in a study-abroad program approved for credit by the home school and the **borrower** requests it, after the lender or guarantee agency has verified the borrower's enrollment, the lender may disburse a Stafford loan directly to the borrower (34 CFR 668.207(b)(1)(v)(C)(1)).

Effective for loans disbursed on or after July 1, 2006, if a borrower is enrolled at an eligible foreign school and the foreign school requests it, after the lender or guarantee agency has verified the borrower's enrollment, the lender may disburse a Stafford loan directly to the student (34 CFR 682.207(b)(1)(v)(D)).

For more information, please refer to the *Cohort Default Rate Guide* on the IFAP Web site.

<http://ifap.ed.gov/drmaterials/finalcdrg.html>

Note: Effective February 8, 2006, eligible foreign schools are no longer exempt from making multiple disbursements of Title IV loan proceeds.

Multiple disbursements within a payment period

When scheduling loan disbursements, you can request multiple disbursements of a loan within a payment period or loan period, as long as the disbursements are substantially equal installments (see Section 428G(c)(3) of the HEA).

Schools that use payment periods as the basis for their return of funds calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period. See *Volume 5* to see how withdrawal calculations handle multiple disbursements.

Credit bureau reporting

Schools must report the date and amount of each disbursement of a Federal Perkins Loan to at least one national credit agency. (Please see *Volume 2* for more information about credit bureau reporting.)

Loan disbursements when credits aren't awarded as work is completed

In some programs, it may not be possible to determine when the credit hours are earned, and thus it may be difficult to tell when a student is eligible to receive the next disbursement. For example, in some programs, credits are only awarded after the student has completed the entire program. In such cases, the student is eligible to receive their next loan disbursement on the later of —

- the date your school identifies as the point when the student has successfully completed half of the academic coursework in the program, academic year, or the remainder of the program, or loan period, or
- the calendar midpoint between the first and last scheduled days of class of the program, academic year, or the remainder of the program, or loan period.

FFEL: 34 CFR 682.604(c)(7)
DL: 34 CFR 685.301(b)(5)

Number of Stafford/PLUS disbursements: standard terms and substantially equal nonstandard terms

If the program uses *standard academic terms* (semesters, trimesters, or quarters) or it has *nonstandard terms of substantially equal length*, at least one disbursement is made for each term in the loan period. A program is considered to have substantially equal terms if no term in the loan period is more than 2 calendar weeks longer than any other term in the loan period.

- *If there is more than one term in the loan period*, the loan must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal disbursements.
- *If there is only one term in the loan period*, the loan must be disbursed in equal amounts at the beginning of the term and at the term's calendar midpoint.

Number of Stafford/PLUS disbursements: 1) credit-hour programs without terms, 2) credit-hour programs with non-standard terms that are not substantially equal in length and 3) clock-hour programs

Loan periods for Stafford/PLUS loans are described in *Volume 3, chapter 4*. If the program is one academic year or shorter, the loan period is usually the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year. For each loan period in these programs —

- The loan must be disbursed in at least two substantially equal amounts, with the first disbursement generally disbursed at or near the beginning of the loan period; and
- The second half of the loan proceeds may not be disbursed until the later of the:
 - a) calendar midpoint between the first and last scheduled days of class of the loan period, or
 - b) date the student successfully completes half the clock hours in the loan period or, for credit hours, successfully completes half the credit hours. In programs where the student cannot earn the credit hours until the end of the loan period, the institution must determine when the student has completed half the coursework for the loan period.

Timing of Pell Grant disbursement within a payment period

You must time the disbursement of Pell funds for a payment period to best meet the needs of students at your school. For instance, some schools credit the student accounts for school charges as soon as is permissible, and then pay the credit balance to students when they begin classes. Other schools wait until the end of the add/drop period to disburse funds, or pay students in monthly installments to help meet living expenses throughout the payment period. (If as opposed to making multiple disbursements within the payment period, your school rations disbursements to students by crediting the entire disbursement for the payment period to the student's account and making periodic disbursements to the student from these funds, it must have the student's voluntary written authorization.)

Disbursing FSEOG & Perkins

A school that is awarding an FSEOG or a Perkins Loan for a full academic year must advance a portion of the grant or loan during each payment period.

In general, to determine the amount of each disbursement, a school will divide this award amount by the number of payment periods the student will attend.

A school may advance funds within a payment period in whatever installments it determines will best meet the student's needs. However, if the total FSEOG or Perkins award is less than \$501 for an academic year, only one disbursement is necessary.

If the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, your school may advance the additional FSEOG or Perkins amounts to the student in whatever manner best meets the student's needs.

Retroactive disbursements for completed periods

Your school must pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, in the case of a Pell Grant, if you don't receive a valid SAR/ISIR for a student until the spring term, but the student was also enrolled and eligible for a disbursement in the previous fall term, that student must be paid retroactively for the fall term. (See the discussion under Late Disbursements for disbursing funds to students who have lost eligibility.)

Stafford/PLUS multiple disbursements requirement & exceptions

There are two significant exceptions to this multiple disbursement requirement:

- If any payment period has elapsed before a lender makes a disbursement, a single disbursement may be made for all completed payment periods.
- You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period, if your school's most recently calculated Stafford loan default rate is less than 5% for the single most recent fiscal year for which data is available.

For more information, please refer to the **Cohort Default Rate Guide** on the IFAP Web site.

<http://ifap.ed.gov/drmaterials/finalcdrg.html>

Cites

34 CFR 682.207(c-e) and
34 CFR 685.301(b)

Uneven costs example

Dan is enrolling in a one-year program at Ingram Technical College and must spend \$300 for books and supplies at the beginning of the program. ITC has awarded Dan a \$1,000 Perkins Loan. Rather than simply dividing the award in half, ITC may pay Dan a larger amount in the first payment period to meet the onetime cost for books and supplies.

To determine the first payment, the aid administrator at ITC subtracts the extra amount (in this case, \$300) from the total loan (\$1,000) and divides the remainder (\$700) by the number of payment periods (in this case, 2). The aid administrator then adds the regular amount for one payment period (\$350) to determine the initial payment ($\$650 = \$300 + \$350$). The remaining amount (\$350) is then disbursed during the second payment period for a total loan of \$1,000.

If you are paying a Pell grant for a completed term in which no Pell disbursement has been made, the Pell grant must be based on the hours completed by the student for that term. If the student had enrolled full time at the beginning of the fall term but dropped to half time status by the end of the term, the retroactive disbursement must be based on half time status. At a term school, all completed coursework counts towards enrollment status, including earned F's and incompletes that have not converted to "F" grades because the student failed to complete the course work. (This Pell requirement does not apply to any other FSA program.)

To include an earlier period of eligibility when certifying a Stafford Loan, the student would have had to complete at least a half time course-load in that period. For instance, you could include the Fall term and its costs when certifying a loan for the student in the Spring, if your school's half time standard is 6 credit hours and the student received a "B" and an incomplete in two 3-hour courses taken that Fall.

In the case of loans disbursed on a payment period basis, if a student attended the previous payment period but did not maintain eligibility for a Stafford loan, you may not include the previous payment period or its costs in the loan period.

A school can make any retroactive disbursements in one lump sum.

PROMPT DISBURSEMENT RULES

In general, schools that are not receiving federal cash from the Department through one of the heightened cash monitoring payment methods must make disbursements as soon as administratively feasible but no later than 3 business days after receiving funds from the Department. (For a discussion of payment methods, see chapter 3.) The disbursements may be credited to the student's account or made directly to the student or parent, as discussed earlier. There is a similar requirement for schools receiving FFEL funds.

Note that these timeframes for disbursing to the student's account (or directly to the student/parent) are different than those for paying FSA credit balances to the student or parent. As we discussed earlier, a school generally has 14 days to pay an FSA credit balance to the student or parent, unless it has written permission to hold the credit balance.

Submitting Disbursement Records

An institution must submit Federal Pell Grant, ACG, National SMART Grant and Direct Loan disbursement records no later than 30 days after making a disbursement or becoming aware of the need to adjust a student's disbursement.

An institution's failure to submit disbursement records within the required 30-day timeframe may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

DISBURSING FWS WAGES

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

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

Crossover payment periods

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

Disbursing to students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization. For audit and program review purposes, your school must have documentation (e.g., canceled checks, bank statements) showing that students received disbursements in the amount charged to the FWS Program.

Holding FWS funds on behalf of the student

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

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

Paying FWS wages

- 34 CFR 675.16
- also see *Volume 6* for rules regarding school contribution and eligible FWS employment.

Noncash contribution

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

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

Garnishment of wages

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt; by law, FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

COMPLETION OF COURSEWORK REQUIREMENTS

Completion of coursework cites

- Pell Grants: 34 CFR 690.75(a)(3)
- FFEL: 34 CFR 682.604(c)(8) and (c)(9)
- Direct Loans:
34 CFR 685.301(b)(5) and (b)(6)
- Excused absences: 34 CFR 668.164(b)(3)

Example: coursework completion requirement in a modular program

A 1-year program with no terms awards 24 credit hours, which are taught in a series of six 4-hour modules. The school groups the modules into two 12-hour payment periods. The first payment period takes 15 weeks to complete. The student cannot progress to the second payment period until the student successfully completes 12 credit hours and the 15 weeks of instruction have elapsed. If the student fails the first 4-hour module, he or she will still need to successfully complete three modules (for a total of 12 credits) to progress to the next payment period.

Terms with clock hours

The payment periods for clock-hour term programs are determined in the same way as for nonterm clock-hour programs. The student must successfully complete all the clock hours in the payment period before receiving any more Pell funds. If a student doesn't complete all the hours scheduled for a term, each payment period still contains the number of clock hours originally scheduled, even if this means that none of the student's succeeding payment periods coincide with the terms.

Pell Grants

For a student enrolled in a credit-hour program without terms or a clock-hour program, a school may disburse a Federal Pell Grant to an eligible student only after it determines that the student has successfully completed the credits or clock hours and weeks of instructional time in the prior payment period as defined in *Volume 3, chapter 1* for which he or she has been paid a Federal Pell Grant.

Stafford and PLUS loans in clock-hour programs

If an educational program measures academic progress in clock hours, the school may not deliver the second half of the loan proceeds until the later of the calendar midpoint between the first and last scheduled days of class of the loan period; or the date, as determined by the school, that the student has successfully completed half of the clock hours in the loan period. The school must deliver loan proceeds in substantially equal installments, and no installment may exceed one-half of the loan.

Stafford and PLUS loans in credit-hour programs without terms and credit-hour programs with nonstandard terms that are not substantially equal in length

If the program is one academic year or shorter, the loan period is usually the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year. For each loan period in these programs, the second half of the loan proceeds may not be disbursed until the later of: the calendar midpoint between the first and last scheduled days of class of the loan period, or the date the student successfully completes half the credit hours in the loan period. In programs where the student cannot earn the credit hours until the end of the loan period, the school must determine when the student has completed half the coursework for the loan period.

For credit-hour term-based programs there is no requirement that a student successfully complete all of the coursework to receive payment in the next term except when nonstandard terms are not substantially equal in length. For instance, a student could receive a Stafford disbursement in the Spring term after failing several courses in the Fall term, provided that the student was still making satisfactory progress under the school's policy.

Excused absences

In a clock-hour program, you are allowed to count a limited number of excused absences when deciding whether the student has completed the hours in a payment period. An excused absence may only be counted if the student is excused from hours that were actually scheduled, were missed and do not have to be made up for the student to receive the degree or certificate for the program.

For instance, a student in a program that has 450-clock-hour payment periods might miss 20 clock hours and only have attended 430 clock hours at the point where 450 clock hours of instruction had been given. If your school has an excused absences policy, and the hours missed are considered excused, this student could be paid the next disbursement.

To be counted for FSA purposes, excused absences must be permitted in your school's written policies. Under FSA regulations, no more than 10% of the clock hours in a payment period may be considered excused absences. If your school's *accrediting agency* or the *state agency that legally authorizes your school to operate* allows fewer hours to be counted as excused absences, you must follow the stricter standard rather than the FSA standard.

RETAKEING COURSEWORK

Term-based credit-hour programs

In general, students at term-based credit-hour schools may receive FSA funds for retaking coursework and the credits may be included in the total number of credits that the student is taking when determining enrollment status as long as he or she is considered to be making satisfactory academic progress and as long as the school is allowing the student to receive credit for the repeated course. Generally, schools do not give a student credit for repeating a course to earn a better grade unless the student failed the course the first time and received no credit.

For satisfactory academic progress purposes, each time a course is taken counts as an attempt; only the first time a passing grade is received is counted as a completion.

If a student who received an incomplete in a course in the prior term is completing the coursework in the subsequent term to erase the incomplete in the prior term, the student is not considered to be enrolled in the course for the subsequent term. Therefore, the hours in the course do not count toward the student's enrollment status for the subsequent term, and the student may not receive FSA funds for retaking the course.

However, if a student who received an incomplete in a course in the prior term is retaking the entire course for credit in the subsequent term, the hours in the course count toward the student's enrollment status and the student may receive FSA funds for retaking the course.

Clock-hour and nonterm credit-hour programs

Withdrawal and reentry within 180 days

When a student withdraws from a clock-hour program or nonterm credit-hour program during a payment period or period of enrollment and then reenters the same program within 180 days, the student is put back into the same payment period, and any FSA funds that the school or student returned to FSA are repaid to the student. The student may not be paid additional FSA funds for repeating coursework. Correspondingly, a student who ceases attendance between payment period or periods of enrollment but returns within 180 days may not be paid for repeating coursework.

Withdrawal and reentry after 180 days

A student who withdraws from a clock-hour program or nonterm credit-hour program and then reenters the same program after 180 days is treated in the same manner as a student who transfers into the program from another school; i.e., the student immediately begins a new payment period or period of enrollment. In this circumstance, the student may be paid for repeating coursework as the student is receiving credit for the repeated course. A student who ceases attendance between payment periods or periods of enrollment but returns to the same program after 180 days may also be paid for repeating coursework.

Take, for example, a student who withdraws after completing 302 clock hours of a 900-clock-hour program, so there are 148 hours in the payment period that the student did not complete. The student reenrolls after 180 days in the same program and receives credit for 100 hours. The program length for purposes of determining the new payment periods and period of enrollment is 800 clock hours (the remainder of the student's program), so the new payment periods are 400 hours and 400 hours. The FSA payments would be for 400 hours for both payment periods, not limited to 148 hours for a payment period. If the student in this example received no credit for previously completed hours, the student's program length for purposes of determining the payment periods would be 900 clock hours.

Pell Grant Disbursements for Reentering Students

Grant disbursements in the award year, if a student enrolled in a clock-hour or nonterm credit-hour educational program reenters the institution within 180 days after initially withdrawing and a deadline set by the Secretary in the Federal Register (September 15, 2006 for the 2005-2006 award year), an institution may request administrative relief to disburse the student's Pell Grant by the earlier of 30 days after the student reenrolls or a deadline set by the Secretary in the Federal Register (May 1, 2007 for the 2005-2006 award year).

For more information on the treatment of FSA funds when a student reenters a program, including the effect on awarding FSA funds, see *Volume 5, chapter 2*.

Repeating after program completion

Any student who completes an entire nonterm credit-hour or clock-hour program, and later reenrolls to take that same program again or to take another program may be paid for repeating coursework regardless of the amount of time between completion of the first program and beginning the program or another program again.

LATE DISBURSEMENTS

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

- for a loan made under the FFEL or Direct Loan program, is no longer enrolled at least half time; or
- for purposes of the Pell Grant, ACG and National SMART Grant, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the **award year**.

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

Conditions for a late disbursement

A student must be considered for a late disbursement as long as the Department has processed a SAR/ISIR with an official EFC before the student became ineligible. Therefore, a school must review its records to see if a student who did not receive a disbursement of FSA funds before becoming ineligible is eligible for a late disbursement. Generally, this condition is easy for a school to document, since each ISIR record includes the date the Department processed the application and created the SAR/ISIR. In addition, for an FFEL or Direct Loan program loan, the loan must be certified or originated, as applicable, prior to the date the student became ineligible. Similarly, for an FSEOG or a Federal Perkins Loan, the school must have made the award to the student prior to the date the student became ineligible.

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

If a student who qualifies for a late disbursement completes the payment period or period of enrollment, or withdraws during the payment period or period of enrollment, a school **must** make or offer as appropriate, the late disbursement. A late disbursement for a student who has withdrawn during the payment period or period of enrollment is called a post-withdrawal disbursement.

SAR documenting eligibility for late disbursement

In some cases the student may have a SAR/ISIR with an official EFC processed while the student is enrolled, but the school is not listed. When the school receives an ISIR listing the school after the student ceases to be enrolled, it will have a processing date subsequent to the date the student ceases to be enrolled. In this circumstance the student’s eligibility is documented by obtaining a copy of the SAR processed while the student was enrolled and eligible.

Processed Date

The applicable dates on an ISIR or SAR that are the processing dates for purposes of determining eligibility for a late disbursement are: for an ISIR, the field labeled *Processed Date*; for a SAR, the date above the EFC on the first page; and for a SAR Acknowledgment, the date labeled “transaction process date” in the School Use box.

Pell Grant disbursements

If the school receives a valid SAR or valid ISIR within the applicable deadlines, it must disburse the student’s Pell Grant.

Cite
34 CFR 690.61(a)

Late disbursement of a PLUS loan

A school does not have to rely upon a SAR/ISIR to determine if a parent qualifies for a late disbursement of a PLUS loan. However, in cases where a school does not have a SAR/ISIR, it may not certify or originate a PLUS loan until it documents that the student for whom the loan is intended meets all the applicable eligibility requirements (e.g., the student is not in default, does not owe an overpayment, is a citizen or eligible noncitizen, etc.).

Paying or offering amounts not credited to a student's account

A student or parent is never required to accept a late disbursement payment. For example, a student may decline a late disbursement of a loan to avoid taking on debt. In cases where a late disbursement is declined, a school has met the late disbursement requirements by offering the late disbursement funds.

Post-withdrawal disbursements

A post-withdrawal disbursement, a type of late disbursement, is Title IV aid that was not disbursed before a student withdrew, but which the student has earned based on a Return of Title IV Funds calculation. The conditions and limitations for a post-withdrawal disbursement are the same as for all other late disbursements. However, the requirements for paying a post-withdrawal disbursement are made in accordance with the regulations.

Cite
34 CFR 668.22(a)(4).

ACG/National SMART Grant Enrollment Status

To be considered full-time at the time a student ceases to be enrolled, the student must have begun attendance in all the classes necessary to qualify as a full-time student and be considered full-time in accordance with the school's enrollment status policies for the Pell Grant, ACG, and National SMART Grant programs.

Cite 34 CFR 691.80(b)



If a student did not withdraw or complete the payment period or period of enrollment but ceased to be enrolled as at least a half time student, a school **may** make a late disbursement of a loan under the FFEL or Direct Loan programs.

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 may receive a late (post withdrawal) disbursement of the applicable amount of his or her loan funds (see *Volume 5* for more information). In addition, a student who loses eligibility for a reason other than his or her withdrawal and subsequently signs a promissory note may receive a late disbursement of the applicable amount of his or her loan funds.

If a student's enrollment status for an ACG or National SMART Grant was full-time on the date the student ceased to be enrolled, the school may make a late disbursement.

Limitations on making a late disbursement

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

- a late second or subsequent disbursement of FFEL or Direct Loan funds unless the student has graduated or successfully completed the loan period (34 CFR 668.164(g)(4)(ii));
- a late disbursement of FFEL or Direct Loan funds to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study (34 CFR 668.164(g)(4)(iii)) (unless the school meets the requirements for a waiver in 34 CFR 6882.604(c) (5) and 34 CFR 685.303(b)(4)); and
- a late disbursement of Federal Pell Grant, ACG or National SMART Grant funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by ED.
- a late disbursement of an ACG or National SMART Grant if a student's enrollment status for an ACG or National SMART Grant was not full-time on the date the student ceased to be enrolled.

In addition, a school may not make a late disbursement later than 120 days after the date the student becomes ineligible. (Note that for an FFEL that was certified prior to the student becoming ineligible, the funds would have to be disbursed to the school by the lender in sufficient time for the school to deliver the funds to the student within 120 days of the date the student became ineligible.)

Conditions and Limitations on Late Disbursements

These Conditions Must Be Met Before a Student Loses Eligibility in Order for the Student to Receive a Late Disbursement (34 CFR 668.164(g)(2))		
Program		
Pell Grant ¹	For all Programs, the Department processed a SAR/ISIR with an Official EFC.	No additional requirements.
FSEOG		Student is awarded a grant.
FFEL		A loan application is certified.
Direct Loans		An origination record is created.
Perkins Loans		Student is awarded the loan.
These Additional Limitations Must Be Satisfied Before a School May Make a Late Disbursement (34 CFR 668.164 (g)(4))²		
Program		
Pell Grant ¹	School received a valid SAR/ISIR by the date established by ED.	
FSEOG	No additional limitations.	
FFEL	1 For a first-time, first-year borrower, student completed 30 days of the program. (Subject to waivers discussed earlier under <i>Timing of Disbursements</i> .)	
Direct Loans		
Perkins Loans	No additional limitations.	

¹ Within this chart, “Pell Grant” includes ACG and National SMART Grants

² For all programs, unless approved by ED, the late disbursement is made no later than 120 days after the date of the institution’s determination that the student withdrew. Or, for a student who did not withdraw, 120 days after the student became ineligible.

On an exception basis, the Department may approve a school's request to make a late disbursement after 120 days if the reason the disbursement was not made during the 120-day period was not the fault of the student or parent.

Paying a late disbursement

If a student has completed the payment period or period of enrollment, a school must pay or offer the late disbursement to the student or parent.



For a post-withdrawal disbursement to a student who withdrew during a payment period or period of enrollment, a school must follow the rules for paying and/or offering a post-withdrawal disbursement in regulations governing the Return of Title IV Funds (see *Volume 5*).

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

Flexibility in contacting students

In order to avoid having to contact a student multiple times, a school may use one contact to –

- counsel a borrower about his or her loan repayment obligations;
- obtain permission to credit loan funds to a student's account to cover unpaid institutional charges;
- obtain permission to make a late disbursement of grant or loan funds for other than institutional charges;
- obtain permission to make a late disbursement of grant or loan funds directly to a student; and
- confirm that a student wishes the school to receive as a direct disbursement any grant or loan funds the student is due as a late disbursement.

A student's response to an offer of Title IV funds from late disbursement does not have to be in writing. However, a school must document the student's response.

A school must contact a student prior to making ANY late disbursement of Title IV loan funds, and explain to the student his or her obligation to repay the loan funds if they are disbursed. The information provided in this notification must include the information necessary for the student or parent to make an informed decision about whether the student or parent would like to accept any disbursement of the loan funds. In addition, the school must confirm that the loan funds are still needed by the student, and that the student wishes the school to make the disbursement.

A school is permitted to credit a student's account with a late disbursement of Title IV grant funds without the student's permission for current charges for tuition, fees and room and board (if the student contracts with the school) up to the amount of outstanding charges. An institution must obtain a student's authorization to credit a student's account with Title IV grant funds for charges other than current charges.

If a student due a late disbursement of Title IV grant funds has no outstanding charges on his or her account, or if grant or loan funds remain to be disbursed from a late disbursement after the outstanding charges on the student's account have been satisfied, the school must offer the funds in writing to the student, and may not disburse the funds directly to the student without first having obtained the student's authorization.

Requirements and Procedures for Requesting Approval to Make a Late Disbursement Beyond 120 Days

1. Requests for approval to make a late disbursement after the 120-day late disbursement period must be made directly by a school or its third-party servicer. A lender, guaranty agency or other entity may not submit a request on behalf of a school, regardless of the reason the funds were not disbursed.
2. The school must fax its request on school (or school servicer) letterhead to the Federal Student Aid Support Team at (202) 275-5522. The fax cover sheet should be addressed to:
ATTN: Federal Student Aid Support Team, "Late" Late Disbursement Approval Requests.
3. A separate request must be submitted for each student or parent.
4. A separate request must be submitted for each Title IV program. However a single request may be submitted for a student who has both subsidized and unsubsidized Stafford loans for the same loan period.
5. Each faxed request must include the information listed below. Failure to provide all of the required information will delay consideration of the request. It is particularly important to explain why the disbursement could not be made before the end of the 120 day late disbursement period allowed by the regulations.

All requests must include:

- Date of request
- School's name
- School's OPE ID
- Contact person's name, title, phone number, fax number and email address
- Student's (and parent's, for PLUS loans) name and social security number
- Type of aid (Pell Grant, FFEL, Direct Loan, FSEOG, Perkins Loan)
- Amount to be disbursed (gross amount for FFEL and Direct Loan requests)
- A clear and concise explanation as to why the disbursement was not made while the student was still enrolled for the payment period or loan period or during the 120 day late disbursement period allowed by the regulations.

Pell Grant, FSEOG and Perkins Loan requests must include:

- Award year
- Payment period beginning and ending dates
- Answers to the following questions:
 - ✓ Did the student complete the payment period?
 - ✓ If the student did not complete the payment period, on what date did the student cease to be enrolled?
- Date the award was made to the student (FSEOG and Perkins Loan requests only)

FFEL and Direct Loan requests must include:

- Loan type (subsidized, unsubsidized, PLUS)
- Loan certification date (FFEL) or origination date (Direct Loan)
- Loan period beginning and ending dates
- Lender's name (FFEL requests only)
- Award ID (Direct Loan requests only)
- Answers to the following questions:
 - ✓ Did the student complete the loan period?
 - ✓ If the student did not complete the loan period, when did the student cease to be enrolled at least half time?
 - ✓ Does the request involve a late first disbursement of the loan or a late second or subsequent disbursement of the loan?

Requesting and Managing Federal Student Aid Funds

CHAPTER 3

Except for funds received as an administrative cost allowance (ACA), FSA program funds received by a school are held in trust by the school for students, the Department and, in the case of FFEL program funds, for lenders and guaranty agencies. The cash management regulations discussed in this chapter establish rules and procedures that a school must follow in requesting and managing funds for the Pell Grant, ACG, National SMART Grant, FSEOG, Perkins Loan, FWS, Direct Loan and FFEL programs. These rules and procedures also apply to third-party servicers.

DRAWING DOWN FEDERAL STUDENT AID FUNDS

Current Funding Level & GAPS

A school's Authorization (Current Funding Level (CFL) in Pell, ACG, National SMART Grant, and DL) is the level of funding for a school for the year in question. The school's available balance is the amount of cash available for a school to draw down from the Grants Administration and Payments System (GAPS). A separate Authorization is maintained for each program by award year. Schools operating under advance payment receive an initial CFL against which they can draw funds. Schools operating under reimbursement do not receive an initial CFL.

GAPS is a delivery system that supports program award and payment administration (see sidebar for Web and contact information). Schools may use GAPS to request payments, adjust drawdowns and report expenditures. It also provides continuous access to current grant and payment information, such as authorized amounts, cumulative drawdowns, current award balances and payment histories.

The advance payment method

Under the advance payment method, a school may submit a request for Pell Grant, Direct Loan and Campus-Based program funds through GAPS at any time — prior to or after disbursing aid to eligible students and parents. If GAPS accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school.

CHAPTER 3 HIGHLIGHTS

- ❖ **Drawing down FSA funds**
 - schools use the Department's GAPS payment system
 - most schools use the Advance Payment or Just-in-Time payment methods
 - some schools with administrative deficiencies are placed on Reimbursement or Cash Monitoring
- ❖ **Maintaining & accounting for funds**
 - bank account notification requirements rules for maintaining federal funds in separate or commingled accounts
 - rules for treatment of interest earned on federal funds
- ❖ **Excess cash**
 - allowable tolerances
- ❖ **Escheating prohibited**

Purpose of cash management regulations

- promote sound cash management of FSA program funds by schools
- minimize the costs to the government of making FSA program funds available to students and schools
- minimize the costs to students who receive FSA loans.

Cite

34 CFR 668 Subpart K
Purpose 34 CFR 668.161

GAPS Web Site & Support

Web: <http://e-grants.ed.gov/egHome.asp>
Hotline: 1-888-336-8930.

Funding methods

Currently, there are four funding methods under which a school requests funds from the Department:

- the advance payment method,
- the Just-in-Time payment method,
- the reimbursement payment method; and
- the cash monitoring payment method.

The Department has sole discretion in determining the funding method a school uses to request FSA program funds.

Cite: 34 CFR 668.162, except as noted

Self-assessment tool for fiscal management procedures

You can evaluate your school's procedures by referring to "Fiscal Management" in the *Managing Funds* module of FSA Assessments.

<http://ifap.ed.gov/qamodule/FiscalManagement/FiscalManagementModule.html>

Advance requests for Perkins funds

Before requesting funds from its Perkins FCC, a school should compare its anticipated available Perkins funds (cash on hand + expected collections + expected interest + expected reimbursements for cancellations) against its anticipated Perkins disbursements. A school should take into account all sources of Perkins funds when determining whether it needs to draw down any additional amounts to cover disbursement.

Pushed Cash

For Direct Loans, a school may receive funds under the Pushed Cash method, a form of the advance payment method. The Department automatically deposits cash in the school's bank account based on disbursements that are submitted timely and accepted. Under the Pushed Cash method, the Department accepts a disbursement for a student only after accepting an origination and Master Promissory Note for that student. For further information see the *2005-2006 Common Origination and Disbursement (COD) Technical Reference*.

A school may not request more funds than it needs immediately for disbursements the school has made or will make to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school receives those funds.

GAPS does not automatically accept a request for funds from a school under the advance payment method. For example, the Department may reject a request if the amount of the request exceeds the amount of funds the school is authorized to draw down.

Just-in-time payment method

As currently implemented by the Department in the Federal Pell Grant Program, under the Just-in-Time payment method, a school submits a disbursement record (which is both a report of a disbursement and a request for funds) no earlier than seven days before the school disburses funds to a student. For each disbursement the Department accepts, the appropriate amount of funds is deposited directly into the school's bank account.

Schools participating in the Just-in-Time pilot are exempt from the following regulatory requirements with respect to Federal Pell Grant funds:

- the 3-day-use rule discussed previously in Chapter 2 of this Volume,
- the determination of student eligibility at the time of disbursement (a school may rely on its determination at the time it submits the disbursement record for Federal Pell Grant funds),
- the requirement that a school maintain Federal Pell Grant funds in an interest-bearing bank account (see the discussion under *Maintaining and accounting for funds*), and
- the excess-cash rules (see the discussion under Excess cash).

Reimbursement & cash monitoring payment methods

Under these payment methods the Department releases funds to the school after the school has made the disbursement to the student (or parent borrower). Since relatively few schools are required to use these methods, we'll discuss them separately (see boxed text)

Reimbursement payment method

The Department places a school on reimbursement if it determines there is a need to monitor strictly the school's participation in the FSA programs. The school must first disburse Pell Grant, ACG, national SMART Grant, Direct Loan and Campus-Based program funds to eligible students and parents before it can request those funds from the Department. As part of its request, the school must:

- identify the students and parents for whom it is seeking reimbursement; and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive, and received, FSA program funds.

The school's reimbursement request is approved if the Department determines that each student and parent included in the request was eligible for, and received, the proper type and amount of FSA program funds. After the reimbursement request is approved, the Department transfers electronically the appropriate amount of FSA funds to the bank account in which the school maintains its federal funds.

Cash monitoring payment method

The cash monitoring payment method works the same way as the reimbursement payment method – a school must first make disbursements to eligible students and parents before requesting FSA funds – but has less onerous documentation requirements. Unlike the reimbursement payment method where a school must provide detailed documentation for each student to whom it made a disbursement, the Department may relax the documentation requirements and provide funds to a school in one of two ways:

1. **Heightened Cash Monitoring 1 (HCM1).** After a school makes disbursements to eligible students, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method.
2. **Heightened Cash Monitoring 2 (HCM2).** After a school makes disbursements to eligible students, it submits only the documentation specified by the Department. The Department may tailor the documentation requirements for schools on a case-by-case basis.

If the Department determines that a school should be placed on reimbursement, HCM1 or HCM2, it notifies the school. In the notice, the Department explains why it is taking this action, describes how the payment method works, identifies the documentation (if any) that the school must submit, and may provide other instructions to the school.

In addition, if a school is placed on reimbursement, HCM1 or HCM2 either because it is not financially responsible, or qualifies as a financially responsible school under the Zone Alternative in 34 CFR 668.175(d), its administration of the reimbursement or cash monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the reimbursement or cash monitoring requirements, as applicable.

Limitations on the use of FFEL funds for schools on reimbursement or cash monitoring

A school that is placed on reimbursement or cash monitoring:

- may not disburse FFEL program funds to a borrower until the Department approves a request from the school to disburse funds to that borrower, and
- if prohibited by the Department, may not certify a loan for a borrower until the Department approves a request from the school to make the certification for that borrower (this restriction becomes effective on the date that the Department notifies a school that it must obtain approval from the Department to certify loans).

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for this purpose (for example, a certified public accountant, financial aid consultant or guaranty agency).

Until the Department approves a request, the school may be:

- prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender,
- required to maintain loan funds that it receives from a lender via EFT in a separate bank account, and
- prohibited from certifying a borrower's loan application.

Because of the additional time it takes the Department to review documentation submitted by the school, the school may delay returning for 30 days FFEL Program funds that were provided by a lender via EFT or master check.

Note: This delay provision is applicable only in the FFEL programs, see 34 CFR 668.167(c) and (d).

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA program funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of FSA program funds in the account. A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other action.

A school is not required to maintain a separate bank account for FFEL program funds that the school receives from a lender by EFT. A school must maintain and account for FFEL program funds in the same manner required for other FSA program funds.

When a school does not maintain a separate account

A school has a fiduciary responsibility to segregate federal funds from all other funds and to ensure that federal funds are used only for the benefit of eligible students. Absent a separate bank account, the school must ensure that its accounting records clearly reflect that it segregates FSA funds. Under no circumstances may the school use federal funds for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of FSA funds or subjects FSA funds to liens or other attachments (such as would be the case with certain overnight investment arrangements or sweeps). Clearly, carrying out these fiduciary duties limits the ways the school can otherwise manage cash in an operating account, when that account contains FSA funds.

If a school does not maintain a separate account for FSA program funds, its accounting and internal control systems must:

- identify the balance for each FSA program that is included in the school's bank or investment account as readily as if those funds were in a separate account; and
- identify earnings on FSA program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the recordkeeping requirements described in *Volume 2, Chapter 9*.

Maintaining & accounting for funds

34 CFR 668.163

Recordkeeping requirements

34 CFR 668.24

Not applicable to some programs

The cash management requirements are not applicable to the state grant and scholarship programs. The Leveraging Educational Assistance Partnership Program (LEAP—formerly the State Student Incentive Grant [SSIG] Program), the Special Leveraging Educational Assistance Partnership (SLEAP), the Robert C. Byrd Honors Scholarship (Byrd) Program and, if a State is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the states.

Timely return of funds

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in *Volume 5, chapter 2*. This discussion also defines **timely return of funds** for a school that maintains FSA program funds and general operating funds in the same bank account.

Bank notification via UCC-1 form

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase federal funds was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from the requirement.

Remitting Interest

The fastest, most efficient way to remit interest is through the GAPS web site at

<http://e-grants.ed.gov/gapsweb/>

A school with a user ID and password can go to the main menu and select "Refunds" then "Interest." They will be taken to the screens through which they can send ED interest.

Schools can also return excess interest income to ED by check. The check should be sent to:

**U.S. Department of Education
P.O. Box 979053
St. Louis, Missouri 63197-9000**

The school should note on the check the school's DUNS number and Document Award Number, and it should also indicate that the remittance is for interest earned.

Bank account notification requirements

For each account that contains FSA program funds, a school must identify that FSA program funds are maintained in the account by

- including the phrase *federal funds* in the name of the account, or
- notifying the bank or investment company of the accounts that contain FSA program funds and keeping a copy of this notice in its records and, except for public institutions, filing a Uniform Commercial Code Form (UCC-1) statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

Interest-bearing or investment account

Direct Loan, Pell Grant, ACG, National SMART Grant, FSEOG and FWS program funds must be maintained in an interest-bearing account or an investment account unless:

- the school drew down less than \$3 million of these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year,
- the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year, or
- the school requests these funds under the Just-in-Time payment method.

An investment account must consist predominantly of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on Direct Loan, Pell Grant, ACG, National SMART Grant, FSEOG and FWS program funds maintained in an interest-bearing account or an investment account that exceeds \$250 per award year must be remitted to the Department by June 30 of that award year (see sidebar). A school may keep up to \$250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining the account.

A school must retain any interest earned on Perkins Loan funds as part of the Perkins Loan Fund. If a school maintains an account where Perkins funds are commingled with other FSA program funds, the interest earned on the Perkins funds must be identified, and those funds must be retained for use in the school's Perkins program.

Perkins Loan funds

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. An investment account must consist predominantly of low-risk, income producing securities such as obligations issued or guaranteed by the U.S. Government. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins program. The interest earned on the school's Perkins funds is not included in the \$250 maximum award year interest the school is permitted to retain.

A school may deduct from the interest earned any bank or service charges incurred as a result of maintaining the fund assets in an interest-bearing account, and deposit only the net earnings.

If a collection agency or third-party servicer receives funds directly from Perkins borrowers, it must immediately deposit those funds in an institutional trust account. The agency or servicer may open and maintain the account, but the funds in it belong to the institution. If the funds will be held for more than 45 days, the account must be interest bearing.

EXCESS CASH

As mentioned earlier, under the advanced payment method a school must disburse funds no later than three business days following the date the school receives them. *Excess cash* is any amount of program funds that the school does not disburse to students by the end of the third business day. However, this definition does not include funds received under the Just-in-Time payment method (see the discussion under the *Just-in-Time payment method* earlier in this chapter). Excess cash must be returned to the Department immediately.

Excess cash

34 CFR 668.166

Three-day rule

A school must disburse FSA funds as soon as administratively feasible but no later than three business days following the date the school received those funds.

Cite

34 CFR 668.162(b)(3)

Sometimes a school cannot disburse funds in the required 3 days because of circumstances outside the school’s control. For example, a school may not have been able to disburse funds because of a change in a student’s enrollment status, a student’s failure to attend classes as scheduled or a change in a student’s award as a result of verification. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

Allowable excess cash tolerances

During a period of peak enrollment, a school may maintain excess cash if the amount is less than 3% of the school’s total prior-year draw-downs. The school is required to eliminate the excess cash balance within the next seven days by disbursing program funds to students for at least the amount of that excess cash balance.

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than 1% of the school’s prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing program funds to students for at least the amount of that balance.

The Department reviews schools to determine where excess cash balances have been improperly maintained. Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school.

Where excess cash balances are disproportionately large or where they represent a continuing problem with the school’s ability to responsibly administer the FSA programs, the Department may initiate a proceeding to fine, limit, suspend or terminate the school’s participation in one or more of the FSA programs. For more on fines and other actions against schools, see *Volume 2 – School Eligibility and Operations*.

Generally, a check is issued when the school releases, distributes or makes available the check by mailing the check to the student or parent, or by notifying the student or parent expeditiously that the check is available for immediate pickup. However, upon finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school’s bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Period of peak enrollment

34 CFR 668.166(b)(2) defines a period of peak enrollment as a period when at least 25% of the school’s students start classes during a given 30-day period. A school identifies these periods of peak enrollment in advance, based on data from the prior award year:

Number of students who started classes in the comparable 30-day period in the prior award year

Total number of students who started classes during the entire prior award year

Excess cash rules

In general, excess cash is any FSA funds other than Perkins that are not disbursed by the end of the 3rd business day after funds are received from the Department (34 CFR 668.166).

The cash management regulations allow a school to hold FFEL funds for up to 10 days if the student is expected to become eligible in that time (34 CFR 668.167(b) and (c)).

The verification regulations provide a 45-day exception for holding FFEL loan funds.

Cite34
CFR 668.58(c)

Holding FFEL funds if student is temporarily ineligible

When a school receives FFEL Program funds from the lender by EFT or master check, it usually must disburse the funds within 3 business days. If the FFEL lender provided the loan funds through a check requiring the endorsement of the student or parent, the school must credit the student's account or issue a direct disbursement to the eligible student (or parent borrower) no later than 30 calendar days after the school receives the funds.

In some cases, your school may receive the loan funds at a point when the student is temporarily not eligible for a disbursement—for instance, if the student needs to complete the clock hours or credit hours in the first half of the loan period (for an academic program without terms). If you expect such a student to become eligible for disbursement in the immediate future, your school has an additional 10 business days to disburse the funds. In effect, this means that your school can wait 13 days after receipt of the EFT or master check (40 days for a check requiring endorsement) to make a disbursement to a student who is expected to regain eligibility during this 10-day window.

A school must return FFEL Program funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement. However, if a student becomes eligible to receive FFEL Program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

The requirement that a school return funds no later than a certain number of days means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business on the last day of that period.

Holding FFEL Stafford loan funds for verification

If you have certified an FFEL Stafford Loan for a student who was selected for verification, and the loan funds arrive before verification is completed, your school may hold the loan proceeds for up to 45 days. If the applicant does not complete the verification process within the 45-day period, your school must return the loan funds to the lender.

If the student's eligibility was reduced as a result of verification, you may make the full disbursement if the excess amount can be eliminated by reducing subsequent disbursements for the applicable loan period. (You must advise the lender to reduce the subsequent disbursements.) If the excess funds cannot be eliminated in subsequent disbursements for the applicable loan period, your school must return the excess funds to the lender.

FFEL three-day rule

34 CFR 668.167(b)(2)

Holding and returning FFEL funds

- Basic requirement to return FFEL funds
34 CFR 668.167(b)(1)
- Additional 10 days
34 CFR 668.167(b)(2)
- If the borrower did not complete the number of clock hours or credits in the previous payment period
34 CFR 668.167 (c)(1)(i)(A)&(B)
- if the student has not met all the FFEL eligibility requirements and the school expects the student to meet them within the 10 days
(34 CFR 668.167 (c)(1)(ii)(A)&(B))
- if the school is on heightened cash monitoring.
34 CFR 668.167(d)&(f)
- Verification delay
34 CFR 668.58(c)

Returning FFEL funds promptly

For purposes of the cash management regulations and this discussion, returning funds promptly means that a school may not delay its normal process for returning FFEL Program funds to lenders.

Cite

FFEL: 34 CFR 668.167

Example of a policy to prevent escheating

Typically, each state establishes the useful life of a check or bank draft used to disburse FSA program funds. After this established date, the check cannot be negotiated and the proceeds of an uncashed check normally escheat to an unintended third-party (the state or the institution).

In state A, a bank check has a useful life of 180 days. In order to prevent FSA funds from escheating to a third-party, the Business Office at School A, at the end of each month, identifies all outstanding uncashed checks containing FSA funds. Prior to the 180th day, the Business Office voids the uncashed checks and restores the funds back to the applicable FSA program.

PROHIBITION ON ESCHEATING OF FSA FUNDS

Because program funds are awarded to a student to pay current year charges, notwithstanding any authorization obtained by a school from a student or parent, the school must pay:

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

A school that fails to disburse funds by those dates is in violation of the Department's cash management regulations. If a school pays credit balances by check, and if a school cannot locate a student to whom an FSA credit balance must be paid, the school must exercise its fiduciary responsibility to the student and the FSA programs, and return the credit balance to the programs.

A school has a fiduciary responsibility to –

- safeguard FSA funds,
- ensure FSA funds are used only for the purposes intended,
- act on the student's behalf to repay a student's FSA education loan debt when the school is unable to pay a credit balance directly to the student, and
- return to the Department any FSA funds that cannot be used as intended.

Under this process, FSA funds would never escheat to a state, or revert to the school or any other third party. A failure to have such a process in place would call into question a school's administrative capability, its fiscal responsibility and its system of internal controls required under the Department's regulations.

RETURNING FUNDS

There are a number of reasons why a school may have to return funds to the Department including –

1. the return of FSA funds required when a school must correct an overaward or an overpayment, and the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (The return of funds under these circumstances is discussed in Volume 5.);
2. having FSA funds on hand with no expectation they can be disbursed to other eligible students within three days (excess cash);
3. owing the Department for expenditures disallowed during a program review or audit;
4. having earned interest on your federal funds (other than in your Perkins account) in excess of \$250.00; and
5. holding large Federal Perkins Loan cash balances on hand ((COH) balances on the FISAP).

GAPS allows Payees to return money to the Department (including excess interest) using the Electronic Refund Functionality in GAPS for up to 10 years following the end of the award year. For complete instructions on returning funds through GAPS, see The Blue Book and the GAPS Refund Manual.

Only in exceptional circumstances should a school return funds by sending a check instead of using the electronic refund functionality in GAPS.

Returning funds by depositing them in a federal funds account (34 CFR 668.173(b))

For funds obtained from the Department, a school meets the Return requirement if it deposits or transfers the funds into its federal account no later than 45 days after the school determined that a student withdrew or received an overpayment the school was responsible for returning.

If a school has not drawn down federal funds or has made disbursements that exceed the amount the school has drawn the school does not need to be deposit funds in its federal account. Of course, the school's accounting records must show that institutional funds were used to credit the student's account.

Returning Funds by Check

(These instructions do not apply to returning funds from an audit or program review.)

If exceptional circumstances require that you return Pell or Campus-Based funds by check you must –

1. use a separate check for each award year; and
2. note the school's D-U-N-S number and the appropriate Program Award Number (Pell Grant Award Number) on the check.

The GAPS lockbox address for Pell and Campus-Based funds is

U.S. Department of Education
P.O. Box 979053
St. Louis, Missouri 63197-9000

If exceptional circumstances require that you return Direct Loan funds by check, you must –

1. use a separate check for each award year;
2. note the school's D-U-N-S number, Direct Loan school code, and award year on each check; and
3. include a completed Direct Loans Return of Cash form with each check (see DLB 04-06).

The address for returning Direct Loan funds by check is:

U.S. Department of Education
Attention Refunds of Cash
P.O. Box 9001
Niagra Falls, New York 14302

Downward adjustments required

All Pell Grant funds, other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in students records in COD. Likewise, all Direct Loan funds, other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in borrowers' loans in COD.¹

All returns of Pell funds made by a school receiving funds under the Pushed Cash method must be offset by reductions in the student's Pell in COD.

All returns of Pell funds previously disbursed (unclaimed credit balances) must be offset by reductions in COD.

Returning funds from an audit or program review

If, as a result of a program review or audit, a school is required to repay FSA funds, a copy of its Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) letter is sent to ED's Receivables and Cash Receipts Team (RCRT) where an account receivable is established for the school. The Department will then, through its billing agent, bill the school for the disallowed expenditures, accrued interest, and penalties, if any. Payment instructions will be included with the bill.

- If a school owes ED \$100,000 or more, it must remit payment through its financial institution by FEDWIRE.
- If a school owes ED less than \$100,000 it must remit payment by check to ED's billing agent.

A school may not reduce amounts reported as net drawdowns on its GAPS Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any FSA funds returned for this purpose will not be credited to a school's GAPS account.

Unless otherwise directed by the FADL or FPRD letter, a school may not adjust its prior-year FISAPs or Federal Pell Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review. Also, the school should send Stafford/PLUS repayments directly to any FFEL Program lender, or to the Direct Loan Servicing Center.

1. A school that has drawn down more funds than it can disburse due to changes in students' status between the drawdown and disbursement date would need to return the funds if they could not disburse them within the allowed timeframe. However, such returns would not be offset by reductions in the students' records in COD.

Introduction to Volume 5

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; a second occurs when a student withdraws. This volume covers how a school should respond when either of these types of overpayments occurs.

Here, we provide a summary of the changes and clarifications presented in greater detail in the chapters that follow. **Alone, the text herein does not provide schools with the guidance needed to satisfactorily administer the Title IV, HEA programs.** For more complete guidance, you should refer to the text in the chapters cited, the Code of Federal Regulations (CFR) and the Higher Education Assistance Act (HEA) as amended:

Throughout this volume, new information is indicated with the following symbol:



When the text represents a clarification rather than a change, it is indicated with this symbol:



When we believe that historically there might be some misunderstanding of a requirement, we indicate that with:



or



Finally, if we want to point out a bit of helpful information we indicate it with:



Major Changes

On February 8, 2006, the president signed The Higher Education Reconciliation Act of 2005 (HERA). Effective July 1, 2006, HERA established two new types of grants for certain Pell Grant-eligible college students:

1. The Academic Competitiveness Grant (ACG), and
2. The National Science and Mathematics Access to Retain Talent Grant (National SMART grant).

In addition, the HERA modified the way in which the Return of Title IV funds are calculated. The majority of the changes we have made this year to this volume are a reflection of the HERA.

Chapter 1 – Overpayments and Overawards

- ☛ The law provides that a student's ACG or National SMART Grant, when combined with a student's expected family contribution and estimated financial assistance may not exceed the student's cost of attendance under section 472 of the HEA. We have updated the text to reflect the way schools must resolve overawards containing ACT or National SMART Grant funds.
- ☛ We have added a section explaining how a resolved overaward may become an overpayment if the student ceases attendance before the end of the current payment period.
- ☛ We remind schools that although HERA increased the de minimus threshold for overpayments due to withdrawal, the de minimus amount for all other overpayments remains less than \$25.
- ☛ We remind schools that regardless of the type of loan (FFEL or Direct) consolidated and no matter the type of consolidated loan the student obtained, 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 in order to regain Title IV eligibility when the loss of eligibility was due solely to exceeding those loan maximums.

Chapter 2 – Withdrawals and the Return of Title IV Funds

- We remind schools that a student begins earning Title IV funds on his or her first day of attendance, and that even if a student withdraws before a school's census date, the school must perform a Return calculation using the number of days or the number of scheduled clock hours the student attended class as the numerator in STEP 2, Part H.
- We updated the text to reflect the fact that the HERA:
 1. has extended the number of days schools have to return funds from 30 to 45;
 2. now allows schools to give students more than 14 days to respond to an offer of a post-withdrawal disbursement;
 3. changed the types of Title IV aid that must be included in a Return calculation;
 4. requires schools to include only scheduled hours when determining the percentage of the period completed by a student withdrawing from a clock-hour program;
 5. has modified the required notifications and authorizations required before can make post-withdrawal disbursements;
 6. now limits the amount a student must repay to the amount by which the original overpayment amount exceeds 50 percent of the total grant funds received by the student for the payment period or period of enrollment;
 7. changed the de minimus amount a student must repay so that a grant overpayment of \$50 or less will not make the student ineligible to receive Title IV, HEA program assistance should the student return to school.
- We provide new worksheets schools can use in performing return calculations, tracking post-withdrawal disbursements, and referring students to ED for collection.

Chapter 2 – Case Studies

- As required, we have updated the case studies to reflect the changes made by the HERA.

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.

Academic Competitiveness Grant (ACG) and National Science and Mathematics to Retain Talent Grant (National SMART Grant) programs

The law provides that a student's ACG or National SMART Grant, when combined with a student's expected family contribution and estimated financial assistance may not exceed a student's cost of attendance under section 472 of the HEA. Moreover, the law does not provide any overaward tolerance in these programs. Therefore, any overaward or overpayment containing ACG or National SMART Grant funds must be reduced or repaid.

If a school learns that a student received financial assistance that was not included in calculating the student's eligibility for aid, and that assistance would result in the student's total aid exceeding his or her financial need, the school must take steps to resolve 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. The Cash Management regulations use 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
Ineligible student 34 CFR 668.139

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



Resolving ACG and National SMART Grant Overawards

If an school discovers that an overaward situation exists –

The school first should attempt to eliminate that overaward by adjusting subsequent Title IV, HEA program (other than Federal Pell Grant, ACG, or National SMART Grant) payments in the same award year;

If the institution cannot eliminate the overaward by those adjustments, the school should attempt to eliminate the overpayment by adjusting subsequent ACG or National SMART Grant payments in that same award year.

Overaward tolerance for Stafford Loans

In general, there is no tolerance when determining an overaward in the FFEL and Direct Loan programs. However, if a student's financial aid package contains a FFEL or Direct Loan and an FWS award a \$300 tolerance can be applied to eliminate the overaward.

If an overpayment occurs for a student who has a FFEL or Direct Loan and Campus-Based awards, unless the Stafford loans have been fully disbursed. The FFEL or Direct loan must be reduced before the Campus-Based awards are adjusted or canceled.

Before reducing a student's ACG or National SMART Grant 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 assistance does not exceed the revised need, the school is not required to take further action.

If the school recalculates the student's need and determines that the total assistance still exceeds his or her need, the school must reduce or cancel any future Title IV or institutional disbursements. Beginning with any unsubsidized loans the student is scheduled to receive, the school must first reduce a student's level of borrowing.

If the school failed to follow required procedures, the school must repay any Title IV overpayment. If the school followed the required procedures and the Title IV overpayment is greater than \$25.00, the student must repay the overpayment.

Stafford Loans

If you find out that there's going to be an overaward before Stafford or PLUS 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.
- 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 all of the loan proceeds. Note that Stafford Loan overawards must be repaid before adjusting or cancelling 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.

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.

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.

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 part of his EFC.

Campus-based overawards cite

34 CFR 673.5(d)

When a student receiving ACG or National SMART Grant funds and Campus-Based funds has an overpayment

There is no overaward tolerance in either the ACG or National SMART Grant programs. Therefore, if a school discovers that an overpayment was made to a student who is receiving ACG or National SMART Grant funds and Campus-Based funds, the school must resolve the overpayment.

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, exceeds the student's financial need.

If a school learns that a student received financial assistance that was not included in calculating the student's eligibility for aid from the campus-based programs and that assistance would result in the student's total financial assistance 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 financial assistance does 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 financial assistance still exceed his or her need by more than \$300, the amount that exceeds the student's need by more than \$300 is an overpayment. The school must eliminate the amount of the overpayment that exceeds the \$300 threshold.

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.

A resolved overaward may become an overpayment

If a school has resolved an overpayment by reducing scheduled future disbursements for a second or subsequent payment period and the student ceases attendance before the end of the current payment period, that portion of the student's award that was an overpayment must be repaid outside of the requirements of 34 CFR 668.22.

If the school is responsible for repaying the overpayment, the school must repay the overpayment before completing any required Return calculation as described in chapter 2 of this volume.

If the student is responsible for repaying the overpayment, and the student withdrew after the 60 percent point in the payment period or period of attendance, as applicable, the school should try to collect the overpayment from the student and if it is unable to do so, should refer the student to ED's Borrower Services.

If the student is responsible for repaying the overpayment, and the student withdrew before the 60 percent point in the payment period or period of attendance, as applicable, the school should not take any action until it has completed the required Return calculation.

However, when performing the Return calculation, the school should not include the amount of the overpayment for which the student is responsible as *Aid that was or could have been disbursed*. Then, when the school has completed the Return calculation, it should document the amount of the overpayment and, as applicable, reduce any post-withdrawal disbursement or increase any amount the student must return by the amount of the overpayment owed by the student.



Clarification

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)

Recovery of overpayments

34 CFR 668.139

Time frame for returning funds cite

34 CFR 668.21(a)(2)(ii)(A)

TREATMENT OF OVERPAYMENTS

An overpayment exists whenever a student receives aid that exceeds his or her eligibility for a Title IV program. Overpayments can be caused by incorrect reporting of information on the FAFSA, miscalculating cost of attendance, miscalculation of the EFC by a school, paying ineligible students, and paying aid in excess of grant or loan maximums. In general, unless the school is liable, a student is liable for any Pell, ACG, National SMART Grant, Perkins Loan, or FSEOG overpayment made to him or her.

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, ACG, National SMART Grant, Perkins Loan, or FSEOG overpayment (including amounts under \$25) that occurred because your school failed to follow the requirements in 34 CFR parts 668, 673, 674, 676, 690, or 691 as applicable. 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. When returning Pell, ACG, or National SMART Grant overpayments, you 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.

A school may attempt to collect funds it has returned from a student. However, this is not a Title IV debt, because an overpayment for which a school is responsible can never become a Title IV debt for a student. Therefore an overpayment for which a school is responsible can never result in a student’s losing Title IV eligibility and should never be reported to NSLDS or referred to ED for collection.

If an overpayment is the result of an interim disbursement (see the *Application and Verification Guide*), and the student does not repay it, the school must repay the overpayment from the school’s funds. The school must repay the overpayment within 60 days following the student’s last day of attendance or by the last day of the award year, whichever comes first. Because the interim disbursement was made at the school’s discretion, the school is ultimately responsible for repaying it. Moreover, because the student does not owe a Title IV overpayment, the student should not be reported to NSLDS or referred to ED for collection.

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.



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 the overpayment, 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 ACG, National SMART Grant, FSEOG, and Perkins overpayments, you can adjust subsequent disbursements.

If that is not possible, you must promptly attempt to recover the overpayment by notifying the student (by paper or electronically) and requesting full payment. 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 ACG, National SMART Grant, FSEOG, and Pell Grant funds, you must refer the overpayment to the Department with the required information (see Referring overpayment cases to Collections later in this chapter), and you must report to NSLDS the unresolved overpayment. After that, you are not required to make any further attempt to collect the ACG, National SMART Grant, FSEOG or, Pell Grant overpayment.

Examples of overpayments due to student error

When Chavo applied, he didn't have his tax returns, 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.

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.

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 return, 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 a 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 Grant, ACG, National SMART Grant, Perkins Loan or FSEOG overpayment.

Generally a student is liable for any Pell Grant, ACG, National SMART Grant, FSEOG, or Perkins overpayment he or she receives unless the school is liable for it. However, 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, 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. This is true regardless of the type of loan (FFEL or Direct) consolidated and no matter the type of consolidated loan the student obtained.

Though HERA increased the de minimus threshold for overpayments due to withdrawal, the de minimus amount for all other overpayments remains less than \$25.

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.

Clarification

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 about 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.)

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 online 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.

Reporting overpayments to NSLDS

DCL GEN-98-14, July 1998

All new ACG, National SMART Grant, and 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>

Referring overpayment cases to Collections

If you have tried but not succeeded in collecting a Pell Grant, ACG, National SMART Grant, 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 be at least \$25.

Note: For an FSEOG overpayment, when a school uses the individual recipient or aggregate matching methods, the 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 is a remaining balance or, when the amount is 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.

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 2007-2008 award year, on its Overpayment Referral, schools must continue to provide their School’s Pell Identification Number. During the 2007-2008 award year, schools should not enter their Routing Identifier.

School must resolve student concerns

If a student claims that a school’s ACG, National SMART Grant, or 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.

Important

Important

Tip

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."

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

Important

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.

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.

Campus-based overawards cite

34 CFR 673.5(d)

When a student receiving ACG or National SMART Grant funds and Campus-Based funds has an overpayment

There is no overaward tolerance in either the ACG or National SMART Grant programs. Therefore, if a school discovers that an overpayment was made to a student who is receiving ACG or National SMART Grant funds and Campus-Based funds, the school must resolve the overpayment.

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 financial assistance, exceeds the student's financial need.

If a school learns that a student received financial assistance that was not included in calculating the student's eligibility for aid from the campus-based programs and that assistance would result in the student's total financial assistance 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 financial assistance does 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 financial assistance still exceed his or her need by more than \$300, the amount that exceeds the student's need by more than \$300 is an overpayment. The school must eliminate the amount of the overpayment that exceeds the \$300 threshold.

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.

Information Required when Referring Student Overpayments to Borrower Services - Collections

Student Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____

Social Security Number: _____ Date of Birth: _____

If the overpayment includes an Academic Competitiveness or National Smart Grant, enter the Award ID (see instructions on next page).

ACG Award ID: _____ National Smart Grant Award ID: _____

Parent/Spouse Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____

School Information

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

Reporting School's Pell ID Number: _____ Attending School's Pell ID Number: _____

Name of Contact: _____ Telephone Number: _____

Disbursements and Repayments

	Pell Grant	Academic Competitiveness Grant	National Smart Grant	FSEOG
Award year in which overpayment was disbursed:	_____	_____	_____	_____
Total grant disbursed:	_____	_____	_____	_____
Dates of disbursement: (Must match NSLDS overpayment record)	_____	_____	_____	_____
Overpayment amount owed by student *	_____	_____	_____	_____
Total grant repaid by student to school, if any:	_____	_____	_____	_____
Date of last payment to school, if any:	_____	_____	_____	_____
Total being referred for collection:	_____	_____	_____	_____ ¹

¹ If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG.

* If the overpayment is the result of a withdrawal, provide the date of the withdrawal / /

If the overpayment is **not** the result of a withdrawal, please provide a brief explanation of the reason for the overpayment.

SEND INFORMATION TO ⇒ Student Loan Processing Center-Overpayments
P.O. Box 4157
(903) 454-5398 ⇐ FAX Greenville, Texas 75403

Withdrawals and the Return of Title IV Funds

CHAPTER 2

This chapter will discuss the general requirements for the treatment of Federal Student Aid funds when a student withdraws and will then discuss the principles applicable to the worksheets.

WITHDRAWALS

This chapter explains how Federal Student Aid (Title IV) funds are handled when a recipient of those funds ceases to be enrolled prior to the end of a payment period or period of enrollment. These requirements do not apply to a student who does not actually cease attendance at the school. For example, when a student reduces his or her course load from 12 credits to 9 credits, the reduction represents a change in enrollment status not a withdrawal. Therefore, no Return calculation is required.

The Return of Title IV Funds (Return) regulations do not dictate an institutional refund policy. Instead, a school is required to determine the earned and unearned Title IV aid a student has earned as of the date the student ceased attendance based on the amount of time the student spent in attendance or, in the case of a clock-hour program, was scheduled to be in attendance. The calculation of Title IV funds earned by the student has no relationship to the student's incurred institutional charges.

Up **through the 60% point** in each payment period or period of enrollment, a prorata schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal. **After the 60% point** in the payment period or period of enrollment, a student has earned 100% of the Title IV funds he or she was scheduled to receive during the period.

For a student who withdraws after the 60% point-in-time, there are no unearned funds. However, a school must still determine whether the student is eligible for a post-withdrawal disbursement.

The Return regulations do not prohibit a school from developing its own refund policy, or complying with refund policies required by a state or other outside agencies. Although an institutional, state, or agency refund policy will determine the charges a student will owe after withdrawing, those policies will not affect the amount of Title IV Aid the student has earned under the Return calculation.

Return of Funds cites

HEA, Section 484B
34 CFR 668.22

The FSA Assessment module

that can assist you in understanding and assessing your compliance with the provisions of this chapter is "Return of Title IV Funds," at

<http://ifap.ed.gov/qahome/qassessments/returntivfunds.html>

Important

When a student withdraws before a school's census date

A student begins earning Title IV funds on his or her first day of attendance. Therefore, even if a student withdraws before a school's census date, the school must perform a Return calculation using the number of days or the number of scheduled clock hours the student attended class as the numerator in STEP 2, Part H.

Technical questions

Technical questions on the Return of Title IV funds software are handled by the CPS at

800-330-5947

or via email at

cpssaig@ed.gov.

Access to R2T4 Web Product via CPS Online

Individual staff members must be enrolled in the SAIG in order to have access to the Return software.

Your school's SAIG Destination Point Administrator (DPA) can enroll the selected staff members via the SAIG Enrollment Web site at

<http://www.fsawebenroll.ed.gov>

General requirements

Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive.

If a recipient of Title IV grant or loan funds withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. If the amount disbursed to the student is less than the amount the student earned, and for which the student is otherwise eligible, he or she is eligible to receive a post-withdrawal disbursement of the earned aid that was not received.

Worksheets and software

The Department has developed worksheets and software to assist schools in implementing the Return regulations (you can find blank worksheets at the end of this chapter). There is one worksheet for students who withdraw from credit-hour programs and one for students who withdraw from clock-hour programs. These worksheets are also in portable document file (PDF) format on the Department's Information for Financial Aid Professionals Web site at

<http://ifap.ed.gov>

The Department has developed a Return of Title IV Aid Web product. It is accessible via the main menu of the FAA Access at the CPS Online Web site

<http://www.fafsa.ed.gov/FOTWWebApp/faa/faa.jsp>

The use of the Department's worksheets and the Web Product is optional.

The Higher Education Reconciliation Act

On February 8, 2006, the president signed The Higher Education Reconciliation Act of 2005 (HERA). Effective July 1, 2006, HERA established two new types of grants for certain Pell Grant-eligible college students:

1. The Academic Competitiveness Grant (ACG), and
2. The National Science and Mathematics Access to Retain Talent Grant (National SMART grant).

In addition, the HERA made the modifications to the way in which the Return of Title IV funds are calculated that we discuss in this chapter.

Consumer information

In the consumer information a school must make available upon request to prospective and enrolled students, the school must include a statement of –

- any refund policy with which the school must comply;
- the requirements for the treatment of Title IV funds when a student withdraws; and
- the requirements and procedures for officially withdrawing from the school.

An institution should provide sufficient information for a student or prospective student to be able to determine the financial consequences of withdrawing, and how to officially withdraw. A student should be able to estimate how much federal student aid he or she will earn if the student withdraws, and how much he or she may have to return. In addition, because the Return provisions do not affect institutional refund policies, the school must provide the student with information on both the federal student aid requirements and the school's refund requirements and explain the interaction between the two. A school should include some discussion of how it might adjust a student's charges to take into account any Return of Title IV funds that the school may be required to make. Finally, a student or prospective student should be informed that Federal Student Aid may not cover all unpaid institutional charges due to the institution upon the student's withdrawal.

As a part of the institution's disclosure of the procedures for officially withdrawing, the school must identify the office or offices that it has designated to accept notification of official withdrawals.

Consumer information cite

Section 485(a)(1)(F), 34 CFR 668.43

For more information see chart on "Institutional and Financial Assistance Information for Students" in "Volume 1 – Student Eligibility."

Sample summary provided

A sample summary of the requirements of 34 CFR 668.22 is provided at the end of this chapter.

GENERAL TITLE IV PRINCIPLES WITH SPECIAL APPLICABILITY IN THE RETURN OF TITLE IV AID

Definition of a Title IV recipient

Title IV Recipient

In determining whether the requirements of 34 CFR 668.22 apply, a school must first determine whether a student was eligible to receive any Title IV funds.

If a student withdraws before Title IV funds are disbursed

Even if a student paid all institutional charges and ceased enrollment prior to Title IV funds being disbursed, if Title IV funds could have been disbursed, the institution must determine the Title IV funds earned by the student and follow the procedures for making a post-withdrawal disbursement.

If a student never begins attendance cite

34 CFR 668.21,
34 CFR 682.604(d)(3) and (4), and
34 CFR 685.303(b)(3).

Withdrawals and verification cite

DCL-GEN-04-03

The requirements for the treatment of Title IV funds when a student withdraws apply to any recipient of Title IV grant or loan funds who ceases all attendance. For purposes of these requirements, a recipient of grant or loan assistance is a student who has actually received Title IV funds or has met the conditions that entitled the student to a late disbursement. These conditions are listed in a chart on Late Disbursements in Volume 4 – Processing Aid and Managing Federal Student Aid Funds.

The return requirements apply only to the receipt of or qualification for aid that can be included in the calculation. For example, the requirements of 34 CFR 668.22 do not apply to Federal Work-Study funds. Therefore, the Return requirements do not apply to a student if the only Title IV program assistance that the student has received or could have received was FWS funds.

Please note that if the student never actually began attendance for the payment period or period of enrollment, 34 CFR 668.22 does not apply. Likewise, if a student began attendance, but was not and could not have been disbursed Title IV grant or loan funds prior to withdrawal, the student is not considered to have been a Title IV recipient and the requirements of 34 CFR 668.22 do not apply. In these cases, Title IV funds would be handled in accordance with other Title IV regulations (see margin).

Verification

The Return calculations impose no additional liability for interim disbursements made to students selected for verification. However, the Return requirements do place limits on interim disbursements that can be made to students selected for verification who have ceased attendance. **A school may not make an interim disbursement to a student after the student has ceased attendance.**

The Department establishes deadlines for the submission of required verification documents that apply to all Title IV programs.

For campus-based program funds and subsidized FFEL and Direct Loan program funds, an institution may establish an institutional verification deadline that may be earlier than the date established by ED. The institution must include its verification deadlines in the consumer materials it provides to students.

The following rules apply when a school is completing a Return calculation for a student subject to verification.

1. A school must always return any unearned Title IV funds it is responsible for returning within 45 days of the date the school determined the student withdrew, and offer any post-withdrawal disbursement within 30 days of the date the school determined the student withdrew.
2. Unless a student subject to verification has provided all required verification documents in time for the school to meet the Return deadlines, the school includes as Aid Disbursed or Aid That Could Have Been Disbursed in the Return calculation only those Title IV funds not subject to verification.
3. If a student who failed to provide all required verification documents in time for the school to meet the Return deadline later provides those documents prior to the applicable verification deadline, the school must perform a new Return calculation on all of the aid the student qualified for based on the completed verification documents and make the appropriate adjustments.

When verification is completed before the Return deadline

A school must return any unearned funds within 45 days or offer any post-withdrawal disbursement within 30 days of the date of the institution's determination that the student withdrew. If a student provides all documents required for verification after withdrawing but before the verification submission deadline and in time for the institution to meet the 30-day Return deadline, the institution performs the Return calculation including all Title IV aid for which the student has established eligibility as a result of verification and for which the conditions of a late disbursement had been met prior to the student's loss of eligibility due to withdrawal. (See *Volume 4—Processing Aid and Managing Federal Student Aid Funds*, and 34 CFR 668.164(g)(2).)

When verification is not completed before the Return deadline

If a student who has withdrawn does not provide the required documents in time for the school to complete the verification process and meet the 30-day Return deadline noted above, the institution includes in the Return calculation only the Title IV aid that was not subject to the verification process. For a student who failed to provide all required verification documents, the only aid that may be included in a Return calculation are PLUS loan funds and unsubsidized Stafford loan funds (verification is not required for receipt of these funds) for which the conditions of a late disbursement (as discussed under Title IV aid that could have been disbursed) were met prior to the student's loss of eligibility due to withdrawal.

If a school has made an interim disbursement to a student who has failed to provide all the documents required for verification in time for the institution to meet the 45-day Return deadline, at that point in time the student has failed to establish eligibility for those Title IV funds affected by verification. Therefore, the institution must return any Title IV funds subject to verification that were disbursed to the student on an interim basis, and may not include any of those funds as aid that was or could have been disbursed in the Return calculation.

When verification is completed after the Return deadline

If, before the verification deadline but after the institution has completed the Return calculation, a student provides all the documentation required for verification, the institution must perform a new Return calculation including as *Aid that could have been disbursed* all Federal Student Aid for which the student has established eligibility based upon verification and for which the conditions of a late disbursement have been met prior to the student's loss of eligibility due to withdrawal. If, as a result of verification, the student's eligibility for Federal Pell Grant, FSEOG, and Federal Perkins funds has been reduced, only the reduced amount is included in the new Return calculation.

For additional information on Verification, please consult *The Application and Verification Guide*.

Approved leave of absence

A leave of absence (LOA) is a temporary interruption in a student's program of study. LOA refers to the specific time period during a program when a student is not in attendance. An LOA is not required if a student is not in attendance only for an institutionally scheduled break. However, a scheduled break may occur during an LOA.

An LOA must meet certain conditions to be counted as a temporary interruption in a student's education instead of being counted as a withdrawal requiring a school to perform a Return calculation. If an LOA does not meet the conditions in 34 CFR 668.22(d), the student is considered to have ceased attendance and to have withdrawn from the school, and the school is required to perform a Return calculation.

Verification and the 30-day deadline

If an institution is unable to meet the requirement to offer any amount of a post-withdrawal disbursement that is not credited to a student's account to the student (or parent for a PLUS loan) within 30 days from the date of the institution's determination that the student withdrew, once verification is complete the institution must offer the funds as soon as possible and should provide the student or parent with the minimum 14-day (or longer as a result of HERA) response period whenever possible.

An institution must make any post-withdrawal disbursement that results from the subsequent Return calculation as soon as possible but no later than the applicable 120-day late disbursement deadline.

Disbursement rules for students on leave of absence (LOA)

You may NOT make a disbursement of the proceeds of a FFEL or Direct Loan to a student on an LOA (34 CFR 682.604(c)(4)).

You may disburse Pell Grant, FSEOG, and Perkins funds to a student on an LOA.

You may pay any funds that are part of a Title IV credit balance (and therefore are funds that have already been disbursed) to a student on an LOA.

In order for an LOA to qualify as an approved LOA –

1. the school must have a formal written policy regarding leaves of absence requiring that all requests for leaves of absence be submitted in writing and include the reason for the student's request;
2. the student must follow the school's policy in requesting the LOA;
3. there must be a reasonable expectation that the student will return from the LOA;
4. the school must approve the student's request for an LOA in accordance with the school's policy;
5. the institution may not assess the student any additional institutional charges, the student's need may not increase, and therefore, the student is not eligible for any additional Federal Student Aid;
6. the LOA together with any additional leaves of absence must not exceed a total of 180 days in any 12-month period;
7. except in a clock-hour or nonterm credit-hour program, a student returning from an LOA must resume training at the same point in the academic program that he or she began the LOA; and
8. if the student is a Title IV loan recipient, the school must explain to the student, prior to granting the LOA, the effects that the student's failure to return from an LOA may have on the student's loan repayment terms, including the expiration of the student's grace period.

A student granted an LOA that meets the criteria in this section is not considered to have withdrawn, and no Return calculation is required. Upon the student's return from the leave, he or she continues to earn the Federal Student Aid previously awarded for the period.

Maximum Timeframe or LOA

When calculating the maximum time frame for a student's approved LOA, the school must ensure that it accounts for all periods of nonattendance (including weekends and scheduled breaks).

Thus, since an approved LOA may not be more than 180 days, a school might have to reduce the length of a student's LOA if the 180th day is scheduled to fall on a day the school would be closed.

Reminder

Full tuition credit

An institution may grant a full tuition credit toward the course the student chooses to reenter as a way to comply with the requirement that the institution not assess the student any additional charges upon return from an approved leave of absence.

Written formal policy required

Among the policies and procedures a school must maintain is one that discusses the procedures a student must follow in applying for a leave of absence, and the criteria the institution will apply in determining whether to approve the application. An institution's LOA policy must specify that all requests for an LOA must be submitted in writing, must be signed, and must be dated.

As mentioned previously, the regulations provide that an institution must determine, before it grants an LOA, that there is a reasonable expectation that the student will return from the leave. In order for the institution to make such a determination, and in order for it to ensure that the student meets the criteria in the institution's LOA policy, the institution must know the student's reason for requesting the leave. **Therefore, an institution's LOA policy must specify that the reason for a student's leave request be included on a student's application for an LOA.**

An institution's policy must require a student to apply in advance for an LOA unless unforeseen circumstances prevent the student from doing so. For example, if a student were injured in a car accident and needed a few weeks to recover before returning to school, the student would not have been able to request the LOA in advance. A school may grant an LOA to a student who did not provide the request prior to the LOA due to unforeseen circumstances if the school documents the reason for its decision and collects the request from the student at a later date. In this example, the beginning date of the approved LOA would be determined by the institution to be the date the student was unable to attend school because of the accident.

A school must publicize its LOA policy. The school may do this by including that policy in the consumer information the school makes available to students (see Volume 2 – School Eligibility and Operations).

Reasonable expectation of return

This condition is specified to make clear that a school may not grant a student an LOA merely to delay the return of unearned Title IV funds.

Completion of coursework upon return in term-based credit-hour programs

Approved leaves of absence are viewed as temporary interruptions in a student's attendance. **For term-based programs, a student returning from an LOA must complete the term in order to be eligible to receive a second or subsequent disbursement.**

Therefore, for students enrolled in credit-hour term programs, in order for an LOA to be an LOA, a school must allow a student returning from an LOA to complete the coursework that he or she began prior to the LOA. In addition, the institution may not impose additional charges and may not award the student additional Title IV assistance.

Completion of coursework upon return in clock-hour and credit-hour nonterm programs

For nonterm-based programs, the regulations provide that the payment period is the period of time it takes a student to complete both half the number of credits **and** half the number of weeks of the academic year, program, or remainder of the program. For clock-hour programs, the payment period is the period of time it takes a student to complete half the number of clock hours in the academic year. Therefore, for clock-hour and nonterm programs it doesn't matter whether the student returns to the same course and point when the LOA began, or the student starts in a new course within the program (so long as there are no additional charges).

For clock-hour programs and nonterm credit-hour programs upon returning from an LOA a student need not complete the same coursework he or she began prior to the leave. For a nonterm program, once the student has earned half the required credits, and completed half the number of weeks in the period, the student has earned the Title IV funds he or she was previously paid. For a clock-hour program, once the student has completed half the number of clock hours, the student has earned the Title IV funds he or she was previously paid. At that point, if otherwise eligible, the student may receive a second or subsequent disbursement of Title IV program funds.

A student may return early

A school may permit a student to return to class before the expiration of the student's LOA in order to review material previously covered. However, until the student has resumed the academic program at the point he or she began the LOA, the student is considered to still be on the approved LOA.

If a student returns early, the days the student spends in class before the course reaches the point at which the student began his or her LOA must be counted in the 180 days maximum for an approved leave of absence. That is, a student repeating coursework while on LOA must reach the point at which he or she interrupted training within the 180 days of the start of the student's LOA.

The requirement that an institution not impose additional charges when an approved LOA ends and the student resumes his or her program of study applies when a student returns to repeat prior coursework. Moreover, even if the student enters at the beginning of the module or course from which he or she took the leave of absence, a student is not eligible for any additional Title IV program assistance for this preparatory phase.

Since a student is still considered to be on an LOA while repeating prior coursework, if the student fails to resume attendance at the point in the academic program where he or she interrupted training at the beginning of the LOA, the student must be treated as a withdrawal. In that case, at an institution that is not required to take attendance, the date of the student's withdrawal that must be used in the Return calculation is the date the student began the LOA.

At an institution that is required to take attendance, the Last Date of Attendance (LDA) is used as the withdrawal date for a student that does not return from a LOA .

Leaves of absence versus the grade of incomplete

At term-based schools, students who are unable to complete the requirements of an individual course are often assigned the grade of incomplete (I). Students are usually expected to complete the required work within a reasonable time in order to receive credit and a passing grade.

If a student is assigned an incomplete status for one or several courses but continues to attend other courses, the student is not considered to have withdrawn. A student who is awarded the grade of incomplete in all of his or her classes is not considered a student on an approved LOA unless the LOA meets the criteria in this section.

Because of the criteria that must be met in order for a LOA to be an approved LOA, term-based schools can grant LOAs that meet the Department's criteria for an approved LOA in a very limited number of cases. A term-based credit-hour institution that wishes to explore the possibility of granting an LOA that meets the criteria specified in 34 CFR 668.22(d), should call its Case Management Team for additional information.

No additional charges

An LOA is a temporary break in the student's attendance during which, for purposes of determining whether a Return calculation is required, the student is considered to be enrolled. Since students who are continuously enrolled are not assessed additional charges, any additional charges to a student, even minimal reentry charges, indicate that the institution does not truly consider the student to be on an approved LOA.

No additional Title IV assistance

Since an institution may not assess any additional charges to a student returning from LOA, the institution may not award any additional Title IV aid until the student has completed the coursework in which the student was enrolled when the leave was granted.

Leave of absence not to exceed 180 days in any 12-month period

Institutions, at their discretion, may grant a student multiple leaves of absence as long as the total number of days for all leaves does not exceed 180 days within a 12-month period. **This 12-month period begins on the first day of the student's initial LOA.**

When a student fails to return from a leave of absence

At an institution not required to take attendance, if a student does not return to the school at the expiration of an approved LOA (or a student takes an unapproved LOA), the student's withdrawal date is the date the student began the LOA. At an institution required to take attendance, the withdrawal date for the same student would always be the student's last day of attendance.

Explanation of consequences of withdrawal to loan recipients

A student who is granted an approved LOA is considered to remain in an in-school status for Title IV loan repayment purposes. If a student on an approved LOA fails to return, the school must report to the loan holder the student's change in enrollment status as of the withdrawal date.

One possible consequence of not returning from an LOA is that a student's grace period for a Title IV program loan might be exhausted. Therefore, in order for a LOA to be an approved LOA, prior to granting a leave of absence, a school must inform a student who is a Title IV loan recipient of the possible consequences a withdrawal may have on the student's loan repayment terms, including the exhaustion of the student's grace period.

Deferment or Forbearance

A student who has exhausted his or her grace period and is unable to begin repayment of a loan may apply for a deferment or forbearance of payment

Unapproved leaves of absence

A school may grant a student an LOA that does not meet the conditions to be an approved LOA for Title IV purposes (for example, for academic reasons). However, any LOA that does not meet all of the conditions for an approved LOA is considered a withdrawal for Title IV purposes. The student's withdrawal date at an institution not required to take attendance is the date the student begins the LOA. At an institution required to take attendance, the student's withdrawal date is the student's last day of attendance.

An unapproved LOA may not be treated as an unofficial withdrawal. An unofficial withdrawal is one where the school has not received notice from the student that the student has ceased or will cease attending the school. If a school has granted a student an unapproved LOA, the school would know immediately that the student had ceased attendance for Title IV purposes, and must use the specified withdrawal date in the Return calculation.

Institutional charges

Institutional charges are used to determine the portion of unearned Title IV aid that the school is responsible for returning. Schools must ensure that all appropriate fees as well as applicable charges for books, supplies, materials and equipment are included in Step 5, Part G of the Return calculation (see *Example of Determining Institutional Charges*). Institutional charges do not affect the amount of Title IV aid that a student earns when he or she withdraws.

Use of institutional charges in determining the school's responsibility for return

The institutional charges used in the calculation usually are the charges that were initially assessed the student for the entire payment period or period of enrollment as applicable. Initial charges may only be adjusted by those changes the institution made prior to the student's withdrawal (for example, for a change in enrollment status unrelated to the withdrawal). If, after a student withdraws, the institution changes the amount of institutional charges it is assessing a student, or decides to eliminate all institutional charges, those changes affect neither the charges nor aid earned in the calculation. (Please see Step 3 — Amount of Title IV aid earned by the student, for a further discussion of aid earned and institutional charges.)

The return regulations presume that Title IV program funds are used to pay institutional charges ahead of all other sources of aid. **Institutional charges may not be reduced even if other sources of aid are used to pay those charges.** For example, a school may not reduce institutional charges when an outside agency supplying aid requires that aid to be used for tuition.

Institutional charges cite

34 CFR 668.22(g)(1)(ii)
34 CFR 668.22(g)(2)
DCL-GEN-00-24

Fees as noninstitutional charges cite

Application fees are excluded from institutional charges because they are not an educational cost. (Federal Register, Vol. 59, No. 82, April 29, 1994, page 22356).

When to prorate charges

For students who withdraw from a non term-based educational program, the school has the choice of performing the Return calculation on either a payment period basis or a period of enrollment basis. If a school with a nonterm program chooses to base the Return calculation on a payment period, but the school charges for a period longer than the payment period (most likely the period of enrollment), there may not be a specific amount that reflects the actual institutional charges incurred by the student for the payment period. In this situation, the student's institutional charges for the payment period are the prorated amount of institutional charges for the longer period. However, if the school has retained Title IV funds in excess of the prorated amount, the institutional charges for the payment period are equal to the amount retained.

Effects of waivers on institutional charges

If your school treats a waiver as a payment of tuition and fees that have actually been charged to a student, then the waiver is considered estimated financial assistance, and the full amount of the tuition and fees must be included in Step 5, Part L of the Return calculation. On the other hand, if the student is never assessed the full charges, the waiver is not considered to be financial aid, and only the actual charges would be included in the Return calculation (see DCL GEN 00-24, January 2000 for a further discussion of waivers and the Return calculation).

Institutional versus noninstitutional charges

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

The following educational expenses must be considered institutional charges –

- all charges for tuition, fees, and room and board (if contracted with the school) (**If an institution enters into a contract with a third party to provide institutional housing, the institution has to include the cost of housing as an institutional charge in a Return calculation.**); and
- expenses for required course materials, if the student does not have a real and reasonable opportunity to purchase the required course materials from any place but the school.

Exceptions: Excludable costs are costs a school may exclude from the total amount of institutional costs, such as the docu-

Prorated charges example

Institutional charges are \$8,000 for a nonterm-based program that spans two payment periods of 450 clock hours each. The school chooses to calculate the treatment of Title IV funds on a payment period basis. A student withdraws in the first payment period. The prorated amount of institutional charges for each payment period is \$4,000. However, because of the \$1,000 in fees charged at the beginning of the period, the school has retained \$5,000 of the Title IV funds for institutional charges for the payment period. Therefore, the institutional charges for the payment period are \$5,000.

Waiver Example

An institution charges state residents \$900 per semester. Out-of-state students are charged an additional \$2,000 for a total of \$2,900. However, the institution grants waivers of the out-of-state charges to out-of-state athletes. The waiver is considered a payment to those charges (estimated financial assistance) and the full \$2,900 would need to be included in any Return calculation.

Reminder

Three principles associated with institutional charges

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

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

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

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

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

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

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

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

mented cost of unreturnable equipment, and documented cost of returnable equipment if not returned in good condition within 20 days of withdrawal.

Noninstitutional charges include –

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

Demonstrating a real and reasonable opportunity

A school may treat charges for books, supplies, equipment, and materials as noninstitutional charges if the school can substantiate that its students have the option of obtaining the required course materials from an alternative source. The school must be able to document that: (1) the required course materials were available for purchase at a relatively convenient location unaffiliated with the school; and (2) the school provided financial aid funds in a way and at a time that made it possible for the student to purchase the materials in a timely manner. A signed statement by a student that he or she had the option to purchase the materials from an alternative source is not sufficient documentation.

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

If a book voucher issued by a school cannot be used to purchase course materials from a **convenient unaffiliated source**, the student does not have a *real and reasonable opportunity* to purchase his or her course materials elsewhere. In that case the school must include the cost of books and materials purchased with the voucher as institutional charges in Step 5, Part L of the Return calculation.

Returning equipment

If a school can substantiate that its return policies are reasonable, consistent, and fair to all students, and students are notified in writing of those policies when they enroll, the school may exclude documented costs for nonreturnable equipment, and returnable equipment, if not returned in good condition within 20 days of withdrawal. A policy that classifies all used books or equipment as nonreturnable is not reasonable or fair. An acceptable policy must specify the specific circumstances that would prevent the school from selling the books or equipment to other students.

Example of school charges versus non-school charges

Aerospace Tech requires its students to purchase a titanium-plated tool set by the first day of class. Aerospace's enrollment agreement does not contain a charge for the tools, and it does not say that the student is required to purchase the tools from Aerospace or a vendor affiliated with Aerospace. As it happens, the required tools are available for purchase from Aerospace and from a retailer across the street. As a routine practice, Aerospace gets written authorization from its students to credit all financial aid to their school accounts, hold any credit balances, and establish a line of credit for students at the campus store so they can purchase the required tools by the first day of class. Most students buy the tools at the campus store and charge the purchase to their school accounts.

Although the cost of the tools is not listed as a charge in the student's enrollment agreement, Aerospace requires that the tools be purchased by everyone in the program of study. Therefore, as a general rule, the tool charges would be considered school charges. However, under the exceptions rule, the tool charges do not have to be considered school charges if Aerospace can demonstrate that – (1) the tools were available for purchase elsewhere; (2) Aerospace made financial aid available to students in time to purchase the tools from another vendor before the first day of class; and (3) Aerospace's practices provide students with an equal opportunity to purchase tools from the campus bookstore or the retailer across the street.

In this case, the school meets the first criterion, the tools are available at the store across the street, so an opportunity could exist. However, the school fails to satisfy the second and third criteria because the school's routine practice of crediting students' accounts with all financial aid, and extending lines of credit for purchases at the campus bookstore, discourages students from purchasing the required tools from another vendor. Unless a student specifically requests that Aerospace not hold his or her credit balance, a student whose education is funded primarily through financial assistance has to purchase the tools at the campus store. As a result, the cost of the tools must be classified as school charges.

Treatment of Title IV credit balances when a student withdraws

Treatment of Credit balance when a student withdraws, cite

DCL GEN 04-03, February 2004

This treatment applies only to the handling of Title IV credit balances when a student withdraws. For a discussion of credit balances in other circumstances, please see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds*.

When a student withdraws during a period, a Title IV credit balance created during the period is handled as described below:

1. Do not release any portion of a Title IV credit balance to the student and do not return any portion to the Title IV programs prior to performing the Return calculation. The institution must hold these funds even if, consistent with the 14-day credit balance payment requirement of 34 CFR 668.164(e), it would otherwise be required to release them.
2. Perform the Return calculation including any existing Title IV credit balance for the period in the calculation as disbursed aid.
3. Apply any applicable refund policy (state, accrediting agency, institutional, etc.) to determine if doing so creates a new or larger Title IV credit balance.
4. Allocate any Title IV credit balance as follows –
 - a) Any Title IV credit balance must be allocated first to repay any grant overpayment owed by the student as a result of the current withdrawal. The institution must return such funds to the Title IV grant account within 14 days of the date that the institution performs the Return calculation.

Although not included in a Return calculation, any Title IV credit balance from a **prior period** that remains on a student's account when the student withdraws is included as Title IV funds when you determine the amount of any final Title IV credit balance when a student withdraws. Remember, the school must use the final credit balance first to satisfy any current student grant overpayment.

- b) Within 14 days of the date that the institution performs the Return calculation, an institution must pay any remaining Title IV credit balance funds in one or more of the following ways —
- in accordance with the cash management regulations to pay authorized charges at the institution (including previously paid charges that now are unpaid due to a return of Title IV funds by the institution);
- A school may not use a Title IV credit balance to return funds for which it is responsible as a result of a Return calculation (Step 5, item O).
- **with the student’s authorization**, to reduce the student’s Title IV loan debt (not limited to loan debt for the period of withdrawal); or
 - to the student (or parent for a PLUS loan).
- c) If the institution cannot locate the student (or parent) to whom a Title IV credit balance must be paid, it must return the credit balance to the Title IV programs. The Department does not specify the order of return to the Title IV programs for a credit balance. We encourage institutions to make determinations that are in the best interest of the individual student.

You must apply your school refund policy before allocating a Title IV credit balance. However, you are not required to actually complete the refund process (for example, by making a refund to a student) before completing the steps for allocating the Title IV credit balance.

In order to accommodate differences in institutional accounting and administrative processes, you are not required to actually apply the Title IV credit balance to the student’s grant overpayment before applying the Title IV credit balance to other debts, as long as the grant overpayment is satisfied by the 14-day deadline. You may use school funds instead of the actual Title IV credit balance to satisfy any student grant overpayment.

For the treatment of credit balances when a student dies, see the discussion under *Death of a student* later in this chapter.

New 14-day deadline

In most cases, the cash management regulations require a school to refund a Title IV credit balance to a student within 14 days. However, when a student withdraws, a school is required to perform a Return calculation to determine, among other things, whether adjustments to the credit balance will occur.

For this reason, the existing 14-day payment requirement is placed on hold in order to determine the final amount of any Title IV credit balance. Your school does not need to obtain a student’s or parent’s authorization to hold a Title IV credit balance that existed prior to the Return calculation (beyond the original 14-day deadline) while you determine the final amount of the credit balance.

In order to allow an institution time to appropriately apply any credit balance after it has been recalculated, a new 14-day deadline is triggered when a school performs a Return calculation. The new 14-day deadline begins on the date the school performs the Return calculation, not the date the school performs any calculations required by its institutional refund policy.

Of course, in order to determine the correct Title IV credit balance, the school must take into account both the results of the Return calculation and any applicable refund policy.

Example of a school performing a Return calculation for a student on whose account there is a Title IV credit balance

Legolas, a first-time student at Northern Mirkwood Community College (NMCC) began classes on September 1. His account was credited with a Pell Grant of \$2,000 and debited with institutional charges of \$500, creating a Title IV credit balance of \$1,500. Because NMCC has several mini semesters in which Legolas had expressed an interest, the school obtained the student's permission to hold the Title IV credit balance while Legolas considered his options.

On September 30, when he has completed 25% of the semester, Legolas informs the school that he has decided to withdraw in order to pursue his dream of winning a gold medal as an Olympic archer. NMCC places a hold on Legolas's account while it performs the required Return calculation and applies its institutional refund policy.

The school performs the required Return calculation on October 20, and determines that the Amount of unearned funds due from the school is \$375, and that the Initial amount of unearned funds due from the student is \$1,125. Since the \$1,125 is composed entirely of grant funds, after applying the 50 % grant protection, the Amount for the student to return is a grant overpayment of \$125.00.

Before Legolas withdrew, the Title IV funds on his account totaled \$2,000, and \$500 of that \$2,000 was used to cover the existing charges. There were no charges due the school, and the Title IV credit balance was \$1,500. After the school returned the \$375 it is required to return, the new total of Title IV funds on the student's account was \$1,625 ($\$2,000 - \375), and the new Title IV credit balance was \$1,125.

Then, the school applies its institutional refund policy. Under NMCC's refund policy, a first-time student who withdraws before the 50% point in the semester is entitled to an 80% refund of institutional charges. Since Legolas withdrew at the 25% point of the semester, he is entitled to a refund of 80% of the amount he was charged or \$400 ($\$500 \times .80$). So, the new institutional charges on the student's account are \$100, and the new (final) Title IV credit balance is \$1,525 ($\$1,625 - \100). Note that this new credit balance is larger than the credit balance that existed before the student withdrew.

Because Legolas has a Title IV credit balance on his account, NMCC has 14 days from October 20 (the date they performed the Return calculation) to return the student's grant overpayment (it can use its own funds or Title IV funds) from the student. After the school returns the \$125.00 grant overpayment, the Title IV credit balance of the student's account is \$1,400 ($\$1,525.00 - \125.00). The school must pay those funds to the student within 14 days of October 20.

Note: With a never before achieved "perfect score," Legolas won a gold medal in the Olympic archery competition.

PRINCIPLES WITH UNIQUE APPLICATIONS IN THE RETURN OF TITLE IV AID

Institutions required to take attendance

Only a school that is required to take attendance by an outside entity is considered a school that is required to take attendance for purposes of calculating the amount of Title IV program assistance earned when a student withdraws.

A school that elects to take attendance, including a school that voluntarily complies with an optional attendance requirement of an outside entity, is not considered a school that is required to take attendance.

If an outside entity determines that an institution is required to take continuous attendance for a limited period, including for census purposes, then the institution is considered to be one that is required to take attendance for that period of time only. However, if an outside entity requires attendance taking only for a single day of census activity, ED would not consider the institution to meet the definition of an institution required to take attendance for that one day.

Institutions that are required to take attendance for a limited period must document a student's attendance through that period. If an institution determines that a student was not in attendance at the end of that period, the student's withdrawal date would be determined according to the institution's attendance records.

If the institution demonstrates that the student attended past the end of the limited period, the student's withdrawal date is determined in accordance with the requirements for an institution that is not required to take attendance.

If a school is required by an outside entity (for example, a state Workforce Development Agency), to take attendance for only some students, the school is required to use those attendance records for only the cohort of students under the outside agency's jurisdiction to determine the student's withdrawal date (the last date of academic attendance). The school would not be required to take attendance for any of its other students, or to use attendance records to determine any of its other students' withdrawal dates, unless the school is required to take attendance for those students by another outside entity.

Verifying an agency's position

Unless an outside entity has determined that an institution is required to take attendance, the institution would be considered to be one that is not required to take attendance. If a school is unsure whether an outside entity requires a school to take attendance, the school should inquire of the outside entity, and document the agency's response.

Example of taking attendance

For example, ten students at Peabody University receive assistance from the state. The state requires the school to take attendance for the recipients of the state's education benefits. Peabody University is not required by any other outside entity to take attendance for any of its other students. Seven of the ten students who receive state benefits are also Title IV program recipients. If any of those seven students withdraw from the school, the school must use the state required attendance records for them to determine the withdrawal date as required for institutions required to take attendance. For all other Title IV program recipients at Peabody University who withdraw, the school must determine the withdrawal date in accordance with the requirements for students who withdraw from a school that is not required to take attendance.

Date of the institution's determination that the student withdrew

Date of determination that a student has withdrawn

34 CFR 668.22(l)(3)

The date of the institution's determination that the student withdrew varies depending on the type of withdrawal. For example, if a student begins the official withdrawal process or provides official notification to the school of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date the student began the official withdrawal process, or the date of the student's notification, whichever is later. If a student did not begin the official withdrawal process or provide notification of his or her intent to withdraw, the date of the institution's determination that the student withdrew would be the date that the school becomes aware that the student ceased attendance. The types of withdrawal and the corresponding definition of the date of the institution's determination that the student withdrew are listed in the chart on Withdrawal Dates at the end of this chapter.

For a student who withdraws without providing notification from a school that is not required to take attendance the school must determine the withdrawal date **no later than 30 days after the end of the earlier of** (1) the payment period or the period of enrollment (as applicable), (2) the academic year, or (3) the student's educational program.

Date of determination at institutions that are required to take attendance

Institutions that are required to take attendance are expected to have a procedure in place for routinely monitoring attendance records to determine in a timely manner when a student withdraws. Except in unusual instances, the date of the institution's determination that the student withdrew should be no later than 14 days after the student's last date of attendance as determined by the institution from its attendance records. The institution is NOT required to administratively withdraw a student who has been absent for 14 days. However, after 14 days, it is expected to have determined whether the student intends to return to classes or to withdraw. In addition, if the students eventually determined to be a withdrawal, the end of the 14-day period begins the time frame for completing a Return calculation.

This requirement does not affect a student's withdrawal date. At an institution that is required to take attendance, a student's withdrawal date is always the last date of attendance as determined by the institution from its attendance records.

A student who ceases attendance during a payment period or period of enrollment is a withdrawal for Title IV purposes unless the student is on an approved LOA. Therefore, for a student who has ceased attendance, the institution must either –

- place the student on an approved LOA (provided that the conditions for an approved LOA are met); or

Example of making a determination at a school required to take attendance

Consider a school that makes a determination on September 10 that a student has not been in attendance since September 1. The school contacts the student who tells the school he or she's been ill but plans on coming back during the next week (and this falls within the time period for excused absences and absences allowed by state, accrediting agency, and other applicable policies). For the moment, the school may delay taking any action. However, if the student does not return, the school must complete a Return calculation using September 1 as the student's last day of attendance, and September 15 as the date of the institution's determination that the student withdrew. The school must return any unearned funds by October 30.

Date of determination at an institution required to take attendance, cite

34 CFR 668.22(b)(1)

DCL GEN 04-03, February 2004

DCL GEN 04-12, November 2004

- withdraw the student and, if the student returns, treat the student as a reentry if permitted under the regulations.

If an institution has a policy that states the maximum number of excused absences that can occur after which a student will be administratively withdrawn, it may delay contacting the student until that date. However if the student eventually is determined to be withdrawn, the date of determination of the student's withdrawal remains 14 days from the student's last day of attendance. If the number of days in the school's policy is less than 14 days, then the 45-day time frame for completing a Return calculation and returning Title IV funds starts on the date the school's policy indicates that the student will be administratively withdrawn.

An institution must return the amount of Title IV funds for which it is responsible as soon as possible, but no later than 45 days after it determines or should have determined that the student withdrew.

As noted above, the date of the institution's determination that the student withdrew is not necessarily the same as a student's withdrawal date. A student's withdrawal date is used to determine the percentage of the payment period or period of enrollment completed and, therefore, the amount of aid a student has earned. The date of the institution's determination that the student withdrew is used in the following circumstances:

- A school must offer any amount of a post-withdrawal disbursement that is not credited to the student's account within 30 days of the date of determination.
- If the student or parent submits a timely response that instructs the school to make all or a portion of the post-withdrawal disbursement, the school must normally disburse the funds within 120 days of the date of determination.
- A school must document a student's withdrawal date and maintain the documentation as of the date of determination.
- Within 30 days of the date of determination, a school must notify a student if a grant overpayment is due.
- A school that is collecting an overpayment must require repayment of the full amount of the overpayment within two years of the date of determination.
- The school must return the amount of Title IV funds for which it is responsible no later than 45 days after the date of determination.
- The amount of aid disbursed as of the date of determination is used to determine the amount of unearned aid that must be returned.

Date by which funds must be returned, cite

34 CFR 668.22(j)

Changing the basis of the calculation

A school may change the basis for its Return calculations for new students as they begin classes. However, for continuing students, since the institution's Return policy must be included in the published materials the school provides to students as part of the consumer information requirement, the school would have to change its catalogue, its written policies and procedures, and its enrollment agreements (if any), and allow sufficient time for those continuing students who would be governed by the new policy to receive and review the materials.

Use of payment period or period of enrollment

The worksheets require that a school indicate whether the calculation is being done on the basis of a payment period or a period of enrollment. For students who withdraw from semester, trimester, or quarter programs, a school must perform the Return calculation on a payment period basis. For students who withdraw from a nonstandard term-based or nonterm-based educational program, the school has the choice of performing the Return calculation on either basis. The institution must use the same basis (payment period or period of enrollment) in its calculations for all students within a program who cease attendance.

An exception is allowed for students who transfer to or reenter a school that offers nonterm-based or nonstandard term-based educational programs. For students who transfer to or reenter a nonterm-based or nonstandard term-based educational program a school may make a separate selection of payment period or period of enrollment to use in calculating their Return of Title IV funds.

The periods used for transfer and reentry students do not have to be the same. A school may choose to use payment period for transfer students and period of enrollment for reentry students.

Payment period

The definition of a payment period is the same definition used for other Title IV program purposes. This definition is found in

34 CFR 668.4 (see Volume 3 – Calculating Awards and Packaging). Schools that use payment periods as the basis for their Return calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period.

Period of enrollment

A period of enrollment is the academic period established by the school for which institutional charges are generally assessed (i.e., the length of the student's program or the academic year, but consistent with the period for which loans generally are certified (not to exceed 12 months)).

Applicability

The use of payment period or period of enrollment is important for many aspects of the Return calculation. For example, if a school is determining the treatment of Title IV funds on a payment period basis, the student's Title IV program assistance to be used in the calculation is the aid that is disbursed or that could have been disbursed for the payment period. Also, the institutional charges used in the calculation generally have to reflect the charges for the payment period.

Period of enrollment cite

34 CFR 668.22(l)(2)

Generally, the higher the institutional charges, the greater the amount of unearned aid that is to be returned by the school (see Step 4). In some cases this mitigates against a school using the period of enrollment as the basis for the Return to Title IV funds calculation. An institution must prorate the charges for the period of enrollment to correspond to a payment period if the institution has elected to use the payment period rather than period of enrollment basis for the Return calculations.

If, for a nonterm or nonstandard term program, a school chooses to calculate Returns on a payment period basis, but the school charges for a period longer than a payment period (e.g., period of enrollment), total institutional charges for the period will be the greater of the –

- prorated institutional charges for the period, or
- the amount of Title IV assistance retained for institutional charges as of the student's date of withdrawal.

Rounding

Enter dollars and cents using standard rounding rules to round to the nearest penny. Final repayment amounts that the school and student are each responsible for returning may be rounded to the nearest dollar.

Percentages are calculated to four decimal places, and rounded to three decimal places. The third decimal place is rounded up if the fourth decimal place is 5 or above. For example, .4486 would be rounded to .449, or 44.9%.

The **one exception** to the rounding rule occurs in determining the percentage of Title IV program assistance earned. Students who withdraw at any point **after the 60% point** in the payment period or period of enrollment have earned 100% of their Title IV funds. If the standard rounding rules were used in this situation, a quotient of .6001 through .6004, which is greater than 60%, would be rounded down to .600 (60%), and the student would not have earned 100% of his or her Federal Student Aid. Therefore, for the purpose of determining whether a student has earned 100% of the Title IV funds for the term, in order to recognize that students completing more than 60% of the period (by any amount) earn 100% of their Federal Student Aid, **amounts of .6001 through .6004 are not rounded.**

Funds to include in a Return calculation cite

34 CFR 668.22(a)(2)

Funds to include in a Return calculation

The calculation of earned Title IV funds includes certain Title IV grant and loan funds if they were disbursed or could have been disbursed to a student for the period of time for which the calculation is being performed (payment period or period of enrollment).

The regulations have been revised to reflect the more limited applicability of the Return of Title IV Funds rules as provided in the Higher Education Reconciliation Act of 2005 (HERA). For students whose withdrawal date is on or after July 1, 2006, schools should only include funds from the following programs in their Return calculations:



- Pell Grant,
- ACG,
- National SMART Grant
- FSEOG,
- FFEL,
- Direct Loan, and
- Perkins Loan.

The Return of Title IV Funds requirements no longer apply to funds from the GEAR UP, SSS, or LEAP programs.

Also, Federal Supplemental Educational Opportunity Grant (FSEOG) Program funds continue to be excluded under certain circumstances. As in the past, Federal Work-Study (FWS) funds and Byrd Scholarship program funds are **not** included in the calculation.

FSEOG Program funds

The nonfederal share of FSEOG Program funds is excluded when a school meets its FSEOG matching share by either the individual recipient method or the aggregate method. If a school meets its matching share requirement through the use of a fund-specific match, 100% of the FSEOG award (both the federal and nonfederal shares) must be included in the Return calculation. Otherwise, the nonfederal share of FSEOG awards is excluded from the calculation. For more information on types of FSEOG matching funds see *Volume 6 – Campus-Based Programs*.

SPECIAL TREATMENT OF STUDENTS WHO WITHDRAW AND THEN TRANSFER OR REENTER A CREDIT-HOUR NONTERM-BASED PROGRAM OR A PROGRAM THAT MEASURES PROGRESS IN CLOCK HOURS

Reentry within 180 days

A student who reenters within 180 days is treated as if he or she did not cease attendance for purposes of determining the student's aid awards for the period.

For credit-hour nonterm-based programs or programs that measure progress in clock hours, a student who withdraws and then reenters the same program at the same school within 180 days is considered to be in the same payment period he or she was in at the time of the withdrawal. The student retains his or her original eligibility for that payment period, and is treated as though he or she did not cease attendance.

A student who reenters a credit-hour nonterm-based program or a program that measures progress in clock hours within 180 days of his or her withdrawal is immediately eligible to receive all Title IV funds that were returned when the student ceased attendance. Thus, upon the student's return, the school must restore the types and amount of aid that the student was eligible for before the student ceased attendance, and schedule the appropriate disbursements. Actions to be taken by the school would include:

- re-disbursing aid that had been disbursed and then returned under the Return of Title IV Aid provisions;
- disbursing aid the student was otherwise eligible for that had not yet been disbursed at the time the student withdrew; and
- canceling any overpayments assessed the student as a result of the prior withdrawal.

Once the student completes the payment period for which he or she has been paid, he or she becomes eligible for subsequent Title IV student aid payments.

There are limitations on redispersing and making second disbursements of FFEL and Direct Loan funds when a student reenters. If the date of a student's return is more than 12 months from the start of the period for which the loan was certified, the funds cannot be redispersed. Likewise, if the date scheduled for a second disbursement is more than 12 months from the start of the period for which the loan was certified, the second disbursement may not be made. For more information on this topic please see the chart Loan Principles Applicable to Transfer and Reentry at Nonterm Schools later in this chapter.

Reentry within 180 days cite

34 CFR 668.4(e)

Consistent with leave of absence

This arrangement is similar to an LOA, and the 180-day time frame is consistent with the maximum 180 days allowed for an approved LOA in the Return regulations. The difference, of course, is that with an unauthorized LOA the institution would not know that the student would be returning and would have treated the student as a withdrawal. Based upon that withdrawal, the institution would have completed the Return calculation, which may have required both the institution and the student to return funds to the Title IV programs.

If the student returns within 180 days to his or her original program, while an official leave was not granted, and the provisions of the Return regulations were applied, upon the student's return, the student can be treated as though he or she had been on an approved LOA.

Costs upon reentry

The cost of attendance would be the costs associated with the original period before the student withdrew. Once the student has withdrawn and then returned to the same program within a 180-day period, the regulation states that the student remains in the same payment period. The cost of attendance for such a student returning to the same program within 180 days must reflect the original educational costs associated with the payment period from which the student withdrew.

Deferment status for loan funds

If a student re-enrolls in school on at least a half-time basis before his or her initial grace period expires, the student regains his or her in-school status and is entitled to have his or her grace period made whole again. The student will have a full initial grace period when he or she ceases half-time enrollment.

Note: For a student who completed more than 60% of his or her training before ceasing attendance, the school would not have returned any Title IV aid. If that student were to reenter training within 180 days, because the student had received 100% of his or her aid for the period, the student would not be eligible to receive additional Title IV aid until he or she completed the hours (and weeks for a credit-hour- without-terms program) in that payment period.

What to do when a student whose overpayment has been referred to Borrower Services reenters within 180 days

If a student whose overpayment has previously been referred to Borrower Services returns to school within 180 days, the school must send Borrower Services a fax identifying the student overpayment, and stating that it should be made void. This will allow the Department to properly update its records in both the Borrower Services system and NSLDS.

This fax number is for **school use only** and only for this purpose

Fax Number: (319) 665-7646

Note: This process cannot be performed via email.

In the fax, the school must include the –

- award year of the overpayment;
- student’s social security number;
- student’s last name, first name, and middle initial;
- student’s date of birth;
- type of overpayment — Federal Pell Grant or FSEOG;
- the disbursement date the institution used to create the overpayment record in NSLDS;
- a letter that includes the following:

This student has returned to school. The regulations (34 CFR 668.4(e)) require that the overpayment referenced herein be voided.

When a student reenters within 180 days

The return regulations require a school to return unearned funds for which it is responsible as soon as possible, but no later than 45 days after the date of the institution’s determination that the student withdrew. If a student returns to the institution before the Title IV funds are returned, the institution is not required to return the funds.

An institution may not delay its Return of Title IV funds

An institution is expected to begin the Return of funds process immediately upon its determination that a student has withdrawn. The institution may not delay returning Title IV funds because it believes a student might return.

Reentry within 180 days, example

Consider a student who began attendance in a clock-hour program that was 1,500 hours in length with a defined academic year of 900 hours. For the first 450 hour payment period the student was awarded and disbursed \$1500 in Pell Grant funds, \$500 in FSEOG funds, and \$500 in Title IV loan funds, for a total of \$2500 in Title IV aid.

Assume that this student withdrew from school after completing 200 of the 225 hours he or she was scheduled to complete by that point in the payment period (50%), and the school uses payment periods to calculate the Return of Title IV Aid. Under the Return regulations, the school used scheduled hours (225) to determine that the student earned 50% of his or her Title IV aid. The school returned \$500 to the loan program. The \$750 the student was initially scheduled to return (Step "S") was eliminated by the application of grant protection in Step "U."

If the student returns to the same program at the same school within 180 days of the withdrawal, the student would be considered to be in the same payment period, and the student's eligibility for Title IV aid should be the same as if the student had not left. Thus, assuming that not more than 12 months has elapsed since the start of the original loan period, the school should request that the lender redispurse the \$500 the school had returned. In addition, the institution would schedule additional Title IV disbursements for the day after the student is expected to complete the remainder of the payment period.

If the student withdraws again before completing the payment period, the institution would apply the provisions of the Return regulations using the total number of hours the student completed in the numerator, the full 450 hours in the payment period in the denominator, and then applying that fraction to the total Title IV aid disbursed for the period.

When a student reenters in a new award year

A student who was originally enrolled in a payment period that began, and was scheduled to end in one award year could return after the end of that award year (June 30). However, the intent of the new regulations is that such a student is to be considered, upon his or her return, to be in the same period. Therefore, any Title IV program funds that will be disbursed to the student should be paid from the original award year regardless of whether the resumption of the payment period is in a new award year.

Consider a student who received Pell Grant funds and ceased attendance in one award year who then reenters training within 180 days, but in a new award year. If the school returned funds after a Return calculation, the student might be due Pell funds from an award year that is over.

Requesting Administrative Relief by Email

A school can also request administrative relief by sending an email directly to

fsa.administrative.relief@ed.gov

The request must include the

- reason (reentry within 180 days);
- school's Pell ID number;
- name of the person to contact;
- the contact's phone number; and
- the contact's email address.

In order to request these funds, the school will have to go to the COD web site at

<https://cod.ed.gov/cod>

Limits on requesting administrative relief

Generally, a school may request administrative relief for a student who reenters training during the award year following the award year in which the funds were originally awarded.

log in under the School tab using the school’s user name and password (available from the school’s system administrator), select “**Post Deadline System Processing**” on the left side, and request administrative relief with “**Reentry within 180 days**” as the reason.

For the campus-based programs, if funds are not available from the year in which the awards were originally made, the school may award funds from the current year. Note that doing this does not increase the annual maximum awards that may be made to an individual student.

Reentry after 180 days, transfer into a new program at the same institution, or transfer to a new institution

Reentry after 180 days cite

34 CFR 668.4(f)

If a student withdraws from a credit-hour nonterm program or a clock-hour program without completing the period and –

- reenters the same program at the same institution more than 180 days after withdrawal, receiving credit for hours previously earned; or
- transfers into another credit-hour nonterm or clock-hour program at any time (either at the same institution or at a new institution) and the institution accepts all or some of the hours earned in the prior program; then

the student starts a new payment period when he or she reenters or transfers.

In calculating awards for a student who reenters the same program after 180 days, reenters in a new program, or transfers to a new institution, the institution treats the hours remaining in the program as if they are the student’s entire program. The number of payment periods and length of each payment period are determined by applying the rules in the appropriate part of the definition of a payment period to the hours remaining in the program upon transfer or reentry.

For students who remain in continuous enrollment at an institution but change their declared academic goal (e.g., change programs or change their majors), there is not always a clear distinction between withdrawing from a program or major without withdrawing from the institution, and withdrawing from the institution and then reentering the institution in a new program. A school has an option in how it manages program transfers within the institution.

A school might treat the student as one who withdraws and reenters. If so, the school must administratively withdraw the student from the

institution, perform a Return calculation, reenroll the student in the new program, and start the student at the beginning of a new payment period for his enrollment in the new program. Or, a school might treat the student as one who is merely changing programs without withdrawing from the institution. Under this option, no withdrawal takes place, no Return calculation is performed, and the student continues in the same payment period he started in with his original program.

This second approach might be more appropriate when there is no break (or a minimal one) in attendance, the periods are substantially the same in length, and there is little or no change in the charges to the student. If a student for whom this approach is taken later withdraws from the institution, the start and end dates used in Step 2 of the Return calculation will be the start of the first program and the end of the second. The charges used in Step 5 will be the total charged the student for the two programs.

Eligibility of transfer students for additional Title IV funds

Generally, at a clock-hour or nonterm credit-hour school, a student can be paid again for clock hours or credit hours that he or she has already completed at that school only if he or she has completed a program and re-enrolls to take that program again or to take another program. In addition, when a student reenters a clock-hour or credit-hour non-term-based program after 180 days, the student may be paid for repeated courses.

For example, a student who withdraws after completing 302 clock hours of a 900 clock-hour program has 148 hours remaining in the 450-hour payment period. The student reenrolls after 180 days in the same program and receives credit for 100 hours. The program length for purposes of determining the new payment periods is 800 clock hours (the remainder of the student's program), so the new payment periods are 400 hours and 400 hours (the 302 hours completed and the 148 hours that remained do not apply). Any reduction in the payment would be based on whether the student's scheduled award or annual loan limits are exceeded. (If the student in this example received no credit for previously completed hours, the student's program length for purposes of determining the payment periods would be 900 clock hours.)

However, a transfer student's eligibility for additional Title IV funds may be subject to a variety of limitations associated with the aid the student received during the student's most recent period of attendance. For example, in the Pell Grant Program, a student may never receive more than his or her Pell scheduled award for an award year. In the Federal Family Education Loan Program and the Federal Direct Loan program, application of the annual loan limits imposes additional limitations on a borrower's eligibility for FFEL funds when the borrower transfers (see chart).

Pell Grant scheduled award

When paying Pell funds to a student who has received Pell disbursements for the current award year at another institution, the receiving institution, if necessary, must adjust the student's grant to ensure that the Pell funds received by the student for the award year do not exceed the student's scheduled award. (For more information, see *Calculating a Pell award when a student who owes an overpayment returns*, in "Volume 5 – Overawards, Overpayments and Withdrawal Calculations" and "Volume 3 – Calculating Awards and Packaging.")

Guarantee agency cooperation

Since the period of attendance for which School 1 previously certified the transfer student's loan might have included the dates for which School 2 is attempting to certify a loan, some guarantee agencies might require clarification from one or both schools before they will certify a new loan.

LOAN PRINCIPLES APPLICABLE TO TRANSFER AND REENTRY AT NONTERM SCHOOLS

1. In nonterm programs, all loans are made on the basis of a Borrower-Based Academic Year (BBAY). For a student who transfers or reenters a program, the loan period certified must be the lesser of the –
 - academic year,
 - program, or
 - remaining balance of a program of study.
2. A school may not certify or originate a loan for a period that exceeds 12 months.
3. When we say balance, we mean the borrower's annual loan limit, less any amount previously borrowed for the same academic year, plus any amount returned per 34 CFR 668.22.
4. For a transfer student, when an overlap exists between —
 - the academic years at the original and receiving institutions (If the original academic year is unknown, a school must assume the previous school had an academic year of 30 weeks.),
 - or the borrower's original loan period and the borrower's new period of attendance,the borrower is eligible to receive a loan for an amount no greater than the balance (if any) remaining on the previous loan. The borrower is not eligible for a new loan until the academic year at the receiving school is over.

Note: Since the period of attendance for which the original school previously certified the transfer student's loan might have included the dates for which the receiving school is attempting to certify a loan, some guaranty agencies might require clarification from one or both schools before they will certify the new loan.

If there is no overlap, the borrower is immediately eligible to receive a new loan. The receiving school can certify the borrower for a loan period that corresponds to its academic year, or the entire balance of the program (so long as that balance does not exceed 12 months). If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

5. When certifying a loan for returning student for a new BBAY, the Cost of Education may include only those costs associated with the period for which the loan is certified. It may not include any costs used in certifying the previous loan unless those costs represent charges for which funds were returned to ED or refunded to the student, subsequent to the previous withdrawal.
6. When a student reenters the same program within 180 days and before the end of the student's initial loan period, as long as the new End Date of the loan period would not push the loan period beyond 12 months, a school can ask the lender/GA to establish a new end date for the loan period and reschedule any second or subsequent disbursements. Similarly, a Direct Loan school could change the original loan period end date (as long as the new

Loan Principles

date does not exceed the 12-month limit) and reschedule the second disbursement. In this case the student is held to the same disbursement requirements that applied initially (e.g., for one additional disbursement, they must complete 1/2 the coursework and 1/2 the time in the loan period before they can receive the second disbursement).

7. When a student reenters the same program within 180 days and before the end of the student's initial loan period, if the new end date pushes the loan period beyond 12 months, or the lender or GA declines to adjust the loan period and reschedule the second disbursement, the school can ask the GA to approve a loan with a new loan period that begins on the date the borrower returns to school and extends for either the balance of the program, an academic year, or 12 months, whichever is shorter. The student is eligible to receive only the balance of the loan, and it must be made in multiple disbursements.

The borrower would be ineligible for a new loan until the loan period ended. If some portion of the program remains after the completion of the new loan period, the school could certify another new loan for that portion of the program. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

8. If a student reenters a program after the end date of the initial loan period or BBAY, a school may certify a new loan for either the balance of the program, an academic year, or 12 months, whichever is shorter. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

BREAKS IN ATTENDANCE FOR STUDENTS ENROLLED IN PROGRAMS MEASURED IN CREDIT HOURS WITHOUT ACADEMIC TERMS

In order to receive Title IV aid, a student must be enrolled in an eligible program. That program has required courses, some of which must be taken in sequence. If no specific academic plan exists for a particular student, we consider the program requirements to be the student's academic plan.

A student who completes a course is expected to begin attending the next available course in the program, until the student completes the credits for which he or she has received Title IV aid. **If before a student completes the credits for which he or she has received Title IV aid, the student fails to enroll in the next (appropriate in sequence) course in the program, the student must be put on an approved LOA or considered withdrawn.**

A student who has completed the credits for which aid was awarded does not have to be considered a withdrawal or placed on LOA if he or she takes a break before enrolling in additional courses.

Clarification

Transfer Students

Example 1

Consider an academic program that consists of 1,500 clock hours, with a defined academic year of 900 hours and 30 weeks of instructional time. For students who enter at the beginning of the program, there would be four payment periods as follows:

1. the first 450 hours of the first academic year;
2. the next 450 hours of the first academic year;
3. the first 300 hours of the 600 hours remaining in the program; and
4. the final 300 hours of the 600 hours remaining in the program.

If the school accepts a transfer student and grants the student 300 hours of credit toward the completion of its 1,500 hour program, the school would subtract the 300 hours from the 1,500 hours in the student's program, and determine that the student needs to complete 1,200 hours at the new institution in order to complete the program.

Then, consistent with the regulations in 34 CFR 668.4(b), the school determines the payment periods in the 1,200 hours that constitute the student's program. Since the number of remaining hours in the program is greater than an academic year, the payment periods for the rest of the program are:

1. the first 450 hours after the student transfers, and comprising the first half of an academic year;
2. the next 450 hours in the academic year following the student's transfer; and
3. the 300 hours remaining in the program (since this balance is one-half of an academic year or less).

The institution would then award and disburse Title IV aid based upon the length of the payment period(s) consistent with the awarding rules under each of the Title IV programs and the Cash Management rules contained in Subpart K of Part 668 of the regulations.

Transfer Student, Example 2

On August 1, 2003, David Allen enrolled at Penny's Hair Academy (PHA). After completing 400 of the 900 clock hours in his program, David had to relocate, and he withdrew from school.

On February 1, 2004, having settled into his new home, David enrolled at Marion's Esthetics Institute (MEI) as a transfer student. David was awarded 400 clock hours of transfer credit in MEI's 1000 clock-hour program (the program definition of an academic year is 900 clock hours).

When the financial aid officer (FAO) at MEI examined David's 2003-2004 ISIR, he found the following entry:

%Sch. Used: 50.0 As Of: 01/28/2004 Pell Verification EFC: 0

The FAO subtracted the 50% used previously from 100% and found that the percentage of David's scheduled award that remained unused was 50%. Therefore, David was eligible to receive 50% of his scheduled Pell award of \$4,050 during the balance of the award year. In addition, the FAO used the 600 hours remaining in David's program to establish the appropriate payment periods (per 34 CFR 668.4(b)) of 300 clock hours each.

The aid officer performed the required multiplication and determined that David could receive as much as \$2,025 ($.50 \times \$4,050 = \$2,025$) if he remained enrolled at MEI for the balance of the year.

During the first payment period, David received \$1,350

$$\$4050 \times 300 \text{ (hours in the period)} \div 900 \text{ (hours in the academic year)} = \$1,350$$

in Pell funds. However, in the second payment period, David could only receive funds until his total Pell at EIA reached \$2,025 (his total for the year reached \$4,050). Therefore, for the second payment period at MEI, David could only receive \$675 ($\$2,025 - \$1,350 = \675).

On February 5, 2004, David came to the FAO at MEI and inquired about a loan like the one he had at PHA. The FAO examined David's ISIR and his record in NSLDS and determined that David had received \$1,313 in loan funds (from his first-year loan of \$2,625) while attending PHA.

The FAO tells David that because there is an overlap of the two school's academic years, David is only eligible to receive a loan for the balance of his eligibility as a first-year student — \$1,312. In addition, the FAO tells David that the one-half of his loan will be disbursed within a few days, and the balance when David has completed 300 clock hours (half of the hours in the remainder of his program) and reached the midpoint of the loan period.

*In the next section, we will discuss the data elements in the order in which they occur on the worksheets. The discussion that follows is **not** a set of instructions. It is an explanation of the criteria a school must consider as it enters data in the steps of the calculation.*

STEP 1: STUDENT'S TITLE IV AID INFORMATION

Title IV aid disbursed

A school must calculate the amount of earned Title IV funds by applying a percentage to the total amount of Title IV program assistance that was disbursed and that could have been disbursed. Under Step 1 of the worksheet, a school fills in the amount of each type of Title IV aid that was disbursed and that could have been disbursed. When entering the amount of loan funds, a school should enter the net amount disbursed and that could have been disbursed.

Generally, a student's Title IV funds are disbursed when a school credits a student's account with the funds or pays a student or parent directly with

- Title IV funds received from the Department, or
- FFEL funds received from a lender, or institutional funds used in advance of receiving Title IV program funds.

There are a couple of exceptions to this definition. For a complete discussion of the definition of disbursed Title IV funds, see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds*.

A student's aid is counted as aid disbursed in the calculation if it is disbursed as of the date of the institution's determination that the student withdrew (see the discussion under Date of the institution's determination that the student withdrew).

A school may not alter the amounts of Title IV grant and loan funds that were disbursed prior to the school's determination that the student withdrew. For example, a school may not replace a withdrawn student's loan funds with grant funds that the student was otherwise eligible to receive before performing the Return calculation.

Title IV aid that could have been disbursed

In addition to aid disbursed, aid that could have been disbursed is also used in the calculation. There are two principles that govern the treatment of disbursements of Title IV funds in Return calculations. The first principle provides that, for purposes of determining earned Title IV aid, generally, so long as the conditions for late disbursements in 34 CFR 668.164(g)(2) (described below) **were met prior to the date the student became ineligible**, any undisbursed Title IV aid for the period for which the return calculation is performed is counted as aid that could have been disbursed (regardless of whether the institution was prohibited from making the disbursement on or before the day the student withdrew because of the limitations in 34 CFR 668.164(g)(4) or elsewhere).

When a school makes a single disbursement of an FSEOG

If a student is receiving an FSEOG of less than \$501 a school may pay the student the entire grant in one disbursement. However, if a student who received or was scheduled to receive his or her entire FSEOG award in one disbursement subsequently withdraws, the school must attribute the FSEOG over all periods for which the FSEOG was awarded. If the disbursement has already been made, the school must immediately return amounts intended for periods in which the student did not begin attendance. In the Return calculation the school should include only that portion of the FSEOG attributed to the period from which the student withdrew.

For example, if Preflight Community College (PCC) awards and disburses to Bob an FSEOG of \$500 for an award year consisting of two semesters, and Bob withdraws during the first semester, PCC must immediately return the \$250 that was attributed to the second semester. In the Return calculation, PCC includes as Aid that was disbursed only the \$250 attributed to the first semester.

PLUS loan denied

If a PLUS loan is included in a Return calculation and later the loan is denied by the lender, the school should revise its Return calculation. If there has been a change in the amount the student or school must return, the school must make the appropriate adjustments to its records and the COD systems. If the denied PLUS loan was the only Title IV assistance for which the student was eligible, no Return calculation would have been required.

Any undisbursed Title IV aid for the period that the school uses as the basis for the Return calculation is counted as aid that could have been disbursed as long as the following conditions were met before the date the student became ineligible –

1. for all programs except PLUS, the Department processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official Expected Family Contribution (EFC) for the student (except in the case of a PLUS loan);
2. for a FSEOG award, the institution made the award to the student;
3. for an FFEL loan or a Direct Loan, the institution certified or originated the loan, as applicable; and
4. for a Federal Perkins Loan, the institution made the award to the student.

As described in DCL GEN-05-16, and effective with its publication on October 27, 2005, a promissory note must be signed for a loan to be included as Aid that could have been disbursed in a Return calculation. The signature may be obtained after the student withdraws. However in order for the loan to be included as aid that could have been disbursed the promissory note must be signed before the school performs the Return calculation.

Similarly, both the ACG and National SMART Grant programs require that students fulfill academic year and GPA requirements in order to continue receiving these grants (See Volume 1 – Student Eligibility.). A student who had completed the required number of credits for the previous academic year, but for whom no GPA had been calculated at the beginning of the first semester of the subsequent year is eligible to receive an ACG or National SMART grant if the required GPA becomes available during the semester. In order for an ACG or National SMART grant to be included as aid that could have been disbursed, the eligible GPA must be available before the school performs the Return calculation. If a school has made an interim disbursement of an ACG or National SMART Grant and the grades, when they become available indicate that the student does not have the required GPA, the disbursement becomes an overpayment, must be returned by the school, and is not included in the Return calculation.

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

Conditions for late disbursement cite

34 CFR 668.164(g)(2)

Limitations on making a late disbursement cite

34 CFR 668.164(g)(4)

Official EFC

An “official EFC” is an EFC calculated by the Department and provided on a SAR or ISIR. It may or may not be a valid EFC (defined as an EFC based on information that is correct and complete).



When a student drops below half time before withdrawing

If a student who is otherwise eligible for a late first disbursement drops below half-time enrollment and then withdraws, the institution would include any undisbursed Stafford loan funds in the Return calculation as “aid that could have been disbursed.” However, an institution may never make a post-withdrawal disbursement of Stafford funds a student could not have received if he or she had remained in school.

Making a separate determination of eligibility for a post-withdrawal disbursement

Consider a student enrolled at a school that is not required to take attendance by an outside entity. The student registers for, and on September 1, begins attendance in 12 credits. On September 15 the student drops classes worth 7 credits and his enrollment status changes to less than half time. On December 1, the school receives \$2,000 in Stafford loan funds for the student.

In reviewing its records the school determines that the student is an unofficial withdrawal. Though the school can use the 50% point (November 1) as the withdrawal date, it must make a separate determination of the student’s eligibility for a post-withdrawal disbursement. In this case, because the student lost eligibility for Stafford funds on September 15 (the day the student ceased to be enrolled at least half time), the student may not receive a post-withdrawal disbursement of Stafford loan funds

Important

The second principle provides that a student can never receive as a post-withdrawal disbursement any funds from a disbursement that the institution was prohibited from making on or before the date the student withdrew. Therefore, although the following potential disbursements can be counted as *Aid that could have been disbursed* (if intended for the period for which the Return calculation is being performed) an institution is prohibited from disbursing –

1. for nonstandard term credit-hour programs where the terms are not substantially equal in length, credit-hour nonterm programs, and clock-hour programs, a second disbursement of FFEL or Direct Loan funds where the student has not reached the later of the calendar midpoint of the loan period, or the date that the student completes half of the academic coursework or clock hours (as applicable) in the loan period (34 CFR 682.604(c)(7) or (8), or 34 CFR 685.301(b)(5), or (6));
2. a second or subsequent disbursement of FFEL or Direct Loan funds unless the student has graduated or successfully completed the loan period (34 CFR 668.164(g)(4)(ii));
3. a disbursement of FFEL, Direct, or Perkins loan funds for which the borrower has not signed a promissory note;
4. for clock-hour or credit-hour nonterm programs, a disbursement of a Federal Pell Grant, ACG, or National SMART Grant for a subsequent payment period when the student has not completed the earlier payment period for which the student has already been paid (34 CFR 690.75(a)(3) and 34 CFR 691.75(a)(3)&(4));
5. a disbursement of an FFEL or Direct Loan to a first-year, first-time borrower who withdraws before the 30th day of the student’s program of study (34 CFR 668.164(g)(4)(iii)) (except when this delay does not apply because of low default rates); and
6. a disbursement of a Federal Pell Grant, ACG or National SMART Grant to a student for whom the institution did not have a valid SAR/ISIR by the deadline established by ED (34 CFR 668.164(g)(4)(iv)) annually in the public deadline notice.

Some schools can use the 50% point as the withdrawal date for a student who unofficially withdraws in determining earned Title IV aid. However, in order to determine whether the funds can be disbursed as a post-withdrawal disbursement, the school must make a separate determination of the date the student lost eligibility.

Treatment of inadvertent overpayments

An inadvertent overpayment occurs when an institution disburses funds to a student who is no longer in attendance, for example, when an institution makes a scheduled disbursement on Monday to a student who dropped out on the previous Friday. Inadvertent overpayments are included in Return calculations as *Aid that could have been disbursed rather than Aid that was disbursed*.

A school is allowed to hold an inadvertent overpayment while determining if the student is owed a post-withdrawal disbursement. However, this is not intended to affect the amount of aid a student would receive under a Return calculation. Rather, it is permitted only to avoid a school having to return funds only to have to later request and disburse them if a student is eligible for a post-withdrawal disbursement.

An inadvertent overpayment does not create a separate basis for permitting funds to be paid to a student's account. So, if an inadvertent overpayment does not meet the criteria for a late disbursement, the second principle above under Title IV aid that could have been disbursed applies, and neither the institution nor the student may retain any portion of the overpayment. However, the funds are included as Aid that could have been disbursed and may result in a student being able to retain more grant funds.

In order to be consistent with the aforementioned second principle, an institution must now treat inadvertent overpayments as aid that could have been disbursed, rather than aid that was disbursed. If the inadvertent overpayment could not have been made as a late disbursement under the regulations, the institution must return the entire amount of the overpayment. If the overpayment could have been made as a late disbursement, the institution must return only the unearned portion of the inadvertent overpayment.

An institution is not required to return the inadvertent overpayment immediately, but must return it within 45 days of the date of the institution's determination that the student withdrew (the time frame for an institution's return of Title IV funds under 34 CFR 668.22(j)(1)). An institution must return an inadvertent overpayment in accordance with the applicable regulations for returning overpayments.

For example, if a late disbursement would have been prohibited because the student had withdrawn and the disbursement would have been a late second or subsequent disbursement of an FFEL or Direct Loan, the

Discussion of inadvertent overpayments cite

Federal Register Volume 64, Number 151, August 6, 1999, Proposed Rules, page 43026
 Federal Register Volume 64, Number 210, November 1, 1999, Rules and Regulations, page 59018
 DCL GEN 04-03, February 2004

inadvertent overpayment must be returned because the student had not successfully completed the period of enrollment for which the loan was intended (34 CFR 668.164(g)(4)(ii)).

Important

Institutions are expected to have the administrative capability to prevent inadvertent overpayments on a routine basis. Specifically, an institution is expected to have in place a mechanism for making the necessary eligibility determinations prior to the disbursement of any Title IV, HEA program funds — for example, a process by which withdrawals are reported immediately to those individuals at the institution who are responsible for making Title IV, HEA program disbursements. During a program review we would question a pattern or practice of making these inadvertent overpayments.

Examples of second or subsequent FFEL/DL disbursements and an example of a second payment period Pell disbursement

Example 1

Consider a student who withdrew after completing 400 clock hours in a 900 clock-hour program and before passing the midpoint in calendar time of the loan period. The loan period is the 900 clock-hour academic year. The payment periods are 450 hours each. The Return calculation is done on a period of enrollment basis. Half of the FFEL or Direct Stafford loan and half of a Federal Pell Grant were disbursed at the beginning of the first payment period and the student was scheduled to receive the other half in the second payment period. Because the student had not completed half of the clock hours and, for the loan, half of the time in the loan period, the student was not eligible to receive the second installment of the loan and the Federal Pell Grant. Therefore, the second disbursements were not made before the student withdrew.

Under current guidance, the second disbursements of both the Pell Grant and the loan are included as aid that could have been disbursed in the calculation of earned Title IV aid so that the amount of Title IV aid used in the calculation (and earned by the student) will be larger.

Please note, however, the institution still may not make a post-withdrawal disbursement from the second scheduled disbursements of the FFEL or Pell funds because of the prohibition on making these disbursements.

Example 2

Consider a student who completed 500 clock hours in a 900 clock-hour program and passed the midpoint in calendar time of the loan period at an institution that uses the period of enrollment as the basis for its Return calculations. The loan period is the 900 clock-hour academic year. The payment periods are 450 hours each. Half of the Stafford loan was disbursed at the beginning of the first payment period and the student was scheduled to receive the second half in the second payment period. Although the student completed half of the clock hours and passed the midpoint in calendar time of the loan period, and was otherwise eligible to receive the second installment of the loan, the second disbursement of the loan was not disbursed before the student withdrew. Because the Department had processed a SAR/ISIR, and the institution previously had certified or originated the loan before the student lost eligibility, the second disbursement of the loan is included as aid that could have been disbursed in the calculation of earned Title IV aid.

However, the late disbursement regulations prohibit an institution from making a second or subsequent disbursement of a FFEL or Direct Stafford Loan unless the student has graduated or successfully completed the period of enrollment for which the loan was intended. The Return requirements, including the post-withdrawal disbursement requirements, do not supersede this provision. **Therefore, although in this case, a second or subsequent FFEL or Direct Loan disbursement is counted as aid that could have been disbursed for purposes of determining earned Title IV aid, the funds may not be disbursed as part of a post-withdrawal disbursement.**

Example 3

Consider a student who withdraws after completing 350 clock hours in a 900 clock-hour program at an institution that uses the period of enrollment as the basis for its Return calculations. The loan period is the 900 clock-hour academic year. The payment periods are 450 hours each. The institution chooses to disburse the loan in four disbursements. The first quarter of the Stafford loan for the first quarter (225 hours) of the period of enrollment has been disbursed. The student is scheduled to receive the second quarter of the loan in the second half of the first 450-hour payment period. The student withdraws during the first payment period after receiving only the first disbursement of the loan. The second, third, and fourth scheduled disbursements of the loan are included in the calculation as *Aid that could have been disbursed*, because the school has chosen to perform the Return calculation on the period of enrollment basis for all students in this program. However, the institution may not make a post-withdrawal disbursement from the second (or subsequent) scheduled disbursement of the loan because of the prohibition on making second or subsequent disbursements of FFEL or Direct Stafford loans when a student has not completed the period for which the loan was intended.

Late arriving aid

If a school is determining the treatment of Title IV funds on a payment period basis, the student's Title IV program assistance used in the calculation is the aid that is disbursed or that could have been disbursed for the payment period during which the student withdrew. (Also, the institutional charges used in the calculation generally have to reflect the charges for the payment period.)

If aid that could have been disbursed during a previous payment period (completed by the student) is received in a subsequent period during which the student withdrew, the aid is not considered Aid Disbursed or Aid That Could Have Been Disbursed in the period during which the student withdrew. This late-arriving assistance, while it can be disbursed in the current term, is disbursed for attendance in the previous term. Therefore, it is not included in the Return calculation for the period in which the student withdrew.

For a student who has withdrawn, a school cannot disburse aid received for a previous semester unless the student qualifies for a late disbursement.

STEP 2: PERCENTAGE OF TITLE IV AID EARNED

The percentage of Title IV aid earned is determined differently for credit-hour program withdrawals and clock-hour program withdrawals. The requirements for determining a student's withdrawal date, however, differ based on whether a school is required to take attendance or not. The withdrawal date is used to determine the point in time that the student is considered to have withdrawn so the percentage of the payment period or period of enrollment completed by the student can be determined. The percentage of Title IV aid earned is equal to the percentage of the payment period or period of enrollment completed.

If the day the student withdrew occurs when or before the student completed 60% of the payment period or period of enrollment, the percentage earned is equal to the percentage of the payment period or period of enrollment that was completed. If the day the student withdrew occurs after the student has completed more than 60% of the payment period or period of enrollment, the percentage earned is 100%.

Part 1 – Withdrawal date

The definition of a *withdrawal date* as outlined here is required for Title IV program purposes only—including the withdrawal date that a school must report to a lender if FFEL Program funds were received or to the Department if Direct Loan Program funds were received. A school may, but is not required to, use these withdrawal dates for its own institutional refund policies.

The definition of a withdrawal date is used in determining the amount of aid a student has earned. Do not confuse it with the *date of the institution's determination that the student withdrew*, discussed previously and used for other purposes in the Return of funds process.

Withdrawal date for a student who withdraws from a school that is required to take attendance

The goal of the Return provisions is to identify the date that most accurately reflects the point when a student ceases academic attendance, not the date that will maximize Federal Student Aid to the institution or to the student. Generally, the most precise determination of a student's withdrawal date is one that is made from institutional attendance records.

If a school is **required** to take attendance, a student's withdrawal date is **always** the last date of academic attendance as determined by the school from its attendance records. This date is used for all students who cease attendance, including those who do not return from an approved LOA, those who take an unapproved LOA, and those who officially withdraw.

Withdrawal date at schools required to take attendance cite

34 CFR 668.22(b)

Documenting a student’s withdrawal date cite

34 CFR 668.22(b)(2)
34 CFR 668.22(c)(4)

Determining a student’s withdrawal date at a school that is not required to take attendance cite

34 CFR 668.22(c)

Official notification cite

34 CFR 668.22(c)(1)(i) and (ii)

Official notification defined

A notice of intent to withdraw that a student provides to an office designated by the institution.

34 CFR 668.22(c)(5)(i)

Notification example

For example, if on May 5, a student provided notification of his or her intent to cease attending the school beginning on May 10, the withdrawal date is May 5. However, the school may use May 10 as the student’s withdrawal date if the institution documents May 10 as the student’s last date of attendance at an academically related activity.

Consumer Information on Withdrawing

A school is expected to identify the beginning of its process as a part of the school’s consumer information regarding withdrawal (see “Volume 2 – School Eligibility and Operations”). A school should be able to demonstrate consistent application of its withdrawal process, including its determination of the beginning of that process.

Documentation

A school must document a student’s withdrawal date and maintain that documentation as of the date of the institution’s determination that the student withdrew. If a school is required to take attendance, it is up to the school to ensure that accurate attendance records are kept for purposes of identifying a student’s last date of academic attendance. A school must also determine the attendance records that most accurately support its determination of a student’s withdrawal date and the school’s use of one date over another if the school has conflicting information.

Determining a student’s withdrawal date at a school that is not required to take attendance

If a school is not required to take attendance, the determination of a withdrawal date varies with the type of withdrawal. The chart on Withdrawal Dates at the end of this chapter lists the withdrawal date for the various types of withdrawals, as well as the date of the institution’s determination that the student withdrew for each type of withdrawal.

Official notification

A student may provide official notification of his or her intent to withdraw by following the school’s withdrawal process. In this case, the withdrawal date is the date the student begins the school’s withdrawal process. A student may also provide official notification in other ways. If a student otherwise provides official notification (as explained below), the withdrawal date is the date notification was provided.

These withdrawal dates apply even if a student begins the school’s withdrawal process or otherwise notifies the school of his or her intent to withdraw and projects a future last date of attendance. However, **a school that is not required to take attendance may always use a last date of attendance at an academically related activity as a student’s withdrawal date** (this is discussed in detail below). Therefore, a school could use a later last documented date of attendance at an academically related activity if this date more accurately reflects the student’s withdrawal date than the date the student begins the school’s withdrawal process or notifies the school of his or her intent to withdraw.

School’s withdrawal process

The beginning of the school’s withdrawal process must be defined. The individual definition is left up to the school. **Schools are required to make available to students a statement specifying the requirements for officially withdrawing from the school.**

While the institution's officially defined withdrawal process might include a number of required steps, and though the institution might not recognize the student's withdrawal (for purposes of determining an institutional refund) until the student has completed all the required steps, for the purpose of calculating the Return of Title IV funds, the date the student began the institution's withdrawal process is the withdrawal date for Title IV purposes.

Otherwise provides official notification

Official notification to the school occurs when a student notifies an office designated by the school of his or her intent to withdraw. In its written description of its withdrawal procedures a school must designate at least one office for this purpose. For example, a school could designate a dean's, registrar's, or financial aid office. If a student provides notification to an employee of that office while that person is acting in his or her official capacity, the student has provided official notification.

Official notification from the student is any official notification that is provided in writing or orally to a designated campus official acting in his or her official capacity in the withdrawal process. Acceptable official notification includes notification by a student via telephone, through a designated Web site, or orally in person. The responsibility for documenting oral notifications is the school's; however, the school may request, but not require, the student to confirm his or her oral notification in writing. **If a student provides official notification of withdrawal to the institution by sending a letter to the designated office stating his or her intent to withdraw, the withdrawal date is the date that the institution receives the letter.** Notification is not provided to an institution until the institution receives the notification. Note that an institution always has the option of using the date of a student's last participation in an academically related activity as long as that participation is documented by a campus official.

Intent to withdraw means that the student indicates he or she has either ceased to attend the school and does not plan to resume academic attendance, or believes at the time he or she provides notification that he or she will cease to attend the school. A student who contacts a school and only requests information on aspects of the withdrawal process, such as the potential consequences of withdrawal, would not be considered a student who is indicating that he or she plans to withdraw. However, if the student indicates that he or she is requesting the information because he or she plans to cease attendance, the student would be considered to have provided official notification of his or her intent to withdraw.

Otherwise provides official notification cite

34 CFR 668.22(c)(5)

Informal contact with a school employee

If the student provides notification to an employee of a designated office while that person is not acting in his or her official capacity (for example, the student runs into her financial aid officer at the grocery store) we would expect the employee to inform the student of the appropriate means for providing official notification of his or her intent to withdraw.

When a student triggers both dates cite

34 CFR 668.22(c)(2)(ii)

When a student triggers both dates

A student might both begin the school's withdrawal process and otherwise provide official notification to the school of his or her intent to withdraw. For example, on November 1, a student calls the school's designated office and states his or her intent to withdraw. Later, on December 1, the student begins the school's withdrawal process by submitting a withdrawal form. If both dates are triggered, the earlier date, November 1 in this case, is the student's withdrawal date.

Remember that a school that is not required to take attendance is always permitted to use *the last date of an academically related activity that the student participated in* as the student's withdrawal date. So, if a student continues to attend class past the date the student provides notification, and the school chooses to do so, the school may document and use the student's last day of attendance at an academically related activity as the student's withdrawal date in the Return calculation.

Official notification not provided by the student

A student who leaves a school does not always notify the school of his or her withdrawal. There are two categories of these unofficial withdrawals for purposes of this calculation. First, if the school determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss, or other circumstances beyond the student's control, the withdrawal date is the date the school determines that the student ceased attendance because of the aforementioned applicable event.

The second category of unofficial withdrawals encompasses all other withdrawals where official notification is not provided to the school. This rule applies only to schools that are not required to take attendance. For these withdrawals, commonly known as dropouts, the withdrawal date is the midpoint of the payment period or period of enrollment, as applicable, or the last date of an academically related activity that the student participated in.

Attendance Records

Only an institution that is required to take attendance by an outside entity is required to use its attendance records to determine a student's withdrawal date. However, an institution that is not required to take attendance by an outside entity but does take attendance **may**, in order to use the most accurate date of last attendance, use its attendance records to determine a student's withdrawal date.

Withdrawal without student notification due to circumstances beyond the student's control

There are two circumstances in which a special rule applies that defines a withdrawal date for a student who withdraws due to circumstances beyond the student's control. They apply when (1) a student who would have provided official notification to the school was prevented from doing so due to those circumstances; and (2) a student withdrew due to circumstances beyond the student's control and a second party provided notification of the student's withdrawal on the student's behalf.

A school may determine the withdrawal date that most accurately reflects when the student ceased academic attendance due to the circumstances beyond the student's control. This date would not necessarily have to be the date of the occurrence of the circumstance. For example, if a student is assaulted, he or she may continue to attend school, but ultimately not be able to complete the period because of the trauma experienced. Because the student's withdrawal was the result of the assault, the withdrawal date would be the date the student actually left the school, not the date of the assault. A school should document that the student left at the later date because of issues related to the assault.

If a school administratively withdraws a student (e.g., expels, suspends, or cancels the student's registration) who has not notified the school of his or her intent to withdraw, the last possible date of withdrawal for the student is the date the school terminates the student's enrollment. However, an institution may not artificially create a withdrawal date for such a student that is beyond the midpoint of the period by simply choosing to withdraw the student after the midpoint. Of course, if the school can document that the student continued his or her attendance past the midpoint, the school may use a later date.

If an institution administratively withdraws a student because all of the student's instructors report that the student has ceased attendance as of a certain date (e.g., a census date), the last possible date of withdrawal for that student is the census date.

All other withdrawals without student notification

For all other withdrawals without notification, the withdrawal date is the midpoint of the payment period or the period of enrollment, as applicable at an institution not required to take attendance by an outside entity.

Withdrawal due to circumstances beyond the student's control cite

34 CFR 668.22(c)(1)(iv)

Time frame for the determination of a withdrawal date for an unofficial withdrawal

Time frame for the determination cite

34 CFR 668.22(j)(2)

All other withdrawals cite

34 CFR 668.22(c)(1)(iii)

A school may not know that a student has dropped out (unofficially withdrawn) until the school checks its records at the end of an academic period. However, to ensure that Title IV funds are returned within a reasonable period of time, a school must determine the withdrawal date (for a student who withdrew without providing notification) within 30 calendar days from the earlier of (1) the end of the payment period or period of enrollment, as applicable, (2) the end of the academic year, or (3) the end of the student's educational program.

A school must develop a mechanism for determining whether a student who began attendance and received or could have received an initial disbursement of Title IV funds unofficially withdrew (ceased attendance without providing official notification or expressed intent to withdraw) during a payment period or period of enrollment, as applicable. Section 34 CFR 668.22(j)(2) requires that a school have a mechanism in place for identifying and resolving instances where a student's attendance through the end of the period cannot be confirmed. That is, institutions are expected to have procedures for determining when a student's absence is a withdrawal. The school must make that determination as soon as possible, but no later than 30 days after the end of the earlier of –

1. the payment period or period of enrollment, as applicable;
2. the academic year; or
3. the program.

When students fail to earn a passing grade in any of their classes

When a student fails to earn a passing grade, cite

DCL GEN-04-03, February 2004

An institution must have a procedure for determining whether a Title IV recipient who began attendance during a period completed the period or should be treated as a withdrawal. We do not require that an institution use a specific procedure for making this determination.

If a student earns a passing grade in one or more of his or her classes offered over an entire period, for that class, an institution may presume that the student completed the course and thus completed the period. If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

In some cases, a school may use its policy for awarding or reporting final grades to determine whether a student who failed to earn a passing grade in any of his or her classes completed the period. For example, a school might have an official grading policy that provides instructors with the ability to differentiate between those students who complete the course but failed to achieve the course objectives, and those students who did not complete the course. If so, the institution may use its academic policy for awarding final grades to determine that a student who did not receive at least one passing grade nevertheless completed the period. Another school might require instructors to report, for all students awarded a non-passing grade, the student's last day of attendance (LDA). The school may use this information to determine whether a student who received all "F" grades withdrew. If one instructor reports that the student attended through the end of the period, then the student is not a withdrawal.

Testing the use of a grading policy

If a school uses its grading policy to determine whether students with failing grades have unofficially withdrawn, during compliance audits and program reviews student records might be examined to determine whether the grades assigned accurately represent the students' attendance.

Example of a grading policy that could be used to determine whether a student unofficially withdrew

F (Failing) Awarded to students who complete the course but fail to achieve the course objectives.

U (Unauthorized Incomplete) Awarded to students who did not officially withdraw from the course, but who failed to participate in course activities through the end of the period. It is used when, in the opinion of the instructor, completed assignments or course activities or both were insufficient to make normal evaluation of academic performance possible.

To serve as documentation that a student who received all "F" grades had not withdrawn, such a grading policy would have to require instructors to award the "F" (or equivalent grade) only to students who completed the course (but who failed to achieve the course objectives). In addition, the policy would have to require that instructors award an alternative grade, such as the "U" grade (in the example above), to students who failed to complete the course. If the system allows an instructor to indicate the date the student last participated in course activities, this date would be helpful if an institution chose to use attendance at an academically related activity as a student's withdrawal date.

At a school using such a grading policy, if a student received at least one grade of "F" the student would be considered to have completed the course and, like a student who received at least one passing grade, would not be treated as a withdrawal. A student who did not officially withdraw and did not receive either a passing grade or an "F" in at least one course must be considered to have unofficially withdrawn. As noted above, when a student unofficially withdraws from an institution that is not required to take attendance, the institution may use either the student's last date of attendance at an academically related activity or the midpoint of the period as the student's withdrawal date.

Last date of attendance at an academically related activity cite

34 CFR 668.22(c)(3)

Documentation

Documentation of a student's attendance at an academically related activity must always be provided by an official of the institution. A student's self-certification of attendance at an academically related activity is never sufficient documentation. However a school is not required to take class attendance in order to demonstrate academic attendance for this purpose.

Activities that are not academically related

Examples of activities that are not academically related include living in institutional housing and participating in the school's meal plan.

Last date of attendance at an academically related activity

A school that is not required to take attendance may always use a student's last date of attendance at an academically related activity, as documented by the school, as the student's withdrawal date, in lieu of the withdrawal dates listed above. So, if a student begins the school's withdrawal process or otherwise provides official notification of his or her intent to withdraw and then attends an academically related activity after that date, the school would have the option of using that last actual attendance date as the student's withdrawal date, provided the school documents the student's attendance at the activity. Similarly, a school could choose to use an earlier date if it believes the last documented date of attendance at an academically related activity more accurately reflects the student's withdrawal date than the date the student began the school's withdrawal process or otherwise provided official notification of his or her intent to withdraw.

The school (not the student) must document –

- that the activity is academically related, and
- the student's attendance at the activity.

Please note that a school is not required to take class attendance in order to demonstrate academic attendance for this purpose.

Examples of academically related activities are –

1. examinations or quizzes,
2. tutorials,
3. computer-assisted instruction,
4. academic advising or counseling,
5. academic conferences,
6. completing an academic assignment, paper, or project, and
7. attending a study group required by the institution where attendance is taken.

The determination of a student's withdrawal date is the responsibility of the school. Therefore, if a school is using a last date of attendance at an academically related activity as the withdrawal date, (see the discussion under *When students fail to earn a passing grade in any of their classes*) the school, not the student, must document the student's attendance. **A student's certification of attendance that is not supported by school documentation would not be acceptable documentation of the student's last date of attendance at an academically related activity.**

In the absence of evidence of a last day of attendance at an academically related activity, a school must consider a student who failed to earn a passing grade to be an unofficial withdrawal.

Withdrawals after rescission of official notification

A student may provide official notification to the school of the intent to withdraw and then change his or her mind. To allow a student to rescind his or her intent to withdraw for purposes of this calculation, the school must obtain a written statement from the student stating his or her intent to remain in academic attendance through the end of the payment period or period of enrollment. If the student subsequently withdraws after rescinding an intent to withdraw, the withdrawal date is the date the student first provided notification to the school or began the school's withdrawal process, unless the school chooses to document a last date of attendance at an academically related activity.

For example, Dave notifies his school of his intent to withdraw on January 5. On January 6, Dave notifies the school that he has changed his mind and has decided to continue to attend the school, and provides the required written statement to that effect. On February 15, Dave notifies the school that he is withdrawing and actually does. The school has a record of an exam that Dave took on February 9. The school may use February 9 as Dave's withdrawal date.

If the school could not or did not choose to document a last date of attendance at an academically related activity for Dave (in this case, the record of the exam), his withdrawal date would be January 5, the date of Dave's original notification of his intent to withdraw, not February 15.

Withdrawals from standard term-based programs using modules

When a student withdraws from a standard term-based program comprised of a series of modules, the school must determine whether a Return of Title IV Funds calculation is required and if so, the length of the period of enrollment or payment period, as applicable. Among the variables a school must consider are whether the student has completed at least one course and if not, whether the student intends to return for another module within the term. The principles for determining the appropriate values to use in a Return of Title IV Funds calculation are applicable only when the courses and modules have the following characteristics:

- Some or all of the courses in the program are offered in modules that are scheduled sequentially rather than concurrently. (The modules may overlap.)
- The institution has chosen to have two or more modules make up the standard term (semester, trimester, or quarter). For example, in each 15-week semester, courses are offered in three 5-week modules.

Withdrawals after rescission of official notification cite

34 CFR 668.22(c)(2)(i)

Withdrawal from program offered in modules cite

DCL-GEN-00-24

Recalculation of Pell required

If a student withdraws after completing one module the student is not considered to have withdrawn. However, because the student failed to begin attendance in the number of credit hours for which the Federal Pell Grant was awarded, the institution must recalculate the student's eligibility for Pell and campus-based funds based on a revised cost of education and enrollment status (34 CFR 690.80(b)(2)(ii)).

For such a student, a change in enrollment status to less than half time as a result of the failure to begin attendance in all subsequent modules would not affect a student's eligibility for any federal education loan funds previously received because at the time the previous disbursements were made, the student was still scheduled to attend on at least a half-time basis. (Of course, a student may not receive as a late disbursement any second or subsequent disbursement of the loan.)

If a student withdraws without completing at least one module, the student is considered to have withdrawn. Because the student failed to begin attendance in the number of credit hours for which the Federal Pell Grant was awarded, before performing the required Return calculation, the institution must recalculate the student's eligibility for Pell and campus-based funds based on a revised cost of education and enrollment status. The institution then performs a Return calculation using the student's revised award.

(Continued on next page.)

- Students can begin attending at the beginning of any one of the modules in a term. For example, a student enrolling in a three module per semester program can start in module two or three as well as in module one.
- Students may skip one or more modules within the term. For example, a student enrolling in a three module per semester program can attend module one, skip module two, and return for module three.
- Students enroll up-front for courses in all of the modules they plan to attend for the entire term; however, some students may subsequently add or drop a course in a later module.

Regarding those determinations, the following principles apply to the application of the Return provisions:

1. If a student withdraws from an institution after completing at least one course in one module within the term, the student is not considered to have withdrawn and the requirements of 34 CFR 668.22 for the Return of Title IV aid do not apply. Note, however, other regulatory provisions concerning recalculation may apply (e.g., 34 CFR 690.80, 682.604, and 85.303).
2. If a student withdraws from the institution before completing at least one course in one module, the student is considered to have withdrawn and the requirements for the Return of Title IV aid apply unless the institution has obtained a confirmation from the student that the student intends to continue in the program by attending a module later in the term.

For confirmation, a school may not rely upon the student's previous registration. Rather, the confirmation from the student **must be obtained at the time of or after the student's withdrawal**. If a student indicates an intention to continue in a subsequent module in the term but does not return for that module, the student would be considered to have withdrawn and withdrawal date would be the withdrawal date that would have applied if the student had not indicated an intention to attend a module later in the term.

3. When a student withdraws without completing at least one course in one module, the number of completed days used in the *numerator* in Step 2 of the Return calculation **begins on the first day of the first module the student attended in the term, ends on the last day the student was in attendance, and includes only the period during which the student was in attendance.** The payment period (the denominator in Step 2 of the Return calculation) includes all of the modules the student was scheduled to attend in the term.
4. A student who has not completed at least one course in the payment period does not have to be considered to have withdrawn if the institution has obtained a confirmation from the student that the student intends to continue in the program and attend a module later in the term.

For further treatment of withdrawals from standard term-based programs using modules, please see DCL-GEN-00-24, December 2000.

Withdrawal date when a student dies

If an institution that is not required to take attendance is informed that a student has died, it must determine the withdrawal date for the student under 34 CFR 668.22(c)(1)(iv). This section provides that, if the institution determines that a student did not begin its withdrawal process or otherwise provide official notification of his or her intent to withdraw because of illness, accident, grievous personal loss, or other such circumstances beyond the student's control, the withdrawal date is the date that the institution determines is related to that circumstance.

The withdrawal date can be no later than the date of the student's death. For an institution that is required to take attendance, the withdrawal date for a student who has died is the last date of attendance as determined from the institution's attendance records. In all cases, the **institution should maintain the documentation it received that the student has died** and determine an appropriate withdrawal date. (For more information on how the death of a student affects the Return process, see the discussion under *Death of a student* later in this chapter.)

Recalculation of Pell, contd.

An institution may not disburse the proceeds of an FFEL or Direct Loan to an ineligible borrower. Therefore, if a student who was enrolled in a series of modules withdraws before beginning attendance as a half-time student, and the student had not received the first disbursement of an education loan before withdrawing, the institution may not make the first disbursement because the institution knows the student was never enrolled on at least a half-time basis.

34 CFR 668.164(g)(3)(iii), which permits an institution to make a late disbursement of an FFEL or Direct Loan for costs incurred to a student who did not withdraw, but ceased to be enrolled as at least a half-time student, does not apply because the student never really was a half-time student.

Part 2 – Percentage of Aid Earned

Percentage of payment period or period of enrollment completed

Percentage of payment period or period of enrollment completed cite

34 CFR (f)

Once a student’s withdrawal date is determined, a school needs to calculate the percentage of the payment period or period of enrollment completed. The percentage of the payment period or period of enrollment completed represents the percentage of aid earned by the student. This percentage is determined differently for students who withdraw from credit-hour programs and students who withdraw from clock-hour programs.

Scheduled breaks cite

34 CFR 668.22(f)(2)(i)

Scheduled breaks

Institutionally scheduled breaks of five or more consecutive days are excluded from the Return calculation as periods of nonattendance and therefore do not affect the calculation of the amount of Federal Student Aid earned. This provides for more equitable treatment of students who officially withdraw near either end of a scheduled break. In those instances, a student who withdrew after the break would not be given credit for earning an additional week of funds during the scheduled break, but would instead earn funds only for the day or two of training the student completed after the break. All days between the last scheduled day of classes before a scheduled break and the first day classes resume are excluded from both the numerator and denominator in calculating the percentage of the term completed.

If a student officially withdraws while on a scheduled break of less than five days, the actual date of the student’s notification to the institution is the student’s withdrawal date.

Please note that the beginning date of a scheduled break is defined by the school’s calendar for the student’s program. In a program where classes only meet on Saturday and/or Sunday, if a scheduled break starts on Monday and ends on Friday, the five weekdays between the weekend classes do not count as a scheduled break because the break does not include any days on which classes are scheduled. Therefore, the five days would not be excluded from the numerator or denominator in Step 2 of a Return calculation.

Determining the length of a scheduled break

1. Determine the last day that class is held before a scheduled break – the next day is the first day of the scheduled break.
2. The last day of the scheduled break is the day before the next class is held.

Where classes end on a Friday and do not resume until Monday following a one-week break, both weekends (four days) and the five weekdays would be excluded from the Return calculation. (The first Saturday, the day after the last class, is the first day of the break. The following Sunday, the day before classes resume, is the last day of the break.) If classes were taught on either weekend for the programs that were subject to the scheduled break, those days would be included rather than excluded.

Weekend classes and scheduled breaks

If a community college offers regular classes on Saturday and Sunday and its academic calendar says that a scheduled break starts on a Monday and resumes with classes the following Monday, that break is seven days long.

Example of Withdrawal Date When a Student Withdraws during a Scheduled Break of Five or More Days

If a student officially withdraws while on a scheduled break of five consecutive days or more, the withdrawal date is the last date of scheduled class attendance prior to the start of the scheduled break. For example, the institution's last date of scheduled class attendance prior to spring break is Friday, March 7. Spring break at the institution runs from Saturday, March 8 to Sunday, March 16. If the student contacts the institution's designated office on Wednesday, March 12 to inform the institution that he will not be returning from the institution's Spring break, the student's withdrawal date is Friday, March 7, which was the institution's last day of scheduled class attendance.

However, the date of the institution's determination that the student withdrew is March 12, the date the student actually informed the institution that he would not be returning. The date of the institution's determination that the student withdrew is used as the starting date for institutional action, such as the requirement that an institution Return Title IV funds for which it is responsible no later than 45 days after this date.

Credit-hour programs

For a credit-hour program, the percentage of the period completed is determined by dividing the number of calendar days completed in the payment period or period of enrollment, as of the day the student withdrew, by the total number of calendar days in the same period.

The number of calendar days in the numerator or denominator includes all days within the period, **except for institutionally scheduled breaks of five or more consecutive days**. Days in which the student was on an approved leave of absence would also be excluded. The day the student withdrew is counted as a completed day.

Credit-hour programs cite

34 CFR 668.22(f)(1)(i)

Percentage of Title IV aid earned for withdrawal from a credit-hour nonterm program

Percentage of Title IV aid earned for withdrawal from a credit-hour nonterm program cite

DCL GEN-04-03, February 2004

The regulations provide that the percentage of Title IV aid earned by a student is equal to the percentage of the period completed by the student (except if that percentage is more than 60%, the student is considered to have earned 100% of the Title IV aid). For any credit-hour program, term-based or nonterm-based, the percentage of the period completed is calculated as follows:

$$\frac{\text{number of calendar days completed in the period}}{\text{total number of calendar days in the period}}$$

Scheduled breaks of at least five consecutive days and days in which the student was on an approved LOA are excluded from this calculation (34 CFR 668.22(f)(1)(i) and (2)).

In a credit-hour nonterm program, the ending date for a period and, therefore, the total number of calendar days in the period, may be dependent on the pace at which an individual student progresses through the program. Therefore, for a student who withdraws from a credit-hour nonterm program in which the completion date of the period is dependent on an individual student's progress, an institution must project the completion date based on the student's progress as of his or her withdrawal date to determine the total number of calendar days in the period. (See the example that follows.)

If a student withdraws from a self-paced non-term credit-hour program before earning any credits, the institution must have a reasonable procedure for projecting the completion date of the period. To the extent that any measure of progress is available, the institution should base its determination on that progress (see examples 2 and 3).

For a school that offers credit-hour nonterm programs in which the student does not earn credits or complete lessons as he or she progresses through the program, the institution must have a reasonable procedure for projecting the completion date of the period based on the student's progress before withdrawal. If the total number of calendar days in the period is not dependent on the pace at which a student progresses through a program (the completion date is the same for all students) and the student has not failed any courses for which he or she was paid in the payment period, the total number of calendar days in the period will be the same for all students.

Consider a nonterm credit-hour program offered in modules where some or all courses are offered sequentially and all students begin and end the modules at the same time. For a student who successfully completed all modules attempted up to the time the student withdrew, the completion date (and the corresponding number of days in the Return calculation) will be the number of days between the start of the first module and the originally scheduled end of the last module.

However, an institution must take into consideration any credits that a student has attempted, but not successfully completed before withdrawing. (Those credits must be successfully completed before the student is considered to have completed the period.) To do this, the school must modify the denominator used in the Return calculation. The school must add to the number of days between the start of the first module and the scheduled end of the last module, the number of days the student spent in the failed courses/module(s) the student did not successfully complete.

Calculating a completion date for a student who withdraws from a credit-hour nonterm program

Example 1, percentage completed

Barbara is enrolled in a 24 credit-hour nonterm program at an institution that calculates Returns on a payment period basis. Students in the program are expected to complete 12 credit hours each payment period, in 15 weeks (105 days).

When Barbara began classes she received a Federal Pell Grant and a Stafford Loan. She completed the 12 credit hours in the first payment period (the first half of the program) in 120 days (past the calendar midpoint of the original program length of 210 days). When Barbara completed the first half of her program she became eligible for the second disbursements of both her Federal Pell Grant and Stafford Loan.

Barbara withdrew from school on day 53 of the second payment period. At the time she withdrew Barbara had completed only one-third of the work (4 credits) in the payment period. If Barbara had continued to progress at her current pace of 4 credits earned every 53 days, Barbara would not complete the additional 8 credit hours for another 106 days. She would not complete the 12 credit hours in the second payment period until day 159.

For this student, therefore, the total number of days in the payment period (and the number used in the denominator of the Return calculation) is 159. The percentage of the payment period Barbara completed before withdrawing is 33.3% (53 days completed divided by 159 total days in the payment period).

Calculating a completion date for a student who withdraws from a credit-hour nonterm program

Example 2, lessons completed

David enrolled in a program offered in a credit-hour nonterm format and withdrew before earning any credits, but has completed two lessons. The institution uses David's completed assignments as an interim measure of his progress and compares it to information from its records about other students who have completed the same program to determine an end date.

Looking at the records of students who have completed the same program, the institution identifies other students who complete the two lessons in approximately the same amount of time as David. The school determines the number of days it took those students to complete the period. The institution uses the same number of days in the denominator of the Return calculation for David.

Example 3, nothing completed

Danny enrolls in a program offered in a credit-hour nonterm format. Danny withdraws before earning any credits, completing any lessons, or providing any other measure of progress toward the course or program goals at the time he withdrew. The institution uses its records to identify the student who took the longest to complete the period to determine the number of days it took that student to complete the period. The institution uses the same number of days in the denominator of the Return calculation for Danny.

Clock-hour programs

Under HERA, only scheduled hours are now used to determine the percentage of the period completed by a student withdrawing from a clock-hour program.

For a clock-hour program, the percentage of the period completed is determined by dividing the number of hours the student was scheduled to complete in the payment period or period of enrollment, as of the day the student withdrew, by the total number of clock hours in the same period as follows:

$$\frac{\text{number of clock hours the student was scheduled to complete in the period}}{\text{total number of clock hours in the period}}$$

A student withdrawing from a clock-hour program earns 100 percent of his or her aid if the student's withdrawal date occurs after the point that he or she was scheduled to complete 60 percent of the scheduled hours in the payment period or period of enrollment.

The scheduled clock hours used for a student must be those established by the school prior to the student's beginning class date for the payment period or period of enrollment, and must have been established in accordance with any requirements of the state or the institution's accrediting agency. These hours must be consistent with the published materials describing the institution's programs. However, if an institution modified the scheduled hours in a student's program prior to and unrelated to his or her withdrawal in accordance with any State or accrediting agency requirements, the new scheduled hours may be used.



Clock-hour programs cite

34 CFR. 668.22(f)(ii)

Using portions of a clock hour

If an institution tracks the completion of clock hours in portions of an hour, it might be able to use portions of an hour to determine the percentage of Title IV aid earned when a student withdraws.

An institution that tracks the completion of clock hours in portions of an hour (for example, in 15-minute intervals) may use those portions of an hour to determine the percentage of Title IV aid earned when a student withdraws **if the institution counts attended portions of an hour toward completion of the program for all students in the program.** If an institution counts only whole hours with no credit for partially completed hours toward completion of the program, only whole hours may be used in the Return calculation.

STEP 3: AMOUNT OF TITLE IV AID EARNED BY THE STUDENT

Amount of Title IV aid earned by the student cite

34 CFR 668.22(e)(1)

The amount of Title IV aid earned by the student is determined by multiplying the percentage of Title IV aid earned (Box H on the worksheet) by the total of Title IV program aid disbursed plus the Title IV aid that could have been disbursed to the student or on the student's behalf (Box G on the worksheet).

STEP 4: TOTAL TITLE IV AID TO BE DISBURSED OR RETURNED

Title IV aid to be disbursed or returned cite

34 CFR 668.22(a)(2) or (3)

If the student receives less Federal Student Aid than the amount earned, the school must offer a disbursement of the earned aid that was not received. This is called a post-withdrawal disbursement. If the student receives more Federal Student Aid than the amount earned, the school, the student, or both, must return the unearned funds in a specified order.

Part 1 – Post-withdrawal disbursements

Post-withdrawal disbursements cite

34 CFR 668.22(a)(3) & (4)

If a post-withdrawal disbursement is due, a school stops at Step 4, Box J on the worksheet. A school may use the *Post-Withdrawal Disbursement Tracking Sheet* to track the handling of the post-withdrawal disbursement, or it may use a form developed by someone other than ED. A school must maintain written records of its post-withdrawal disbursements.

Return calculation required

For a student who withdraws after the 60% point-in-time, even though a return is not required, a school may have to complete a Return calculation in order to determine whether the student is eligible for a post-withdrawal disbursement.

The requirements for a post-withdrawal disbursement are similar in many areas to the requirements under Subpart K – Cash Management of the Student Assistance General Provisions regulations. However, in some cases, the post-withdrawal disbursement requirements differ from the cash management requirements.

Any post-withdrawal disbursement due must meet the current required conditions for late disbursements. For example, ED must have processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official expected family contribution (EFC) prior to the student's loss of eligibility. These conditions are listed in a chart on Late Disbursements in *Volume 4 – Processing Aid and Managing Federal Student Aid Funds*. **A school is required to make (or offer as appropriate) post-withdrawal disbursements.** A post-withdrawal disbursement must be made within 120 days of the date the institution determines that the student withdrew. The amount of a post-withdrawal disbursement is determined by following the requirements for calculating earned Title IV Aid, and has no relationship to incurred educational costs.

Reminder

Disburse grant before loan

A post-withdrawal disbursement, whether credited to the student's account or disbursed to the student or parent directly, must be made from available grant funds before available loan funds since it is in the student's best interest to minimize loan debt. *Available* grant or loan funds refers to Title IV program assistance that could have been disbursed to the student but was not disbursed as of the date of the institution's determination that the student withdrew.

The regulations do not address how a school should ensure that Title IV funds are disbursed to the proper individual. However, a school may not require a student who has withdrawn from a school (or a parent of such a student, for PLUS loan funds) to pick up a post-withdrawal disbursement in person. Because the student is no longer attending the school, he or she may have moved out of the area and may be unable to return to the school to pick up a post-withdrawal disbursement.

Summary of actions a school must take before making a post-withdrawal disbursement

The actions a school must take before it may disburse funds from a post-withdrawal disbursement now vary depending on the source of the funds and whether the funds are to be posted to the student's account to cover unpaid charges or disbursed directly to the student.

The regulations already required a school to obtain confirmation from a student, or parent for a parent PLUS loan, before making a direct disbursement of loan or grant funds from a post-withdrawal disbursement. The regulations have been revised to make clear that an institution must now obtain such confirmation **before crediting a student's account with Title IV loan funds**.

As in the past, without permission, Title IV grant funds from a post-withdrawal disbursement can be credited to a student's account to pay for tuition, fees, and room and board (if the student contracts with the school). A school may not make a direct disbursement of Title IV grant funds to a student without obtaining permission.

An institution must obtain a student's authorization to credit a student's account with Title IV grant funds for charges other than current charges. A school is permitted to use a student's or parent's authorization for crediting the student's account for educationally related expenses that the school obtained prior to the student's withdrawal date so long as that authorization meets the cash management requirements for student or parent authorizations. If the school did not obtain authorization prior to the student's withdrawal, the school

Disburse grant before loan example

If a student is due a post-withdrawal disbursement of \$500, and the student has received \$400 of \$1,000 in Federal Pell Grant funds that could have been disbursed, and \$1,200 of the \$2,000 in Federal Stafford Loan funds that could have been disbursed, the available undisbursed funds are \$600 in Federal Pell Grant funds, and \$800 in Federal Stafford loan funds. Any portion of the \$500 post-withdrawal disbursement that the school makes must be from the \$600 in available Federal Pell Grant funds.



would have to obtain authorization in accordance with the cash management requirements before the school could credit the student's account for other current charges for educationally related activities. (See *Volume 4 – Processing Aid and Managing Federal Student Aid Funds* for more information on student and parent authorizations.)

Post-withdrawal disbursement of Title IV grant funds directly to a student

As in the past, a school is permitted to credit a student's account with the post-withdrawal disbursement of Title IV grant funds without the student's permission for current charges for tuition, fees, and room and board (if the student contracts with the school) up to the amount of outstanding charges. An institution must obtain a student's authorization to credit a student's account with Title IV grant funds for charges other than current charges.



If a student due a post-withdrawal disbursement of Title IV grant funds has no outstanding charges on his or her account, or if grant funds remain to be disbursed from a post-withdrawal disbursement after the outstanding charges on the student's account have been satisfied, the school must notify the student in writing that the grant funds are available.

Notification and Authorization Requirements

Grants funds disbursed directly

The notice to the student must include the source, type, and amount of the grant funds. In addition, the notice must inform the student that he or she may reject the funds or accept all or just a portion of the amount offered. The school may not disburse the funds directly to the student without the student first confirming that he or she wants the funds.



The school must document the result of the notification process and the final determination made concerning the disbursement, and maintain that documentation in the student's file.

Loan funds

A school must notify a student, or parent for a parent PLUS loan, in writing prior to making any post-withdrawal disbursement of loan funds, whether those loan funds are to be credited to the student's account or disbursed directly to the student (or parent). The information provided in this notification must include the information necessary for the student, or parent for a parent PLUS loan, to make an informed decision as to whether the student or parent would like to accept any disbursement of loan funds.



The notice must identify the type and amount of the loan funds it wishes to credit to the student's account or disburse directly to the student or parent, and explain that a student, or parent for a parent PLUS loan, may accept or decline all or a portion of the funds. The notice must also explain to the student, or parent for a parent PLUS loan, the obligation to repay the loan funds whether they are disbursed to the student's account or directly to the borrower.



The notice must also make clear that a student, or parent for a parent PLUS loan, may not receive as a direct disbursement loan funds that the institution wishes to credit to the student's account unless the institution agrees to do so. If the student, or parent for a parent PLUS loan, does not wish to accept some or all of the loan funds that the institution wishes to credit to the student's account, the institution must not disburse those funds.



In the information a school provides to a student when the school informs the student that he or she is due a post-withdrawal disbursement of loan funds, the school should include information about the advantages of keeping loan debt to a minimum. If a post-withdrawal disbursement is entirely comprised of loan proceeds, unless the recipient needs the funds to pay educational costs, the school might want to suggest that the student cancel the loan. With a student's permission, funds due a student in a post-withdrawal disbursement can be used to pay down a Title IV loan thereby reducing any post-withdrawal disbursement made directly to the student.

The school must document the result of the notification process and the final determination made concerning the disbursement, and maintain that documentation in the student's file.



If a school has completed post-withdrawal loan notification (described previously) and confirmed a student's desire for any loan funds included in the post-withdrawal disbursement, the school is permitted to credit a student's account with the post-withdrawal disbursement without additional permission from the student (or parent, in the case of a PLUS loan) for current charges as described above.

A school may combine providing loan counseling, obtaining authorization to credit loan funds to a student's account for outstanding charges, and authorization to make a direct disbursement to the student.

Cash management requirements for student and parent

authorizations cite
34 CFR 668.165(b)

Outstanding charges example

Consider a student who is due a post-withdrawal disbursement of \$800. The institutional charges that the student was originally assessed by the institution totaled \$2,300. However, under the institution's refund policy, the institution may only keep \$600 of those institutional charges. No funds had been paid toward the institutional charges at the time the student withdrew. In addition, the student owes \$150 for a bus pass. The outstanding charges on the student's account that would be entered in Box 2 of the Post-Withdrawal Disbursement Tracking Sheet are \$750 (the \$600 in institutional charges plus the \$150 owed for the bus pass).

A portion of the \$800 the institution must disburse under the post-withdrawal disbursement provisions may (with authorization if they are loan funds) be used to satisfy the outstanding balance. If the student has provided written authorization to credit Title IV funds to his account and use them for non-educational charges, the school may credit \$750 to institutional charges and offer \$50 to the student. If the student has not provided (and does not provide) written authorization to use the funds for non-educational charges, the school may only credit \$600 to institutional charges, and must offer \$200 to the student.

Separate authorization required for educationally related expenses

A school is permitted to use a student's or parent's authorization for crediting the student's account for educationally related expenses that the school obtained prior to the student's withdrawal date so long as that authorization meets the cash management requirements for student or parent authorizations. If the school did not obtain authorization prior to the student's withdrawal, the school would have to obtain authorization in accordance with the cash management requirements before the school could credit the student's account for other current charges for educationally related activities. (See *Volume 4 – Processing Aid and Managing Federal Student Aid Funds* for more information on student and parent authorizations.)

Crediting a student's account

An institution should not request Title IV funds for a post-withdrawal disbursement unless and until it has determined that it can disburse any post-withdrawal disbursement within three business days of receiving the funds.

The requirements for the treatment of Title IV funds when a student withdraws reflect the cash management requirements for disbursing Title IV funds. An institution must obtain a student's authorization to credit a student's account with Title IV funds for charges other than current charges for tuition, fees, room and board (if the student contracts with the school) (see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds* and chart on “Institutional and Financial Assistance Information for Students” in *Volume 2 – School Eligibility and Operations* for more information).

Outstanding charges on a student's account are charges for which the institution will hold the student liable after the application of any applicable refund policy. These are the institutional charges, after any adjustment, that reflect what the student will owe for the current term after his or her withdrawal, any other current charges, plus any permitted minor prior year charges.

A school may credit a student's account for **minor prior award year charges** in accordance with the cash management requirements (see *Volume 4 – Processing Aid and Managing Federal Student Aid Funds*). Schools should make every effort to explain to a student that all or a portion of his or her post-withdrawal disbursement has been used to satisfy any charges from prior award years.

Notice to a student offering a post-withdrawal disbursement

Flexibility in notifying students

In order to avoid having to contact a student a multiple times, a school may use one contact to -

- notify a borrower about his or her loan repayment obligations;
- obtain permission to credit loan funds to a student's account to cover unpaid institutional charges;'
- obtain permission to make a post-withdrawal disbursement of grant or loan funds for other than institutional charges; and
- obtain permission to make a post-withdrawal disbursement of grant or loan funds directly to a student.

A school must send the notification as soon as possible, but **no later than 30 calendar days after the date that the school determines the student withdrew.**

In the notification, the school must advise the student or parent an institution may set a deadline of 14 days or more. Any deadline must apply to both confirmation of loan disbursements to the student's account and direct disbursements of a post-withdrawal disbursement. The notification must make it clear that if the student or parent does not respond to the notification within the time frame, the school is not required to make the post-withdrawal disbursement. However, a school may choose to make a post-withdrawal disbursement based on an acceptance received from a student or parent received after school's deadline.

Under HERA, an institution that chooses to honor a late response must disburse all the funds accepted by the student or parent as applicable. The school cannot credit the student's account in accordance with the student's request, but decline to disburse post-withdrawal funds accepted as a direct disbursement. If a response is not received from the student or parent within the permitted time frame, or the student declines the funds, the school would return any earned funds that the school was holding to the Title IV programs.



Student's Response to an Offer of a PWD

A student's or parent's response to an offer of a direct disbursement of Title IV funds from post-withdrawal disbursement does not have to be in writing. However, a school must document the response.



If a student or parent submits a timely response accepting all or a portion of a post-withdrawal disbursement, per the student's or parent's instructions, the school must disburse the funds within 120 days of the date of the institution's determination that the student withdrew. (For additional information, see the discussion under *Date of the institution's determination that the student withdrew* earlier in this chapter.) Note that the date of the institution's determination that the student withdrew is the same date that triggers the 30-day period that the school has for notifying the student or parent of any post-withdrawal disbursement available for direct disbursement.

Example of the post-withdrawal disbursement requirements

Michael drops out of school on November 5. On November 10, the school becomes aware that Michael has ceased attending. The school determines that because Michael has earned \$900 in Title IV Program assistance that he has not received, he is due a post-withdrawal disbursement of \$900. When Michael withdrew, only \$600 of the \$1,000 in Federal Pell Grant funds that could have been disbursed had been disbursed. Of the \$500 in Federal Stafford Loan funds that could have been disbursed, none had been disbursed. The school determines that Michael has \$50 in outstanding tuition charges and \$100 in outstanding parking fines for the payment period. The school credits Michael's account with \$50 of Michael's Federal Pell Grant funds. The school wants to use another \$100 of his post-withdrawal disbursement to cover the outstanding parking fines. However, the school has not received permission from Michael prior to his withdrawal to credit his account for educationally related charges other than tuition, fees, and room and board.

On November 12, (the last date school could have sent the notification was December 10th) – 30 days after the date of the institution's determination that the student withdrew) the school sends a notification to Michael stating that:

1. He is due a post-withdrawal disbursement of \$900 that is made up of \$400 in Federal Pell Grant funds and \$500 in Federal Stafford Loan funds.
2. \$50 of the Federal Pell Grant funds were credited to his account for tuition charges, so Michael has a remaining potential post-withdrawal disbursement of \$850.
3. Michael may accept all, a portion, or none of the \$850.
4. Any loan funds that Michael accepts will have to be repaid.
5. The school is obligated to make a post-withdrawal disbursement of funds only if Michael accepts the funds by November 26, 14 days after the school sent the notification. Note that under the HERA a school may allow more than 14 days for a response.
6. The school is requesting his permission to credit his account with an additional \$100 of the Federal Pell Grant funds to cover his unpaid parking fines (a discretionary educationally related expense).
7. If Michael does not authorize the school to credit his account with the \$100 of Federal Pell Grant funds, those funds will be disbursed to him together with any other grant funds he chooses to accept.

Michael responds on November 19. He authorizes the school to apply \$100 of the Federal Pell Grant funds to his outstanding parking fines. Michael accepts the remaining \$250 in Federal Pell Grant funds, but declines the \$500 in Federal Stafford Loan funds to minimize his overall loan debt.

The school has until March 10, 120 days from the date of the institution's determination that the student withdrew, to disburse the \$250 in Federal Pell Grant funds to Michael and to credit his account with the \$100 of Federal Pell Grant funds to cover his outstanding parking fines. The school sends Michael a check for the \$250 in Federal Pell Grant funds and a letter confirming that \$100 of the Federal Pell Grant funds will be credited to his account and no loan funds will be disbursed.

Disbursement Prohibited

A school may not disburse the proceeds of a Title IV loan when it knows that the repayment of the loan will devolve or pass to the Department. Therefore, a school may not disburse the proceeds of a PLUS loan taken out by a parent who has died, even though the student for whose benefit the loan was intended remains alive and otherwise eligible.

If a school receives the proceeds of a PLUS loan made to a parent who has died, it must return the funds to the lender together with a letter explaining the reason it is returning the funds.

Consequently, the sooner a school sends the notification to a student or parent, the more time the school has to make any accepted post-withdrawal disbursement.

If authorization from a student (or parent for a PLUS loan) is received after the deadline and the school chooses not to make a post-withdrawal disbursement, the school must notify the student (or parent) that the post-withdrawal disbursement will not be made and why. This notification must be made in writing. If an authorization from the student (or parent for a PLUS loan) is never received, or if the school chooses to make a post-withdrawal disbursement per the recipient's instructions on an authorization received after the deadline, the school does not need to notify the student.

Death of a student

A school may not make a post-withdrawal disbursement of Title IV funds to the account or estate of a student who has died.

If an institution is informed that a student has died during a period, it must perform a Return calculation. If the Return calculation indicates that an institution is required to return Title IV funds, the institution must return the Title IV funds for which it is responsible.

The student's estate is not required to return any Title IV funds. Therefore, an institution should neither report a grant overpayment for a deceased student to NSLDS, nor refer a grant overpayment for a deceased student to Borrower Services. If an institution had previously reported a grant overpayment for a student who is deceased to Borrower Services, it should inform Borrower Services that it has received notification that the student is deceased.

The regulations governing the FFEL, Direct, and Federal Perkins loan programs provide for a discharge of a borrower's obligation to repay an FFEL, Federal Direct, or Federal Perkins loan if the borrower dies (including a PLUS loan borrower's obligation to repay an FFEL or Direct PLUS loan if the student on whose behalf the parent borrowed dies). If a school is aware that a student who has died has any outstanding Title IV loan debt, the school should contact the student's estate and inform it of the actions it can take to have the student's Title IV loan debt cancelled.

If a Title IV credit balance created from **funds disbursed before the death of the student** exists after the completion of the Return calculation and the institutional refund calculations, the institution must resolve the Title IV credit balance as follows:

1. in accordance with the cash management regulations, paying authorized charges at the institution (including previously paid

charges that are now unpaid due to the Return of Title IV funds by the institution);

2. retiring any Title IV grant overpayments owed by the student for **previous withdrawals** from the present school (the institution may deposit the funds in its federal funds account and make the appropriate entry in GAPS);

If the institution has previously referred the grant overpayment to Borrower Services, Collections (Collections), the institution should provide Collections with documentation that the student has died so that Collections can delete the overpayment from its records.

3. returning any remaining credit balance to the Title IV Programs.

Part 2 – Title IV aid to be returned

If the student receives more Federal Student Aid than the amount earned, the school, the student, or both must return the unearned funds in a specified order. The amount of Federal Student Aid to be returned is determined by subtracting the amount of earned Title IV aid (Box I) from the amount of Title IV aid that was actually disbursed to the student, Box E).

Step 5: Amount of unearned Title IV aid due from the school

When a Return of Title IV funds is due, the school and the student may both have a responsibility for returning funds. Funds that are not the responsibility of the school to return, must be returned by the student. Although these requirements talk in terms of returning funds, a school is not required to actually return its share before the student. Rather, it is the Return calculation of the amount of assistance the school is responsible for returning to the Title IV accounts that must be calculated first. Thus, the student's repayment obligation is determined after the school's share is calculated.

The school must return the lesser of –

- the amount of Title IV funds that the student does not earn; or
- the amount of institutional charges that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned.

The percentage **not** earned (Box M) is determined by subtracting the percentage of Title IV aid earned (Box H) from 100%.

Title IV aid to be returned cite

34 CFR 668.22(a)(2)

Use aid actually disbursed

The amount of aid that was actually disbursed, rather than the total amount of aid that was disbursed and that could have been disbursed, is used because the only amount of Title IV aid that needs to be returned is the amount of disbursed aid that exceeds the amount of earned aid.

Step 5: Amount of unearned Title IV aid due from the school

34 CFR 668.22(g)

A school's policy and the Return requirements

Title IV funds are provided under the assumption that they are used to pay institutional charges ahead of all other aid. Institutions may establish their own policies for distributing Title IV aid.

Institutional charges cite

34 CFR 668.22(g)(1)(ii)
34 CFR 668.22(g)(2)
DCL-GEN-00-24

Determining charges cites

34 CFR 668.22(a),
34 CFR 668.22(g)(2)(ii), and
DCL-GEN-00-24

Treatment of Work-Study funds

Federal Work-Study funds are not included in the calculation of earned Title IV funds when a student withdraws. This remains the case even if a student has granted permission for a percentage of the student's Federal Work-Study earnings to be credited to his or her account to pay educational charges.

Fees as noninstitutional charges

Application fees are excluded from institutional charges because they are not an educational cost. (Federal Register, Vol. 59, No. 82, April 29, 1994, page 22356).

Effect of other assistance cite

Federal Register/Vol. 64, No. 210,
11/1/99, page 59032

Administrative fees

The \$100 or 5% administrative fee (whichever is less) that was excludable under the former Refund and Repayment regulations is not excluded in Return of Title IV Funds calculations.

Aid disbursed to the student before institutional charges are paid

Consider a case in which, in order to assist a student with living expenses, a school elects to disburse an anticipated credit balance to a student rather than pay itself for institutional charges from the first Title IV funds the school receives. Then, the student withdraws before the school receives anticipated aid from all the Title IV programs. The Return calculations indicate the school must return funds, but the school had passed through all funds to the student. **The school still must return the funds it is responsible for returning as a result of the Return calculation.**

Institutional charges

Institutional charges are used to determine the portion of unearned Federal Student Aid that the school is responsible for returning. Schools must ensure the inclusion of all appropriate fees as well as applicable charges for books, supplies, materials, and equipment in Step 5, Part L of the Return calculation. (See Institutional versus noninstitutional charges earlier in this chapter.) Institutional charges do not affect the amount of Federal Student Aid that a student earns when he or she withdraws.

If an institution enters into a contract with a third party to provide institutional housing, the institution must include the cost of housing as an institutional charge in a Return calculation if a student living in the third-party housing withdraws.

Use of institutional charges in determining the school's responsibility for return

The institutional charges used in the calculation are always the charges that were assessed the student for the entire payment period or period of enrollment, as applicable, prior to the student's withdrawal. Initial charges may only be adjusted by those changes the institution made prior to the student's withdrawal (e.g., for dropping or adding a class or changing enrollment status). If after a student withdraws the institution changes the amount of institutional charges it assessed a student, or decides to eliminate all institutional charges, those changes affect neither the charges nor aid earned in the calculation. (Please see Step 3 — Amount of Title IV Aid Earned by the Student, for a further discussion of aid earned and institutional charges.)

Institutional charges may not be reduced even if other sources of aid are used to pay those charges. For example, a school may not reduce institutional charges when an outside agency supplying aid requires that aid to be used for tuition. The Return regulations presume Title IV program funds are used to pay institutional charges ahead of all other sources of aid.

When an institution that offers courses in a nonterm, credit-hour format calculates the aid for which the student is eligible, it does so using costs associated with the number of courses it expects the student to complete in the period for which aid is awarded. If the student later withdraws, **the charges entered in Step 5 of the Return calculation must include the charges for all the courses the student was initially expected to complete.**

Effects of a post-withdrawal reduction in charges

If a student withdraws and as a result of applying an institutional refund policy the school reverses, reduces, or cancels a student's charges, the Return requirements still apply. The statute mandates that an otherwise eligible student who begins attendance at a school and is disbursed or could have been disbursed Title IV grant or loan funds prior to a withdrawal earns a portion of those Title IV funds. If as a result of the withdrawal, an institution adjusts or eliminates a student's institutional charges, or changes a student's enrollment status, the changes made by the institution have no bearing on the applicability of the requirements in 34 CFR 668.22. Moreover, the charges used in the Return calculation are always the charges on the student's account prior to withdrawal. However, if a student's enrollment status changed prior to and unrelated to the withdrawal, the effect of that change on institutional charges appropriately should be reflected in any Return calculation.

When to prorate charges

As stated previously, for students who withdraw from a nonterm-based educational program, the school has the choice of performing the Return calculation on either a payment period basis or a period of enrollment basis. If a school with a nonterm program chooses to base the Return calculation on a payment period, but the school charges for a period longer than the payment period (most likely the period of enrollment), there may not be a specific amount that reflects the actual institutional charges incurred by the student for the payment period. In this situation, the student's institutional charges for the payment period are the prorated amount of institutional charges for the longer period. However, if a school has retained Title IV funds in excess of the institutional charges prorated amount, including allocating costs for equipment and supplies to the beginning of the program, the funds retained by the school are attributed to that payment period because they are a better measure of the student's institutional charges for that period.

Reminder

Prorated charges example

Institutional charges are \$8,000 for a nonterm-based program that spans two payment periods of 450 clock hours each. The school chooses to calculate the treatment of Title IV funds on a payment period basis. A student withdraws in the first payment period. The prorated amount of institutional charges for each payment period is \$4,000. However, because of the \$1,000 in fees charged at the beginning of the period, the school has retained \$5,000 of the Title IV funds for institutional charges for the payment period. Therefore, the institutional charges for the payment period are \$5,000 — the greater of the two elements from the proration calculation.

Waiver Example

An institution charges state residents \$900 per semester. Out-of-state students are charged an additional \$2,000 for a total of \$2,900. However, the institution grants waivers of the out-of-state charges to out-of-state athletes. The waiver is considered a payment to those charges and the full \$2,900 would need to be included in any Return calculation.

**Order of return of Title IV funds
cite**

34 CFR 668.22(i)

Effects of waivers on institutional charges

If your school treats a waiver as a payment of tuition and fees that have actually been charged to a student, then the waiver is considered a financial aid resource, and the full amount of the tuition and fees must be included in Step 5, Part L of the Return calculation. On the other hand, if the student is never assessed the full charges, the waiver is not considered to be financial aid, and only the actual charges would be included in the Return calculation. (See DCL GEN 00-24, January 2000 for a further discussion of waivers and the Return calculation.)

STEP 6: RETURN OF FUNDS BY THE SCHOOL**Order of return of Title IV funds**

A school must return Title IV funds to the programs from which the student received aid during the payment period or period of enrollment as applicable, in the following order, up to the net amount disbursed from each source:



1. Unsubsidized Federal Stafford loans.
2. Subsidized Federal Stafford loans.
3. Unsubsidized Direct Stafford loans (other than PLUS loans).
4. Subsidized Direct Stafford loans.
5. Federal Perkins loans.
6. Federal PLUS loans.
7. Direct PLUS loans.
8. Federal Pell Grants for which a return of funds is required.
9. Academic Competitiveness Grants for which a return of funds is required.
10. National Smart Grants for which a return of funds is required.
11. Federal Supplemental Educational Opportunity Grants (FSEOG) for which a return of funds is required.

Time frame for the return of Title IV funds

Previously, regulations required a school to return the unearned funds for which it is responsible as soon as possible, but no later than 30 days after the date of the school's determination that the student withdrew. The HERA amended this requirement in the HEA, and new implementing regulations issued by the Department now require a school to return unearned funds for which it is responsible as soon as possible, but no later than 45 days from the determination of a student's withdrawal. The new regulations continue to specify that a school must return those funds as soon as possible.

**Time frame for return of Title IV
funds cite**

34 CFR 668.22(j)(1)

A school will be considered to have returned funds timely if the school does one of the following no later than 45 days after the date it determines that the student withdrew:

- deposits or transfers the funds into the bank account it is required to maintain;
- initiates an electronic funds transfer (EFT);
- initiates an electronic transaction that informs the FFEL lender to adjust the borrower's loan account for the amount returned; or
- issues a check.

The school is considered to have issued a check timely if the institution's records show that the check was issued no more than 45 days after the date the school determined that the student withdrew, and the date on the cancelled check shows that the bank endorsed that check no more than 60 days (instead of the current 45 days) after the date the school determined that the student withdrew.

STEP 7: INITIAL AMOUNT OF UNEARNED TITLE IV AID DUE FROM THE STUDENT

The statute specifies that a student is responsible for all unearned Title IV Program assistance that the school is not required to return. The initial amount of unearned Federal Student Aid due from the student (or parent, for PLUS loan funds) (Box Q) is determined by subtracting the amount returned by the school (Box O) from the total amount of unearned Title IV funds to be returned (Box K). This is called the initial amount due from the student because a student does not have to return the full amount of any grant repayment due. Therefore, the student may not have to return the full initial amount due.

STEP 8: REPAYMENT OF STUDENT LOANS

The student loans that remain outstanding (Box R) consist of the loans disbursed to the student (Box B) minus any loans the school repaid in STEP 6, Block P. These outstanding loans are repaid according to the terms of the student's promissory notes.

Initial amount due from student cite

34 CFR 668.22(h)



Return of funds by the student cite

34 CFR 668.22(h)(3)(i) and (ii)



STEP 9: GRANT FUNDS TO BE RETURNED



For withdrawals occurring on or after July 1, 2006, the HERA amended the HEA to change the amount of a grant overpayment that must be repaid. The new implementing regulations issued by ED now limit the amount a student must repay to the amount by which the original overpayment amount exceeds 50 percent of the total grant funds received by the student for the payment period or period of enrollment.



The initial amount of unearned Title IV grant aid due from the student (Box S) is found by subtracting the loans to be repaid by the student (Box R) from the initial amount of unearned aid due from the student (Box Q).

The amount of grant overpayment due from a student is limited to the amount by which the original grant overpayment (Box S) exceeds half of the total Title IV grant funds disbursed and could have been disbursed to the student (Box F).

Student overpayments of \$50 or less



The HERA amended the HEA to specify that a student does not have to repay a grant overpayment of \$50 or less for grant overpayments resulting from the student's withdrawal. The implementing regulations issued by ED reflect this statutory provision and specify that a student is not obligated to return a grant overpayment of \$50 or less.

As a result, a grant overpayment of \$50 or less will not make the student ineligible to receive Title IV, HEA program assistance should the student return to school. A school is not required to attempt recovery of that overpayment, report it to the Department's National Student Loan Data System (NSLDS), or refer it to Borrower Services – Collections.

These de minimus amounts are program specific. That is, if a Return calculation resulted in a student having to return \$150 in Pell funds and \$20 40 in FSEOG funds, the student would have to return the Pell funds, but the FSEOG funds would be considered de minimis and treated as described above.

STEP 10: RETURN OF GRANT FUNDS BY THE STUDENT

The student is obligated to return any Title IV overpayment in the same order that is required for schools.

Grant overpayments may be resolved through –

1. full and immediate repayment to the institution;
2. repayment arrangements satisfactory to the school; or
3. overpayment collection procedures negotiated with Borrower Services.

A school has responsibilities that continue beyond completing the Return calculation and returning the funds for which it is responsible. Here we discuss the institution's participation in the return of funds by the student.

A SCHOOL'S RESPONSIBILITIES IN THE RETURN OF FUNDS BY THE STUDENT

Grant Overpayments

The applicable regulations limit the amount of grant funds a student must repay to one half of the grant funds the student received or could have received during the applicable period. Moreover, repayment terms for students who owe Title IV grant overpayments were established to ensure that students who could not immediately repay their debt in full had the opportunity to continue their eligibility for Title IV funds. Students who owe overpayments as a result of withdrawals initially will retain their eligibility for Title IV funds for a maximum of 45 days from the earlier of the –

- date the school sends the student notice of the overpayment, or
- date the school was required to notify the student of the overpayment.

Within 30 days of determining that a student who withdrew must repay all or part of a Title IV grant, a school must notify the student that he or she must repay the overpayment or make satisfactory arrangements to repay it. In its notification a school must inform the student that:

1. The student owes an overpayment of Title IV funds.
2. The student's eligibility for additional Title IV funds will end if the student fails to take positive action by the 45th day following the date the school sent or was required to send notification to the student.

Grant overpayments cite
34 CFR 668.22(h)(4)



Reminder

Reminder

3. There are three positive actions a student can take to extend his or her eligibility for Title IV funds beyond 45 days:
 - a. The student may repay the overpayment in full to the school.
 - b. The student may sign a repayment agreement with the school.

Note: Two years is the maximum time a school may allow for repayment.

- c. The student may sign a repayment agreement with the Department.

If the student takes no positive action during the 45-day period, the school should report the overpayment to NSLDS immediately after the 45-day period has elapsed. (Because making this change in the NSLDS system is a simple process, we expect an institution will complete making the change within a few days of the end of the 45-day period.)

4. If the student fails to take one of the positive actions during the 45-day period, the student's overpayment immediately must be reported to the NSLDS and referred to the Borrower Services for collection.
5. The student should contact the school to discuss his or her options.

45-Day period example

On October 30th during the fall semester a student withdraws and owes a grant overpayment. On November 29th the institution notifies the student of the overpayment. The student has 45 days (until January 13) to repay the overpayment in full or to make arrangements with the institution or the Department to repay the overpayment.

The spring semester begins on January 7, before the 45-day period ends, and the student receives Title IV aid for the spring semester on January 10. The student then fails to repay the overpayment in full or sign a repayment agreement by the end of the 45-day period - January 13. The student is not required to return the Title IV funds received on January 10. However, the student becomes ineligible for additional Title IV funds on January 14 and remains ineligible until he or she enters into a repayment agreement with the Department.

When a student receives additional funds during the 45-day period of extended eligibility

Students who owe overpayments as a result of withdrawals generally will retain their eligibility for Title IV funds for a maximum of 45 days from the earlier of (a) the date the school sends the student notice of the overpayment, or (b) the date the school was required to notify the student of the overpayment.

A student who receives Title IV funds within that period of extended eligibility and then fails to return the overpayment or make repayment arrangements becomes ineligible for additional Title IV program funds on the day following the 45-day period. However, any Title IV program funds received by the student during the 45-day period were received while the student was eligible. Therefore, those Title IV funds do not have to be returned (unless the student withdraws a second time). A student who loses his or her eligibility for Title IV funds at the expiration of the 45-day period will remain ineligible for additional Title IV funds until the student enters into a repayment agreement with the Department.

Examples of the relationship between the date of notification and the expiration of the 45-day period

Example 1 – A school sends notification to a student within the 30 days allowed.

If a school sends notification to a student within the 30 days allowed, the 45-day period begins on the day after the school sends the notification to the student. If a school determines on August 20 that a student withdrew and owes a repayment and the school sends notification to the student on September 1 (within the 30 days allowed), then the first day of the 45-day period is September 2. Unless the student takes positive action to resolve the overpayment before the end of the 45-day period, the student loses his or her eligibility on the 45th day. Thus, in this case the last day of the student's eligibility for Title IV funds is October 16.

Example 2 – A school fails to notify the student or notifies the student after the 30 days allowed.

If the school fails to notify the student or notifies the student after the 30 days allowed, the 45-day period begins on the day after the end of the 30-day period (the date by which the school should have sent the notification to the student). Consider a school that determines on August 1 that a student withdrew on June 15. The school should have sent the student a letter by July 15. Because it failed to do so, the first day of the 45-day period is the day after the end of the 30-day period (July 16). Unless the student takes action to resolve the overpayment, the last day of the student's eligibility for Title IV funds is August 29, the end of the 45-day period that began on July 16.

If a student agrees to a repayment arrangement and then fails to meet the terms of that arrangement, the student's eligibility ends as of the date the student fails to comply with the terms of the repayment arrangement.

If at any time a student who previously negotiated a repayment arrangement fails to comply with the terms of his or her agreement to repay, that student immediately becomes ineligible for additional Title IV funds. Any Title IV program funds received by the student between the time the student negotiated the repayment arrangement and the time the student violated the agreement were received while the student was eligible. Therefore, those Title IV funds do not have to be returned (unless the student withdraws a second time). A student who violates the terms of a repayment agreement and loses eligibility remains ineligible for Title IV funds until the student has made satisfactory repayment arrangements with the Department.

If, in either of the two aforementioned cases, the student withdraws a second time, any unearned funds from the disbursements that were made while the student was still eligible would have to be returned in accordance with the Return requirements.

Student overpayments of \$50 or less

Student overpayments less than \$50 cite

34 CFR 668.22(h)(3)(ii)---



Reminder

A student does not have to repay a grant overpayment of \$50 or less for grant overpayments resulting from the student's withdrawal. As a result, a grant overpayment of \$50 or less will not make the student ineligible to receive Title IV, HEA program assistance should the student return to school. A school is not required to attempt recovery of that overpayment, report it to the Department's National Student Loan Data System (NSLDS), or refer it to Borrower Services – Collections.

These de minimis amounts are program specific. That is, if a Return calculation resulted in a student having to return \$150 in Pell funds and \$40 in FSEOG funds, the student would have to return the Pell funds, but the FSEOG funds would be considered de minimis and treated as described above.

If a school is currently holding an overpayment resulting from a withdrawal for which the original amount (after the grant protection was applied) was less than \$50, the school should delete the overpayment in NSLDS by:

1. from the Overpayment History Page, selecting the overpayment by clicking on the blue number icon;
2. on the Overpayment Display Page, verifying that this is the overpayment you want to delete, and then clicking the Delete Button;
3. on the Overpayments Delete Confirmation page, clicking the Confirm Button.

This new standard does not apply to remaining grant overpayment balances. That is, a student must repay a grant overpayment that has been reduced to \$50 or less because of payments made. An overpayment for which the original amount was or more than \$50 that has a current balance of less than \$50 may not be written off.

Note: Borrower Services will not accept referrals for which the original amount was less than \$25.



Important

This provision does not apply to funds that a school is required to return. A school must return the full amount owed to any Title IV program that the school is responsible for returning. However, a school does not have to return amounts of less than \$1.00.

Payments on a student's behalf

The grant protection always applies to the repayment of grant funds for which the student is responsible, regardless of who actually returns the funds. If an institution chooses to return all or a portion of a grant overpayment that otherwise would be the responsibility of the student to return, the grant protection still applies. If an institution returns a grant overpayment for a student, the student would no longer be considered to have a Title IV grant overpayment and as such no reporting to NSLDS is required and no referral to Borrower Services for collection is allowed. This would be true whether the institution simply returned the overpayment for the student or returned the overpayment and created a debit on the student's school account.

Recording student payments and reductions in the Pell Grant, ACG, and National SMART Grant Programs

For reductions and payments to awards in the 2006-2007 award year and forward, all schools should record reductions and payments by entering a replacement value.

If through its Return calculation a school determines that a student has received an overpayment of Pell, ACG, or National SMART Grant funds, the school should reduce the student's award/disbursements and return the funds.

First, reduce the student's award/disbursements by entering a replacement value in the COD system. The replacement value will be the original values less only the amount the school (not the student) must return.

Note: If a school receives a payment for a current-year overpayment that has not been referred to Borrower Services, the school should NOT send the payment to Borrower Services.

After you have reduced the student's disbursement in COD, return the unearned funds as follows:

- If your school has made repayment arrangements with a student and received a payment on a current year overpayment, the school should deposit the funds in its Pell, ACG, or National SMART account and make the appropriate entry in the COD system.

Reporting reductions

Schools can report current-year reductions to awards/disbursements either through the software they use for Pell transactions or by using the COD Web site at

<https://cod.ed.gov>

Returning funds to the Department

Using the electronic refund function in GAPS is the preferred method whenever a school must return Pell, ACG, National SMART, or FSEOG funds.

Only in exceptional circumstances (and **never for a current Pell, ACG, National SMART, or FSEOG award**) should a school return funds from a Return calculation by sending a check instead of using the electronic refund function in GAPS.

Contact the e-payments Help desk at **888-36-8930** (M–F 8a.m. to 6p.m. ET) for assistance

If because of extraordinary circumstances you must send a check,

The GAPS lockbox address for Pell and campus-based funds is:

**U.S. Department of Education
P.O. Box 979053
St. Louis, Missouri 63197-9000**

The school must note the student’s name, SSN, the school’s DUNS number, and the complete 11-digit Document/Program Award Number and award year on the check. A school must use a separate check for each award year.

- If a student makes a payment on any previous year’s Pell, ACG, or National SMART overpayment, a school makes the aforementioned COD system entry using the same software the school used to create the award. The school then returns the funds to the Department using the Electronic Refund function in GAPS following the same procedures the school follows when making other GAPS refunds/returns.

If through its Return calculation a school determines that a student has received an overpayment of FSEOG funds, the school must adjust its institutional ledgers, financial aid records, and the student’s account by subtracting the amount the school must return (the FISAP filed for the year will reflect the net award to the student). If a student makes a payment on an FSEOG overpayment made in the current award year, the school should deposit the payment in its *federal funds account*, and award the funds to other needy students. If the school collects an overpayment of an FSEOG for an award made in a **prior award year**, the funds recovered should be returned to the Department using the Electronic Refund function in GAPS. Payments should be applied to the award year in which the recovered funds were awarded.

For information on handling student payments after you have referred an overpayment to Borrower Services, see the discussion under Accepting payments on referred overpayments later in this chapter.

Recording student payments and reductions in the Direct Loan Program

If through its Return calculation a school determines that a student has received an overpayment of Direct Loan funds, the school should reduce the student’s award/disbursements by making a downward adjustment in COD.

The school then returns the funds to the Department using the Electronic Refund function in GAPS following the same procedures the school follows when making other GAPS refunds/returns.

Only in exceptional circumstances should a school return funds due as a result of compliance with 34 CFR 668.22 by sending a check instead of using the electronic refund function in GAPS.

If a school has to return funds by check, the school must –

1. use a separate check for each award year;
2. note the school’s DUNS number, school code, and award year on each check;
3. include a completed Direct Loans Return of Cash form; and

4. include a memorandum that specifies the name and social security number for each student for whom funds are being returned and how much is being returned for each student.

The address for returning Direct Loan funds by check is:

U.S. Department of Education
Attention Refunds of Cash
P.O. Box 9001
Niagra Falls, New York 14302

Notifying the Department

A school is never required to enter into a repayment agreement with a student; rather a school may refer an overpayment to the Department at any time **after** the student has had the opportunity to pay off the overpayment in full to the school or indicate his or her intent to negotiate repayment arrangements with Borrower Services. However, if a school reports a student overpayment (for which a student has not negotiated repayment arrangements) to NSLDS before the 45-day period has elapsed, the student will appear to be ineligible for Title IV aid. Since students retain their eligibility for 45 days, schools should provide students with every opportunity to repay their debt or negotiate repayment arrangements before reporting it to NSLDS and referring it to Borrower Services.

Important: Borrower Services is unable to respond to a student-initiated request to negotiate a repayment arrangement until a school has referred the student's account for collection. In addition, Borrower Services uses the information about the student in the NSLDS while conversing with a student.

In order to ensure a student overpayment has been reported and referred to ED, when the school is communicating with a student about making repayment arrangements with ED, the school should make it clear that **the student should contact the school before contacting the Department**. Repayment agreements with the Department will include terms that permit students to repay overpayments while maintaining their eligibility for Title IV funds. Schools are encouraged to negotiate similar repayment agreements with students. However, schools' **repayment arrangements with students must provide for complete repayment of the overpayments within two years of the date of the institutions' determination that the students withdrew.**

There are exceptions to the recommendation that a school wait the full 45 days before reporting a student overpayment through NSLDS. If during the 45-day period a student indicates that he or she cannot repay his or her debt in full and wishes to negotiate a repayment agreement with the Department, the school should immediately report the overpayment to NSLDS and refer the overpayment to Borrower Services. Likewise, if a student contacts a school that will not be offering institutional repayment agreements and indicates that he or she cannot pay the overpayment within the 45 days, the school should immediately report the overpayment to NSLDS and refer the overpayment to Borrower Services. **So that Borrower Services will have time to receive and record an overpayment before a student contacts Borrower Services, a school should tell a student to wait 10 days before contacting Borrower Services.**

After a school has reported and referred a student's overpayment, the school should provide the student with the phone number and postal address for Borrower Services. A student can contact Borrower Services by calling 800-621-3115 or by writing Borrower Services at the following address:

U.S. Department of Education
Borrower Services – Collections
P.O. Box 5609
Greenville, Texas 75403

Reporting and referring overpayments

Referring overpayments for collection is a separate process from reporting overpayments to NSLDS. Reporting is the process of creating within NSLDS a record of a student's overpayment. Referring is the process of turning over a student's debt to Borrower Services. **Students who pay their debts in full during the 45-day period should neither be reported to NSLDS nor referred for collection.**

A school reports overpayments to the NSLDS via the NSLDS Web site. A school sends referrals to Borrower Services through the U.S. Mail to the

Student Loan Processing Center-Overpayments
P.O. Box 4157
Greenville, Texas 75403

If a student who owes a repayment of a Title IV grant calls Borrower Services before Borrower Services has received and recorded the student's overpayment, Borrower Services will examine the student's record in the NSLDS. If a school has reported the overpayment to NSLDS correctly, Borrower Services will inform the student that the overpayment is being

NSLDS cites

DCL-GEN-98-14 July 1998

**The Email address for NSLDS
Customer Service is –**

NSLDS@pearson.com

processed and that the student should call back in ten days for further information. If a student calls Borrower Services before a school has reported the student's overpayment to the NSLDS, Borrower Services will find no record of the overpayment and will tell the student to contact the school to resolve the discrepancy.

A student who does not take positive action during the 45-day period becomes ineligible for Title IV funds on the 46th day from the earlier of (1) the date the school sends a notification to the student of the overpayment; or (2) the date the school was required to notify the student of the overpayment. The student will remain ineligible until the student enters into a satisfactory repayment agreement with the Department. An overpayment resulting from a student's withdrawal remains an overpayment until it is repaid in full. Though a student may regain Title IV eligibility by negotiating and satisfying the requirements of a satisfactory repayment arrangement, the information on the student's NSLDS account will continue to reflect the status of the overpayment until the debt is repaid in full.

If a school enters into a repayment arrangement with a student who owes an overpayment, the school should immediately report the repayment arrangement using the online NSLDS screens. The school should report the status (Indicator field) of an overpayment for which it has entered a repayment agreement as "Satisfactory Arrangement Made." After the information is reported to the NSLDS, any future output from the CPS (SARs and ISIRs) will show that the student owes a repayment of a Title IV grant and that the student has negotiated a satisfactory repayment arrangement with the school.

As long as the student fulfills his or her commitment repayment under the repayment arrangement, the NSLDS overpayment status of "Satisfactory Arrangement Made" will indicate that, though the student owes an overpayment, the student remains eligible for Title IV funds. **If at any time a student fails to comply with the terms of the student's agreement to repay, or if the student fails to complete repayment in the two years allowed, immediately the school must update the student's overpayment status (Indicator field) to "Overpayment."** From that point on the NSLDS will inform schools that the student is not eligible for Title IV funds.

Reminder

Payment in full

Anytime a school receives a payment (including the application of a Title IV credit balance) that will repay an overpayment in full, the school must also update its original submission to NSLDS by changing the entry on the "Overpayment Update Screen" for the Indicator Field to "Repaid."

Important

REMINDER

All referrals to Borrower Services must be made on institutional letterhead.

Required referrals

A school must refer to the Department:

1. a student who does not satisfy the requirements of a repayment agreement with the school;
2. a student who fails to contact the school during the 45-day period; and
3. a student who fails, during the 45-day period, to pay his or her overpayment in full or enter into a repayment arrangement.

If a school is referring to Borrower Services a student overpayment previously reported to NSLDS, the school must also update the information previously reported to NSLDS by changing the source field from “School” to “Transfer.” If a school is referring a student who has failed to satisfy the terms of his or her repayment agreement, the school should also change the status code (Indicator field) from “Satisfactory Arrangement Made” to “Overpayment.” If a school is referring for collection a student not previously reported to NSLDS, the school must report the account to NSLDS as a referred overpayment, enter “Transfer” as the initial source and “Overpayment” as the status (Indicator field).



Remember to include your school's Reporting Pell Identification number on the referral.

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.

Important

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.

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 2007-2008 award year, on its Overpayment Referral, schools must continue to provide their School's Pell Identification Number. During the 2007-2008 award year, schools should not enter their Routing Identifier.

Summary

- ↻ If during the 45-day period a student repays his or her debt in full to the institution, the institution should neither report the overpayment in NSLDS nor refer the student to Borrower Services.
- ↻ If during the 45-day period a student signs a repayment agreement with the institution, the institution should immediately (within a few days) make the appropriate entries in NSLDS.
- ↻ If during the 45-day period a student indicates that he or she will not or cannot repay the overpayment and wishes to negotiate a repayment agreement with the Department, the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Borrower Services.
- ↻ If the institution will not be offering institutional repayment arrangements to students and during the 45-day period a student indicates that he or she cannot repay the debt in full, the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Borrower Services.
- ↻ If a student fails to take any positive action during the 45-day period, upon the expiration of that period the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Borrower Services.
- ↻ If a student signs a repayment agreement with an institution and at any time then fails to fulfill the terms of that agreement, the institution should immediately (within a few days) report the overpayment in NSLDS and refer the overpayment to Borrower Services.

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.

Accepting payments on referred overpayments

A school may continue to accept payment on a Title IV grant overpayment after the overpayment has been referred to the Department. A school that accepts a check made out to the Department on an overpayment that has been referred to Collections must –

1. note the student's name and SSN on the check;
2. indicate that the payment is for an overpayment of a Title IV grant; and
3. forward the payment to Borrower Services at

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

If a school accepts a cash payment from one or more students who owe overpayments and who have been referred to Collections, the school should write its own check to the Department and attach a letter indicating that the check is for a Title IV grant overpayment. The school must include in its letter a roster that includes, for each student who made a payment, the student's name, social security number, and amount paid.

If a school receives a payment for an overpayment **previously referred to Borrower Services** and if –

- the overpayment was made in the current award year, and
- the payment will retire the student's debt in full,

the institution must:

1. deposit the payment in its appropriate institutionally maintained federal funds account;
2. for a Federal Pell Grant overpayment, make the appropriate entry in the COD system (for a phase-in participant — a negative disbursement, for a full participant — the replacement value); and
3. send a letter or fax to Borrower Services identifying the student and indicating that the student's overpayment has been completely repaid. This will allow the Department to properly update its records in both the Borrower Services system and NSLDS.

The fax numbers for this purpose and school use only is –

(319) 665-7646

Note: This process cannot be performed via email.

In the fax or letter, a school must include the:

1. award year of the overpayment (current award year only);
2. student's social security number;
3. student's last name, first name, and middle initial;
4. student's date of birth;
5. type of overpayment — Federal Pell Grant or FSEOG; and
6. the disbursement date the institution used to create the overpayment record in NSLDS.

Corrections or recalls of referred overpayments

If you determine that a student who you have referred to Collections does not owe an overpayment or that the amount you referred was incorrect, you should fax or mail a letter explaining the situation to Collections at –

(319) 665-7646

Important: You should not send a revised referral form when making changes or corrections.

The letter must include the –

1. student's last name, first name, and middle initial;
2. student's social security number;
3. award year of the overpayment;
4. disbursement date the institution used to create the overpayment record in NSLDS;
5. amount originally referred; and
6. description of the issue, and the requested action.

When a student loses eligibility at a former school while receiving aid at a second school

If a student who owes a Title IV overpayment due to a withdrawal from one school receives additional Title IV aid at another school (based upon the student's having entered into an agreement with either Borrower Services or the first school) and then fails to meet the requirements of the agreement, Borrower Services or the school, as appropriate, will update NSLDS to show that the student is no longer eligible due to his or her violation of the agreement. The NSLDS postscreening process will then cause a new ISIR record to be created and sent to all schools listed in the CPS record.

As noted above under *When a student receives additional funds during the 45-day period of extended eligibility*, the student loses eligibility as soon as he or she fails to meet the terms of the repayment agreement. The second school is not liable for any aid it disbursed after the student became ineligible but prior to being notified of the ineligibility via the NSLDS postscreening process.

As provided for in previous guidance (GEN-96-13, Q&A 13 and 15), once the school receives a record from NSLDS showing that a student is not eligible, it may no longer disburse Title IV aid to the student and must assist the Department in requiring the student to repay any funds he or she was not eligible to receive.

If a student who is receiving Title IV aid at an institution with which he or she has entered into a repayment agreement for a previous overpayment resulting from a withdrawal violates the terms of that agreement, the institution must immediately cease disbursing Title IV aid to the student. The school must immediately update the NSLDS record and refer the overpayment to Borrower Services.

Withdrawal Dates for a School That Is Not Required to Take Attendance			
Withdrawal Type	Circumstance	Student's Withdrawal Date¹	Date of the Institution's Determination that the Student has Withdrawn
Official Notification	<p>The student begins the school's withdrawal process, or</p> <p>The student otherwise provides official notification to the school of intent to withdraw.</p>	<p>The date the student begins the school's withdrawal process, or</p> <p>The date that the student otherwise provides the notification.</p> <p>(If both circumstances occur, use the earlier withdrawal date.)</p>	<p>The student's withdrawal date, or the date of notification, whichever is later.</p>
Official Notification Not Provided	<p>Official notification not provided by the student because of circumstances beyond the student's control.</p> <p>All other instances where student withdraws without providing official notification.</p>	<p>The date that the school determines is related to the circumstance beyond the student's control.</p> <p>The midpoint of the payment period or period of enrollment, as applicable.</p>	<p>The date that the school becomes aware that the student has ceased attendance.²</p>
Leave of Absence Related	<p>The student does not return from an approved leave of absence, or</p> <p>The student takes an unapproved leave of absence.</p>	<p>The date that the student began the leave of absence.</p>	<p>The earlier of the dates of the end of the leave of absence or the date the student notifies the school he or she will not be returning to that school.</p> <p>(In the case of an unapproved absence, the date that the student began the leave of absence.)</p>
Withdrawal After Rescission of Official Notification	<p>The student withdraws after rescinding a previous official notification of withdrawal.</p>	<p>The student's original withdrawal date from the previous official notification.</p>	<p>The date the school becomes aware that the student did not, or will not, complete the payment period or period of enrollment.</p>

1. In place of the dates listed, a school may always use as a student's withdrawal date the student's last date of attendance at an academically related activity if the school documents that the activity is academically related and that the student attended the activity.
2. For a student who withdraws without providing notification to the school, the school must determine the withdrawal date no later than 30 days after the end of the earliest of the (1) payment period or period of enrollment (as appropriate), (2) academic year, or (3) educational program.

SAMPLE SUMMARY OF THE REQUIREMENTS OF 34 CFR 668.22 (TO PROVIDE TO STUDENTS AS PART OF CONSUMER INFORMATION)

Treatment of Title IV Aid When a Student Withdraws

The law specifies how your school must determine the amount of Title IV program assistance that you earn if you withdraw from school. The Title IV programs that are covered by this law are: Federal Pell Grants, Academic Competitiveness Grants, National SMART grants, Stafford Loans, PLUS Loans, Federal Supplemental Educational Opportunity Grants (FSEOGs), and Federal Perkins Loans.

When you withdraw during your payment period or period of enrollment (your school can define these for you and tell you which one applies) the amount of Title IV program assistance that you have earned up to that point is determined by a specific formula. If you received (or your school or parent received on your behalf) less assistance than the amount that you earned, you may be able to receive those additional funds. If you received more assistance than you earned, the excess funds must be returned by the school and/or you.

The amount of assistance that you have earned is determined on a prorata basis. For example, if you completed 30% of your payment period or period of enrollment, you earn 30% of the assistance you were originally scheduled to receive. Once you have completed more than 60% of the payment period or period of enrollment, you earn all the assistance that you were scheduled to receive for that period.

If you did not receive all of the funds that you earned, you may be due a post-withdrawal disbursement. If the post-withdrawal disbursement includes loan funds, your school must get your permission before it can disburse them. You may choose to decline some or all of the loan funds so that you don't incur additional debt. Your school may automatically use all or a portion of your post-withdrawal disbursement (including loan funds, if you accept them) for tuition, fees, and room and board charges (as contracted with the school). For all other school charges, the school needs your permission to use the post-withdrawal disbursement. If you do not give your permission (which some schools ask for when you enroll), you will be offered the funds. However, it may be in your best interest to allow the school to keep the funds to reduce your debt at the school.

Your school must also get your permission before it can disburse directly to you any Title IV grant funds that are part of a post-withdrawal disbursement.

There are some Title IV funds that you were scheduled to receive that cannot be disbursed to you once you withdraw because of other eligibility requirements. For example, if you are a first-time, first-year undergraduate student and you have not completed the first 30 days of your program before you withdraw, you will not receive any FFEL or Direct loan funds that you would have received had you remained enrolled past the 30th day.

If you receive (or your school or parent receive on your behalf) excess Title IV program funds that must be returned, your school must return a portion of the excess equal to the lesser of:

1. your institutional charges multiplied by the unearned percentage of your funds, or

2. the entire amount of excess funds.

The school must return this amount even if it didn't keep this amount of your Title IV program funds.

If your school is not required to return all of the excess funds, you must return the remaining amount. Any loan funds that you must return, you (or your parent for a PLUS Loan) repay in accordance with the terms of the promissory note. That is, you make scheduled payments to the holder of the loan over a period of time.

Any amount of unearned grant funds that you must return is called an overpayment. The amount of a grant overpayment that you must repay is half of the grant funds you received or were scheduled to receive. You must make arrangements with your school or the Department of Education to return the unearned grant funds.

The requirements for Title IV program funds when you withdraw are separate from any refund policy that your school may have. Therefore, you may still owe funds to the school to cover unpaid institutional charges. Your school may also charge you for any Title IV program funds that the school was required to return. If you don't already know what your school's refund policy is, you can ask your school for a copy. Your school can also provide you with the requirements and procedures for officially withdrawing from school.

If you have questions about your Title IV program funds, you can call the Federal Student Aid Information Center at 1-800-4-FEDAID (1-800-433-3243). TTY users may call 1-800-730-8913. Information is also available on Student Aid on the Web at www.studentaid.ed.gov.

Return of Title IV Funds Requirements and Deadlines		
Party Responsible	Requirement	Deadline
School	Determining withdrawal date for student who withdraws without providing notification	30 days after the end of the earlier of: <ul style="list-style-type: none"> • Payment or enrollment period • Academic year in which student withdrew • Educational program from which student withdrew
School	Return of unearned Title IV funds	As soon as possible, but no later than 45 days after date school determined student withdrew
School	Post-withdrawal disbursement to student's account for: Outstanding current (allowable) charges (tuition and fees, room and board, etc.) Minor (e.g., under \$100) prior year charges that the school has authorization to retain	As soon as possible, but no later than 120 days of date school determined student withdrew, in accordance with requirements for disbursing Title IV funds 34 CFR 668.164
School	Written notification providing student (or parent) providing opportunity to accept all/part of a loan , for post-withdrawal disbursements of loan funds (Perkins, FFEL, Direct Loan, or PLUS) to student's account	Within 30 days of disbursement of loan funds, in accordance with requirements for notifications and authorizations 34 CFR 668.22(a)(4)(i)(B)
School	Written notification of student's eligibility for post-withdrawal disbursement in excess of outstanding current (educationally related) charges	Within 30 days of date school determined student withdrew
School	Post-withdrawal disbursement to student for earned Title IV funds in excess of outstanding current (educationally related) charges	As soon as possible, but no later than 120 days of date school determined student withdrew
School	Notification to student (or parent) of outcome of late request for a post-withdrawal disbursement to student (request received by school after the specified period and school chooses not to make disbursement)	Not specified, but as soon as possible
School	Notification to student of grant overpayment	Within 30 days of date school determined student withdrew
School	Referral of student to Collections , if student does not pay overpayment in full, does not enter into repayment agreement, or fails to meet terms of repayment agreement	Not specified, but as soon as possible
Student (or parent)	Submit response instructing school to make post-withdrawal disbursement	Within specified number of days school allows for response.
Student	Return of unearned Title IV funds	Loans - according to terms of the loan Grants - within 45 days of earlier of date school sent, or was required to send notice

Return of Title IV Funds Requirements for Notification		
Party Responsible	Notification	Requirements
School	Report of student to NSLDS if student does not pay overpayment in full, does not enter into repayment agreement, or fails to meet terms of repayment agreement	No later than 45 days from the date student is notified of overpayment
School	Consumer Information	<ul style="list-style-type: none"> • School's withdrawal policy • School's refund policy • Office(s) designated to receive official notifications of intent to withdraw • Requirements regarding return of Title IV funds
School	Written notification of student's eligibility for post-withdrawal disbursement of funds in excess of outstanding current educationally related charges	<ul style="list-style-type: none"> • Identify type and amount of Title IV funds that make up post-withdrawal disbursement not credited to student's account • Explain that student or parent may accept all or part of disbursement • Advise student or parent that no post-withdrawal disbursement will be made unless school receives response within the timeframe established by the school
School	Response (written or electronic) to late request for post-withdrawal disbursement (that school chooses not to make)	Outcome of request
School	Repayment Agreement	<ul style="list-style-type: none"> • Terms permitting student to repay overpayment while maintaining eligibility for Title IV funds • Repayment in full within 2 years of date school determined student withdrew

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name <input style="width: 90%;" type="text"/>	Social Security Number <input style="width: 90%;" type="text"/>
Date form completed <input style="width: 25%; border: 1px solid black;" type="text"/> / <input style="width: 25%; border: 1px solid black;" type="text"/> / <input style="width: 25%; border: 1px solid black;" type="text"/>	Date of school's determination that student withdrew <input style="width: 25%; border: 1px solid black;" type="text"/> / <input style="width: 25%; border: 1px solid black;" type="text"/> / <input style="width: 25%; border: 1px solid black;" type="text"/>
Period used for calculation (check one) <input type="checkbox"/> Payment period	<input type="checkbox"/> Period of enrollment

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed	
1. Pell Grant	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	E. Total Title IV aid disbursed for the payment period or period of enrollment. A. <input style="width: 100%; height: 20px;" type="text"/> + B. <input style="width: 100%; height: 20px;" type="text"/> = E. \$ <input style="width: 100%; height: 20px;" type="text"/>
2. Academic Competitiveness Grant			
3. National SMART Grant			
4. FSEOG			
A. <input style="width: 100%; height: 20px;" type="text"/>	Subtotal	C. <input style="width: 100%; height: 20px;" type="text"/>	Subtotal
Title IV Loan Programs			
	Net Amount Disbursed	Net Amount that Could Have Been Disbursed	
5. Unsubsidized FFEL/Direct Stafford Loan	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment. A. <input style="width: 100%; height: 20px;" type="text"/> + C. <input style="width: 100%; height: 20px;" type="text"/> = F. \$ <input style="width: 100%; height: 20px;" type="text"/>
6. Subsidized FFEL/Direct Stafford Loan			
7. Perkins Loan			
8. FFEL/Direct PLUS (Graduate Student)			
9. FFEL/Direct PLUS (Parent)			
B. <input style="width: 100%; height: 20px;" type="text"/>	Subtotal	D. <input style="width: 100%; height: 20px;" type="text"/>	Subtotal
G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment. A. <input style="width: 100%; height: 20px;" type="text"/> B. <input style="width: 100%; height: 20px;" type="text"/> C. <input style="width: 100%; height: 20px;" type="text"/> + D. <input style="width: 100%; height: 20px;" type="text"/> = G. \$ <input style="width: 100%; height: 20px;" type="text"/>			

STEP 2: Percentage of Title IV Aid Earned

<input style="width: 90%; height: 20px;" type="text"/> / <input style="width: 90%; height: 20px;" type="text"/> / <input style="width: 90%; height: 20px;" type="text"/>	<input style="width: 90%; height: 20px;" type="text"/> / <input style="width: 90%; height: 20px;" type="text"/> / <input style="width: 90%; height: 20px;" type="text"/>	<input style="width: 90%; height: 20px;" type="text"/> / <input style="width: 90%; height: 20px;" type="text"/> / <input style="width: 90%; height: 20px;" type="text"/>
Start date	Scheduled end date	Date of withdrawal

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed
 Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

<input style="width: 90%; height: 20px;" type="text"/>	÷	<input style="width: 90%; height: 20px;" type="text"/>	=	<input style="width: 90%; height: 20px;" type="text"/> . %
Completed days		Total days		

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. . %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

<input style="width: 90%; height: 20px;" type="text"/> %	X	<input style="width: 90%; height: 20px;" type="text"/>	=	I. \$ <input style="width: 90%; height: 20px;" type="text"/>
Box H		Box G		

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement
 Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. Stop here, and enter the amount in Box 1 on Page 3 (post-withdrawal disbursement tracking sheet).

<input style="width: 90%; height: 20px;" type="text"/>	-	<input style="width: 90%; height: 20px;" type="text"/>	=	J. \$ <input style="width: 90%; height: 20px;" type="text"/>
Box I		Box E		

Step 4 continued ▶

Student's Name

Social Security Number

STEP 4: Aid to be Disbursed or Returned CONTINUED**K. Title IV aid to be returned**

Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

$$\boxed{} - \boxed{} = \mathbf{K.\$} .$$

Box E Box I

STEP 5: Amount of Unearned Title IV Aid Due from the School**L. Institutional charges for the payment period or period of enrollment**

Tuition	<input type="text"/>
Room	<input type="text"/>
Board	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>

Total Institutional Charges = $\mathbf{L.\$} .$
(Add all the charges together)

M. Percentage of unearned Title IV aid

$$100\% - \boxed{}\% = \mathbf{M.} .\%.$$

Box H

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

$$\boxed{} \times \boxed{}\% = \mathbf{N.\$} .$$

Box L Box M

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount.

$$\mathbf{O.\$} .$$

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs

Amount for School to Return

- | | |
|---|----------------------|
| 1. Unsubsidized FFEL/Direct Stafford Loan | <input type="text"/> |
| 2. Subsidized FFEL/Direct Stafford Loan | <input type="text"/> |
| 3. Perkins Loan | <input type="text"/> |
| 4. FFEL/Direct PLUS (Graduate Student) | <input type="text"/> |
| 5. FFEL/Direct PLUS (Parent) | <input type="text"/> |

Total loans the school must return = $\mathbf{P.\$} .$

- | | |
|-----------------------------------|----------------------|
| 6. Pell Grant | <input type="text"/> |
| 7. Academic Competitiveness Grant | <input type="text"/> |
| 8. National SMART Grant | <input type="text"/> |
| 9. FSEOG | <input type="text"/> |

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

$$\boxed{} - \boxed{} = \mathbf{Q.\$} .$$

Box K Box O

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

$$\boxed{} - \boxed{} = \mathbf{R.\$} .$$

Box B Box P

► If Box Q is less than or equal to Box R, **STOP**.
The only action a school must take is to notify the holders of the loans of the student's withdrawal date.

► If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned**S. Initial amount of Title IV grants for student to return**

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

$$\boxed{} - \boxed{} = \mathbf{S.\$} .$$

Box Q Box R

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

$$\boxed{} \times \mathbf{50\%} = \mathbf{T.\$} .$$

Box F

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

$$\boxed{} - \boxed{} = \mathbf{U.\$} .$$

Box S Box T

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes \$50.00 or less.

Title IV Grant Programs

Amount To Return

- | | |
|-----------------------------------|----------------------|
| 1. Pell Grant | <input type="text"/> |
| 2. Academic Competitiveness Grant | <input type="text"/> |
| 3. National SMART Grant | <input type="text"/> |
| 4. FSEOG | <input type="text"/> |

POST-WITHDRAWAL DISBURSEMENT TRACKING SHEET

Student's Name

Social Security Number

Date of school's determination that student withdrew / /

I. Amount of Post-withdrawal Disbursement (PWD)

Amount from "Box J" of the Treatment of Title IV Funds When a Student Withdraws worksheet **Box 1** \$

II. Outstanding Charges For Educationally Related Expenses Remaining On Student's Account

Total Outstanding Charges Scheduled to be Paid from PWD **Box 2** \$

III. Post-withdrawal Disbursement Offered Directly to Student and/or Parent

Subtract the Post-withdrawal Disbursement to be credited to the student's account (Box 2) from the total Post-withdrawal Disbursement due (Box 1). This is the amount you must offer to the student and/or parent as a Direct Disbursement.

$$\begin{array}{ccccccc}
 \$ & \boxed{} & . & & - & \$ & \boxed{} & . & & = & & \text{Box 3} & \$ & \boxed{} & . & \\
 & \text{Box 1} & & & & & \text{Box 2} & & & & & & & & & &
 \end{array}$$

IV. Allocation of Post-withdrawal Disbursement

Type of Aid	Grant Aid Credited to Account	Loan Amount School Seeks to Credit to Account	Loan Amount Authorized to Credit to Account	Amount of Aid Offered as Direct Disbursement	Amount of Aid Accepted as Direct Disbursement
Unsubsidized FFEL/Direct	N/A				
Subsidized FFEL/Direct	N/A				
Perkins	N/A				
FFEL/Direct Grad Plus	N/A				
FFEL/Direct Parent Plus	N/A				
Pell Grant		N/A	N/A		
ACG		N/A	N/A		
National SMART Grant		N/A	N/A		
FSEOG		N/A	N/A		
Totals					

V. Authorizations and Notifications

Post-withdrawal disbursement notification sent to student and/or parent on / /

Deadline for student and/or parent to respond / /

Response received from student and/or parent on / /

Response not received

School does not accept late response

VI. Date Funds Sent

Date Direct Disbursement mailed or transferred / /

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name	<input style="width: 95%;" type="text"/>	Social Security Number	<input style="width: 95%;" type="text"/>
Date form completed	<input style="width: 25%;" type="text"/> / <input style="width: 25%;" type="text"/> / <input style="width: 25%;" type="text"/>	Date of school's determination that student withdrew	<input style="width: 25%;" type="text"/> / <input style="width: 25%;" type="text"/> / <input style="width: 25%;" type="text"/>
Period used for calculation (check one)	<input type="checkbox"/> Payment period	<input type="checkbox"/> Period of enrollment	

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed	E. Total Title IV aid disbursed for the payment period or period of enrollment.
1. Pell Grant	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	A. <input style="width: 100%;" type="text"/>
2. Academic Competitiveness Grant			+ B. <input style="width: 100%;" type="text"/>
3. National SMART Grant			= E. \$ <input style="width: 100%;" type="text"/>
4. FSEOG			A. <input style="width: 100%;" type="text"/>
Subtotal		Subtotal	
<hr/>			
Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed	F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.
5. Unsubsidized FFEL/Direct Stafford Loan	<input style="width: 100%; height: 100%;" type="text"/>	<input style="width: 100%; height: 100%;" type="text"/>	A. <input style="width: 100%;" type="text"/>
6. Subsidized FFEL/Direct Stafford Loan			+ C. <input style="width: 100%;" type="text"/>
7. Perkins Loan			= F. \$ <input style="width: 100%;" type="text"/>
8. FFEL/Direct PLUS (Graduate Student)			B. <input style="width: 100%;" type="text"/>
9. FFEL/Direct PLUS (Parent)	D. <input style="width: 100%;" type="text"/>	+ D. <input style="width: 100%;" type="text"/>	= G. \$ <input style="width: 100%;" type="text"/>
Subtotal		Subtotal	

STEP 2: Percentage of Title IV Aid Earned

<input style="width: 95%;" type="text"/> / <input style="width: 95%;" type="text"/> / <input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/> / <input style="width: 95%;" type="text"/> / <input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/> / <input style="width: 95%;" type="text"/> / <input style="width: 95%;" type="text"/>
Start date	Scheduled end date	Date of withdrawal

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed

Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more **AND** days that the student was on an approved leave of absence).

<input style="width: 95%;" type="text"/>	÷	<input style="width: 95%;" type="text"/>	=	<input style="width: 95%;" type="text"/>	.	<input style="width: 95%;" type="text"/>	%
Completed days		Total days					

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H.	<input style="width: 95%;" type="text"/>	.	<input style="width: 95%;" type="text"/>	%
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STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

<input style="width: 95%;" type="text"/>	%	X	<input style="width: 95%;" type="text"/>	=	<input style="width: 95%;" type="text"/>	I. \$	<input style="width: 95%;" type="text"/>
Box H			Box G				

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement

Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. Stop here, and enter the amount in Box 1 on Page 3 (post-withdrawal disbursement tracking sheet).

<input style="width: 95%;" type="text"/>	-	<input style="width: 95%;" type="text"/>	=	<input style="width: 95%;" type="text"/>	J. \$	<input style="width: 95%;" type="text"/>
Box I		Box E				

Step 4 continued ▶

Student's Name

Social Security Number

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned

Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

- = **K.\$** .

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	<input type="text"/>
Room	<input type="text"/>
Board	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>

Total Institutional Charges = **L.\$** .
(Add all the charges together)

M. Percentage of unearned Title IV aid

100% - % = **M.** . %

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

x % = **N.\$** .

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. **O.\$** .

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	<input type="text"/>
2. Subsidized FFEL/Direct Stafford Loan	<input type="text"/>
3. Perkins Loan	<input type="text"/>
4. FFEL/Direct PLUS (Graduate Student)	<input type="text"/>
5. FFEL/Direct PLUS (Parent)	<input type="text"/>

Total loans the school must return **P.\$** .

6. Pell Grant	<input type="text"/>
7. Academic Competitiveness Grant	<input type="text"/>
8. National SMART Grant	<input type="text"/>
9. FSEOG	<input type="text"/>

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

- = **Q.\$** .

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

- = **R.\$** .

- ▶ If Box Q is less than or equal to Box R, **STOP**. The only action a school must take is to notify the holders of the loans of the student's withdrawal date.
- ▶ If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

- = **S.\$** .

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box S) by 50%.

x **50%** = **T.\$** .

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

- = **U.\$** .

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes \$50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	<input type="text"/>
2. Academic Competitiveness Grant	<input type="text"/>
3. National SMART Grant	<input type="text"/>
4. FSEOG	<input type="text"/>

Information Required when Referring Student Overpayments to Borrower Services - Collections

Student Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____

Social Security Number: _____ Date of Birth: _____

If the overpayment includes an Academic Competitiveness or National Smart Grant, enter the Award ID (see instructions on next page).

ACG Award ID: _____ National Smart Grant Award ID: _____

Parent/Spouse Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____

School Information

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

Reporting School's Pell ID Number: _____ Attending School's Pell ID Number: _____

Name of Contact: _____ Telephone Number: _____

Disbursements and Repayments

	Pell Grant	Academic Competitiveness Grant	National Smart Grant	FSEOG
Award year in which overpayment was disbursed:	_____	_____	_____	_____
Total grant disbursed:	_____	_____	_____	_____
Dates of disbursement: (Must match NSLDS overpayment record)	_____	_____	_____	_____
Overpayment amount owed by student *	_____	_____	_____	_____
Total grant repaid by student to school, if any:	_____	_____	_____	_____
Date of last payment to school, if any:	_____	_____	_____	_____
Total being referred for collection:	_____	_____	_____	_____ ¹

¹ If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG.

* If the overpayment is the result of a withdrawal, provide the date of the withdrawal / /

If the overpayment is **not** the result of a withdrawal, please provide a brief explanation of the reason for the overpayment.

SEND INFORMATION TO ⇒ Student Loan Processing Center-Overpayments
P.O. Box 4157
(903) 454-5398 ⇐ FAX Greenville, Texas 75403

ACG AND NATIONAL SMART GRANT AWARD IDENTIFIERS

When referring an ACG or National SMART Grant overpayment to Federal Student Aid’s Borrower Services the school must create a unique identifying Award ID in the format described below. Note that these same formatting requirements will be used when schools submit ACG and National SMART Grant originations and disbursements to the Common Origination and Disbursement (COD) system beginning in December 2006.

The ACG or National Smart Grant Award ID contains 21 characters as follows:

Characters 1 – 9:	The student’s Social Security Number
Character 10:	Award Type: ACG = A, SMART Grant =T
Characters 11 & 12:	Award Year (e.g., for 2006-2007, Award Year = 07)
Characters 13 – 18:	The school’s 6-digit Pell ID
Characters 19 – 21:	Financial award number, either 001 or 002 (See below.)

Financial Award Number for ACG: Use “001” as the Financial Award Number when the overpayment is from the student’s first ACG award for the award year at the school regardless of whether that award is a Year 1 ACG for the student’s first academic year or a Year 2 ACG for the student’s second academic year. Use “002” as the Financial Award Number when the overpayment is from the Year 2 ACG award AND the student had an Academic Year 1 ACG award in the same award year at the same school.

Financial Award Number for National SMART Grant: Use “001” as the Financial Award Number when the overpayment is from the student’s first National SMART Grant award for the award year at the school regardless of whether that award is a Year 3 SMART Grant for the student’s third academic year or a Year 4 SMART Grant for the student’s fourth academic year. Use “002” as the Financial Award Number when the overpayment is from a Year 4 SMART Grant award AND the student had an Academic Year 3 SMART Grant award in the same award year at the same school.

Example 1: A student received half of her Year 1 ACG in the amount of \$375 for the fall term and then advances to her second academic year for the spring term of the same award year at the same school where she receives \$650 of her Year 2 ACG. The COD origination record for this student’s Year 1 ACG of \$375 will include a Financial Award Number of “001.” The reporting to COD of this student’s Year 2 ACG award of \$650 will be a new origination and will include a Financial Award Number of “002” because the Year 2 ACG award was made within the same award year as the Year 1 ACG award. If the student withdraws from the spring term owing an ACG overpayment of all or part of the \$650 Year 2 ACG, the school would use Financial Award Number “002” in the ACG Award ID in the referral to the Department.

Example 2: A student received all of his Year 2 ACG during the fall and spring terms of the same award year. At the end of the spring term, but within the same award year, he advances to his third academic year. The school awards the student the first part of his Year 3 SMART Grant for his summer enrollment. The COD reporting for this student’s Year 3 SMART Grant will include a Financial Award Number of “001” because it is the first SMART Grant award made within the award year. If the student withdraws from the summer term owing a SMART Grant overpayment, the school would use the Financial Award Number “001” in the SMART Grant Award ID in the referral to the Department.

Case Studies in Withdrawals and the Return of Title IV Aid

On the pages that follow, you will find examples of the withdrawal calculations performed for students enrolled in various types of programs and institutions. By reviewing these case studies, you can gain additional insight into the process of returning Title IV funds.

Case Study 1: Penny Jones

Calculating the return of Title IV funds for a student attending a two-year community college (semester) who is receiving Title IV grants and loans (partially disbursed), and is due a post-withdrawal disbursement.

Case Study 2: Bob Ellison

Calculating the return of Title IV funds when a student receiving Title IV grants and loans at a low-cost public community college that measures progress in credit hours withdraws and both the school and the student must return grant funds.

Case Study 3: Richard Sherman

When a student receiving Title IV grants and loans at a school that uses the aggregate method for matching the school's FSEOG Federal allocation withdraws unofficially.

Case Study 4: Harry Springer

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a period of enrollment basis withdraws unofficially.

Case Study 5: Jordan Aire

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a payment period basis withdraws unofficially.

Case Study 6: Bob White

When a student receiving Title IV grants and loans at a school that utilizes a non-term course structure, measures academic progress in credit hours, and performs its Return calculations on a payment period basis, officially withdraws, reenters within 180 days, and withdraws again.

CASE STUDY 1: PENNY JONES

Calculating the return of Title IV funds for a student attending a two-year community college (semester) who is receiving Title IV grants and loans (partially disbursed), and is due a Post-withdrawal Disbursement

Learning Objectives

Learn to complete STEPs 1 – 4 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- identify the basic information needed to complete the worksheet, including the withdrawal date and date of the institution’s determination that the student withdrew;
- calculate the percentage of the payment period or period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned;
- determine the amount to be offered to the student or returned; and
- provide the information a school must maintain in its files when a student is eligible for a Post-withdrawal Disbursement, and complete a Post-Withdrawal Tracking Sheet.

School Profile

Everyone Should Have an Education Community College (ESECC) is a two-year, public, semester-based institution that measures academic progress in credit hours.

Academic Year/Program	2 semesters 32 weeks
Period	16 weeks 110 calendar days
Period Start Date	August 23
Institutionally Scheduled Break	None
Required to Take Attendance	No

Student Profile

Penny Jones is a first-year student in Virginia. Charges to her account for the first semester are as follows:

Tuition and fees	\$	1,000.00/16-week semester
Technology fee	\$	100.00/16-week semester
Books and Supplies	\$	400.00/16-week semester
Health Insurance	\$	200.00/academic year

Charges remaining on Penny's account after the withdrawal:

Tuition	\$	100.00
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School Authorized to Credit
Account for Other Charges: Yes (all charges)

Penny's financial aid package included the following annual awards:

Pell Grant	\$	2,000.00
Direct Subsidized Loan	\$	3,500.00
State Grant	\$	500.00
College Grant	\$	200.00

Discussion

On the first day of the fall semester, August 23, Penny received the following disbursements to her student account:

Pell Grant	\$	1,000.00
Direct Subsidized Loan	\$	0.00
State Grant	\$	500.00
College Grant	\$	100.00

Although Penny is grateful for the assistance, she is concerned about meeting her living costs for the year.

On October 8, Penny came to the Financial Aid Office to advise that she doesn't think she is doing very well and is considering dropping out prior to November 1, the last day to withdraw from classes without academic penalty. To help her make a decision, she requests information on the withdrawal process. You are fairly certain that Penny is having a hard time adjusting to college life, and want to encourage her to hang in until the end of the semester, December 10. After you provide her preliminary information, you ask her if it is her intent to withdraw. Penny says that she needs some time to think it over, and makes a follow-up appointment for October 13.

When Penny comes to see you on October 13, she indicates that the last class she attended was on September 30. Because she doesn't see how she can get caught up on the work she's missed, she is adamant about withdrawing, so you give her instructions on completing the college's official withdrawal process and advise her where she can get the appropriate forms. Penny picks up the forms from the registrar on October 14. She turns the completed forms in on October 15.

Let's review some basic information about Penny as well as our learning objectives for this case. Penny attended a two-year community college, which was on the semester system. Students earned academic credits based on credit hours taken. Before withdrawing, Penny received her Pell Grant disbursement, but not her Direct Loan.

The first thing we'll need to do is to decide on the date of the school's determination that Penny withdrew. Then, we'll complete Step 1: Student's Title IV Aid Information, which includes:

- Title IV aid disbursed, and
- Title IV aid that could have been disbursed.

Solution

At a school not required to take attendance, the *date of the institution's determination* for a student who began the official withdrawal process is either (a) the student's withdrawal date; or (b) the date of notification, whichever is *later*. In this case the later date of October 15, the date Penny turned in the withdrawal forms is the date of the institution's determination.

The withdrawal date for Title IV purposes, October 13, is described in *Step 2*.

STEP 1: Student's Title IV Aid Information

Box A. Title IV grants aid disbursed –
Pell Grant \$ 1,000.00

A. = \$ 1,000.00

Box B. Net Title IV loans disbursed = \$ 0.00

Box C. Title IV grants that could have been disbursed = \$ 0.00

Box D. Penny's Direct Loan had not been disbursed yet. But, she was eligible for the disbursement.
Net Title IV loans that could have been disbursed = \$1,750.00

D = \$ 1,750.00

Box E. Although Penny also received disbursements of state and institutional aid, only Title IV aid is considered in the return of funds calculation. Title IV aid disbursed = \$1,000.00.

Pell Grant	\$ 1,000.00
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Box F. Box F is equal to the \$1,000.00 from Box A plus \$0.00 from Box C. Box F = \$1,000.

Box G. Both the disbursed Pell (Box A) and undisbursed Direct Loan (Box D) are included Box G. Total Title IV aid disbursed plus Title IV aid that could have been disbursed = \$2,750.

Pell Grant (Box A)	\$ 1,000.00
Direct Subsidized Loan (Box D)	\$ 1,750.00
Total Title IV aid disbursed	
plus could have been disbursed (Box G)	\$ 2,750.00

STEP 2: Percentage of Title IV Aid Earned

1. Payment period start date = August 23
2. Payment period end date = December 10
3. Withdrawal date = October 13

Note: Since ESECC is not required by an outside entity to take attendance, the withdrawal date is the date Penny began the official school withdrawal process. Since the school includes the financial aid office as one of those places where the student can begin the withdrawal process, Penny’s withdrawal date is October 13.

Although the school’s refund policy is that the withdrawal date is the date a student turns in the signed withdrawal forms — which she did on October 15, that date is superseded for a student receiving Title IV aid by the federal requirement to use the date the student begins the withdrawal process or otherwise provides official notification (October 13) .

Although Penny stopped attending classes on September 30, she didn’t notify the school (begin the official withdrawal process) until October 13. When she came to see you on October 8, she was only thinking about withdrawing.

Of course, the school could have documented a last date of attendance at an academically-related activity and used that as her withdrawal date if it so chose.

Box H. Percentage of payment period completed

- Since the student attended a credit-hour school, the percentage of aid completed is calculated by dividing the number of calendar days completed by the total number of calendar days in the payment period. Number of calendar days completed in payment period = 52 (August 23 – October 13).
- Because the semester does not include a scheduled break of 5 or more consecutive days, all of the calendar days in the period from August 23 to December 10 are counted. Number of calendar days in payment period = 110.
- $52 \text{ days} \div 110 \text{ days} = .4727$, rounded to .473, or 47.3%. Percentage of payment period completed = 47.3%.

Because this percentage is less than 60%, the Percentage of Title IV aid earned,

Box H = 47.3%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 47.3% (Percentage of Title IV aid earned from Box H) X $\$2,750.00$ (Total Title IV aid disbursed plus Title IV aid that could have been disbursed from Box G) = $\$1,300.75$.
Amount of Title IV aid earned by the student (Box I) = $\$1,300.75$.

STEP 4: Total Title IV Aid to Be Disbursed or Returned

Box J. Because the total aid earned (Box I) is greater than the total aid disbursed (item E), Penny is due a post-withdrawal disbursement. $\$1,300.75$ (Box I) – $\$1,000.00$ (Box E) = $\$300.75$.
Post-withdrawal disbursement (Box J) = $\$300.75$.

If a post-withdrawal disbursement is due the student, you stop here on the worksheet. Your next step is to begin compiling the information a school must maintain in its files when a student is eligible for a Post-withdrawal Disbursement (ESECC has chosen to use FSA's Post-withdrawal Tracking Sheet), and providing the required notifications to the student.

THE POST-WITHDRAWAL DISBURSEMENT TRACKING SHEET

The FAO performed the Return calculation on October 15 and determined that Penny was eligible for a post-withdrawal disbursement of \$300.75 (STEP 4, Box J).

Because the post-withdrawal disbursement would be composed entirely of loan funds, the school could not credit any funds to Penny's account or disburse any funds to her directly without sending Penny written notification advising her of her responsibility to repay the funds and obtaining Penny's confirmation that she still wanted them.

Therefore, on October 20, the school sent Penny a letter explaining that:

- she was eligible for a post-withdrawal disbursement of Subsidized Direct Loan funds in the amount of \$300.75;
- she could accept some or all of the funds;
- Penny was obligated to repay any loan funds she accepted;
- if she accepted the disbursement, \$100 would be credited to her account for unpaid charges and that Penny could not receive that \$100;
- if she accepted the disbursement, the school would make a direct disbursement directly to her of \$200.75; and
- she has until November 13 (24 days from the day the school mailed the letter)¹ to accept the disbursement, and that if her response was received after that date, that the school did not have to make the disbursement.

On November 13, the school received confirmation from Penny that she accepted all of the funds.

Note: A school may still credit a student's account with Title IV **grant** funds due from a post-withdrawal disbursement without requesting permission, however a school must document that a student still needs and wants the school to make a **direct disbursement** of Title IV grant funds **to the student**.

On November 15, the school drew down \$300.75 in Subsidized Direct Loan funds through GAPS, credited the \$300.75 to Penny's account, took \$100 for unpaid charges, and sent Penny a check for the credit balance of \$200.75. (Note that the school could have drawn down the funds, credited the student's account with \$100, and sent the student the balance of \$200.75, but we do not require a school to deviate from its normal cash management procedures, and establish a different type of audit trail for post-withdrawal disbursements.)

The FAO placed a record of all the aforementioned in Penny's permanent financial aid file.

¹ The regulations now allow a school to set a deadline later than 14 days, provided the later deadline applies to both confirmation of loan disbursements to the student's account and direct disbursements of a post-withdrawal disbursement.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name	Penny Jones	Social Security Number	Example 1
Date form completed	10 / 15 /	Date of school's determination that student withdrew	10 / 13 /
Period used for calculation (check one)	<input checked="" type="checkbox"/> Payment period <input type="checkbox"/> Period of enrollment		

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed	E. Total Title IV aid disbursed for the payment period or period of enrollment.
1. Pell Grant	1,000.00		A. 1,000.00
2. Academic Competitiveness Grant			+ B. 0.00
3. National SMART Grant			= E. \$ 1,000.00
4. FSEOG			
	A. 1,000.00 Subtotal	C. 0.00 Subtotal	
Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed	F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.
6. Unsubsidized FFEL/Direct Stafford Loan			A. 1,000.00
7. Subsidized FFEL/Direct Stafford Loan		1,750.00	+ C. 0.00
8. Perkins Loan			= F. \$ 1,000.00
9. FFEL/Direct PLUS (Graduate Student)			
10. FFEL/Direct PLUS (Parent)			
	B. 0.00 Subtotal	D. 1,750.00 Subtotal	
			G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.
			A. 1,000.00
			B. 0.00
			C. 0.00
			+ D. 1,750.00
			= G. \$ 2,750.00

STEP 2: Percentage of Title IV Aid Earned

08 / 23 / Start date	12 / 14 / Scheduled end date	10 / 13 / Date of withdrawal
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A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed
Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

52	÷	110	=	47.3 %
Completed days		Total days		

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 47.3 %
--

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

47.3 %	X	2,750	=	I. \$ 1,300.75
Box H		Box G		

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement
Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box I on page 3, the Post-withdrawal disbursement tracking sheet.

1,300.75	-	1,000.00	=	J. \$ 300.75
Box I		Box E		Step 4 continued ▶

POST-WITHDRAWAL DISBURSEMENT TRACKING SHEET

Student's Name

Social Security Number

Date of school's determination that student withdrew

I. Amount of Post-withdrawal Disbursement (PWD)

Amount from "Box J" of the Treatment of Title IV Funds When a Student Withdraws worksheet **Box 1**

II. Outstanding Charges For Educationally Related Expenses Remaining On Student's Account

Total Outstanding Charges Scheduled to be Paid from PWD **Box 2**

III. Post-withdrawal Disbursement Offered Directly to Student and/or Parent

Subtract the Post-withdrawal Disbursement to be credited to the student's account (Box 2) from the total Post-withdrawal Disbursement due (Box 1). This is the amount you must offer to the student and/or parent as a Direct Disbursement.

$$\begin{array}{ccccccc}
 \text{\$ } & 300.75 & - & \text{\$ } & 100.00 & = & \text{Box 3 } & \text{\$ } & 200.75 \\
 \text{Box 1} & & & \text{Box 2} & & & & &
 \end{array}$$

IV. Allocation of Post-withdrawal Disbursement

Type of Aid	Grant Aid Credited to Account	Loan Amount School Seeks to Credit to Account	Loan Amount Authorized to Credit to Account	Amount of Aid Offered as Direct Disbursement	Amount of Aid Accepted as Direct Disbursement
Unsubsidized FFEL/Direct	N/A				
Subsidized FFEL/Direct	N/A	\$100.00	\$100.00	\$200.75	\$200.75
Perkins	N/A				
FFEL/Direct Grad Plus	N/A				
FFEL/Direct Parent Plus	N/A				
Pell Grant		N/A	N/A		
ACG		N/A	N/A		
National SMART Grant		N/A	N/A		
FSEOG		N/A	N/A		
Totals					

V. Authorizations and Notifications

Post-withdrawal disbursement notification sent to student and/or parent on

Deadline for student and/or parent to respond

Response received from student and/or parent on

Response not received

School does not accept late response

VI. Date Funds Sent

Date Direct Disbursement mailed or transferred

CASE STUDY 2: BOB ELLISON

Calculating the return of Title IV funds when a student receiving Title IV grants and loans at a low-cost public community college that measures progress in credit hours withdraws and both the school and the student must return grant funds

Learning Objectives

Learn to complete STEPs 1–10 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- identify the basic information needed to complete the worksheet, including the withdrawal date and date of the institution’s determination that the student withdrew for a student who officially withdraws;
- calculate the percentage of the payment period or period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned;
- determine the amount to be offered to the student or returned; and
- apply the Title IV grant protection; and
- apply the *de minimis* grant repayment provision.

School Profile

West Coast Community College (WCCC) is a two-year public, credit-hour institution.

Academic Year/Program:	2 semesters 32 weeks
Period:	16 weeks 110 calendar days
Period Start Date:	January 8
Period End Date:	May 4
Institutionally Scheduled Break:	Yes, 7 days
Taking Attendance Required:	No
Method for Matching FSEOG:	Fund-specific

Student Profile

Bob Ellison is a first-time freshman at WCCC. Charges to his account are as follows:

Tuition and Fees: \$ 1,000.00/16 week semester

School Authorized to Credit
Account for Other Charges: Yes (all charges)

Bob's financial aid package includes the following annual awards:

Pell Grant	\$	2,050.00
ACG	\$	750.00
FSEOG	\$	2,400.00

Discussion

Bob Ellison enrolled as a first-time freshman at (WCCC) for the spring semester on January 8. On January 18, Bob got a call from the state treasurer informing him that the programming job he had applied for six months ago was his for the taking. That same day, Bob contacted the Financial Aid Office to advise it that he was withdrawing from WCCC, begin WCCC's formal withdrawal process (11 calendar days into the semester), and find out what to do next. All of his financial aid for the semester had been disbursed.

Solution

The date of the institution's determination that Bob withdrew is the day he contacted the Financial Aid Office to advise the school that he was withdrawing from WCCC, January 18.

STEP 1: Student's Title IV Aid Information

Box A. Because WCCC uses the fund-specific method of matching FSEOG funds, 100% of Bob's FSEOG grant is used in the calculation. Title IV grant aid disbursed = \$2,600.00.

Pell Grant	\$	1,025.00
ACG	\$	375.00
FSEOG	\$	1,200.00
		2,600.00
A. =		\$ 2,600.00

Box B. Net Title IV loans disbursed = \$ 0.00.

Box C. Grants that could have been disbursed = \$ 0.00.

Box D. Net Title IV Loans that could have been disbursed = \$ 0.00.

Box E. Total Title IV aid disbursed for the payment period = $A + B = 2,600.00 + 0.00$
= \$ 2,600.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period
= $A + C = 2,600.00 + 0.00 = \$ 2,600.00$.

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period
= $A + B + C + D = 2,600.00 + 0.00 + 0.00 + 0.00 = \$ 2,600.00$

STEP 2: Percentage of Title IV Aid Earned

1. Payment period start date = January 8.
2. Payment period end date = May 4.
3. Date of withdrawal = January 18.
4. Percentage of payment period completed:
 - Number of calendar days completed = 11 calendar days.
 - Number of calendar days in payment period = 110 calendar days.
 - $11 \text{ days} \div 110 \text{ days} = .100$. Percentage of payment period completed = 10.0%.

Box H. Because this percentage is less than 60%, the Percentage of Title IV aid earned = 10.0%.

STEP 3: Amount of Title IV Aid Earned by Student

Box I. Multiply 10.0% (% of Title IV aid earned from Box H) X \$2,600.00 (total Title IV aid disbursed plus Title IV aid that could have been disbursed from Box G) = \$260.00 Amount of Title IV aid earned by student = \$260.00

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to item K. Post-withdrawal disbursement = N/A.

Box K. Because the total aid disbursed (Box E) is greater than the total aid earned (Box I), Title IV aid will need to be returned.

$\$2,600.00$ (Box E) – $\$260.00$ (Box D) = $\$2,340.00$. Title IV aid to be returned = $\$2,340.00$

STEP 5: Amount of Unearned Title IV Aid Due from the School

Box L. Institutional charges for the payment period or period of enrollment = \$1,000.00
 Tuition and Fees \$ 1,000.00

Box M. Subtract 10.0%, the percentage of Title IV aid earned (Box H) from 100% ($100\% - 10.0\% = 90.0\%$). Percentage of Title IV aid unearned = 90.0%.

Box N. First, calculate the unearned institutional charges. \$1,000.00 (institutional charges from Box L) X 90.0% (% Title IV aid unearned from Box M) = \$900.00 (no rounding needed). Amount of unearned institutional charges = \$900.00.

Box O. Then, compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N) and enter the lesser amount for Box O.

Box K = \$ 2,340.00
 Box N = \$ 900.00

Amount of unearned Title IV aid due from the school = \$900.00.

STEP 6: Return of Funds by the School

Box P. The student had no loans, so the total loans the school must return = \$0.00

Box P = \$ 0.00

The student's Pell Grant (\$1,025.00) exceeds the amount the school must return (\$900.00), so the school must return \$900.00 to the Federal Pell Grant program. The school must return the funds as soon as possible, but no later than **45 days** from the date it determined Bob withdrew.

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid that the school must return \$900.00 (Box O) from the total amount of Title IV aid that is to be returned \$2,340.00 (Box K). $\$2,340.00 - \$900.00 = \$1,440.00$. Initial amount of unearned Title IV aid due from student = \$1,440.00

STEP 8: Repayment of the Student's Loans

Box R. The student had no loans, so the total loans the student must return = \$0.00

STEP 9: Grant Funds to be Returned

Box S. Initial amount of Title IV grants for the student to return

Subtract the amount of loans to be repaid by the student (\$0.00 from Box R) from the initial amount of unearned Title IV aid due from the student (\$1,440.00 from Box Q) to find the Initial amount of Title IV grants for the student to return. $\$1,440.00 - \$0.00 = \$1,440.00$.

Box T. Amount of grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (\$2,600.00 from Box F) by 50%. Amount of grant protection = $\$2,600.00 \times .50.0\% = \$1,300.00$

Box U. Title IV grant funds for the student to return

Subtract the protected amount of Title IV grants (\$1,300.00 from Box T) from the initial amount of Title IV grants for student to return (\$1,440.00 from Box S). Total grants for student to return = $\$1,440.00 - \$1,300.00 = \$140.00$.

STEP 10: Return of Grant Funds by the Student

Amount of Title IV grants for the student to return

- Subtract the amount the school had to return to the Federal Pell Grant program \$900.00 from the amount Federal Pell Grant disbursed to the student \$1,025.00. Remaining unearned Pell Grant balance = $\$1,025.00 - \$900.00 = \$125.00$.
- Subtract the Remaining unearned Pell Grant balance of \$125.00 from the \$140.00 in Title IV grants for the student to return. ACG for student to return = $\$140.00 - \$125.00 = \$15.00$.

* Because the \$15.00 to be returned to the ACG program \$50.00 or less, it is considered a *de minimis* amount. Therefore, the school is not required to return it to the ACG program, report it to NSLDS, or refer it to ED collections.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name <input style="width: 90%;" type="text" value="Bob Ellison"/>	Social Security Number <input style="width: 90%;" type="text" value="Example 2"/>
Date form completed <input style="width: 80%;" type="text"/>	Date of school's determination that student withdrew <input style="width: 80%;" type="text" value="1/18/"/>
Period used for calculation (check one) <input checked="" type="checkbox"/> Payment period <input type="checkbox"/> Period of enrollment	

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed	E. Total Title IV aid disbursed for the payment period or period of enrollment.
1. Pell Grant	1,025.00		A. 2,600.00
2. Academic Competitiveness Grant	375.00		+ B. 00.00
3. National SMART Grant			= E. \$ 2,600.00
4. FSEOG	1,200.00		
A. 2,600.00 <small>Subtotal</small>		C. 00.00 <small>Subtotal</small>	F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.
			A. 2,600.00
			+ C. 00.00
			= F. \$ 2,600.00
Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed	G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.
6. Unsubsidized FFEL/Direct Stafford Loan			A.
7. Subsidized FFEL/Direct Stafford Loan			B. 00.00
8. Perkins Loan			C. 00.00
9. FFEL/Direct PLUS (Graduate Student)			+ D. 00.00
10. FFEL/Direct PLUS (Parent)			= G. \$ 2,600.00
B. 00.00 <small>Subtotal</small>		D. 00.00 <small>Subtotal</small>	

STEP 2: Percentage of Title IV Aid Earned

<input style="width: 90%;" type="text" value="1 / 08 /"/>	<input style="width: 90%;" type="text" value="5 / 04 /"/>	<input style="width: 90%;" type="text" value="1 / 18 /"/>
<small>Start date</small>	<small>Scheduled end date</small>	<small>Date of withdrawal</small>

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed
Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

<input style="width: 90%;" type="text" value="11"/>	\div	<input style="width: 90%;" type="text" value="110"/>	$=$	<input style="width: 90%;" type="text" value="10.0 %"/>
<small>Completed days</small>		<small>Total days</small>		

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 10.0 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

<input style="width: 90%;" type="text" value="10.0 %"/>	\times	<input style="width: 90%;" type="text" value="2,600.00"/>	$=$	<input style="width: 90%;" type="text" value="I. \$ 260.00"/>
<small>Box H</small>		<small>Box G</small>		

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement
Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on page 3, the Post-withdrawal disbursement tracking sheet.

<input style="width: 90%;" type="text"/>	$-$	<input style="width: 90%;" type="text"/>	$=$	<input style="width: 90%;" type="text" value="J. \$ NA."/>
<small>Box I</small>		<small>Box E</small>		

Step 4 continued ▶

Student's Name

Social Security Number

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned
 Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

2,600.00	−	260.00	=	K.\$	2,340.00
Box E		Box I			

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	1,000.00
Room	
Board	
Other	
Other	
Other	

Total Institutional Charges = **L.\$** 1,000.00
(Add all the charges together)

M. Percentage of unearned Title IV aid
 100% − % = **M.** 90.0 %
Box H

N. Amount of unearned charges
 Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

1,000.00	X	90.0 %	=	N.\$	900.00
Box L		Box M			

O. Amount for school to return
 Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount.

O.\$	900.00
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STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	
Total loans the school must return	P.\$ 0.00
6. Pell Grant	900.00
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

2,340.00	−	900.00	=	Q.\$	1,440.00
Box K		Box O			

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R). These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

0.00	−	0.00	=	R.\$	0.00
Box B		Box P			

► If Box Q is less than or equal to Box R, **STOP**. The only action a school must take is to notify the holders of the loans of the student's withdrawal date.
 ► If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return
 Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

1,440.00	−	0.00	=	S.\$	1,440.00
Box Q		Box R			

T. Amount of Title IV grant protection
 Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

2,600.00	X	50%	=	T.\$	1,300.00
Box F					

U. Title IV grant funds for student to return
 Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

1,440.00	−	1,300.00	=	U.\$	140.00
Box S		Box T			

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes \$50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	125.00
2. Academic Competitiveness Grant	15.00*
3. National SMART Grant	
4. FSEOG	

CASE STUDY 3: RICHARD SHERMAN

When a student receiving Title IV grants and loans at a school that uses the Aggregate method for matching the school's FSEOG federal allocation withdraws unofficially

Learning Objectives

Learn to complete Steps 1–9 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- identify the basic information needed to complete the worksheet, including the withdrawal date and date of the institution's determination that the student withdrew for a student who withdraws unofficially;
- calculate the percentage of the payment period or period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned;
- determine the amount to be offered to the student or returned; and
- apply the Title IV grant protection.

School Profile

The Ultra Large State University (ULSU) is a four-year, semester-based, public institution that measures academic progress in credit hours and uses the Aggregate method for matching the school's FSEOG federal allocation with state grant funds.

Academic Year/Program	2 semesters 30 weeks
Period	15 weeks 100 calendar days
Period Start Date	September 1
Institutionally Scheduled Break	None
Required to Take Attendance	No
Method for Matching FSEOG	Aggregate

Student Profile

Richard Sherman is a third-year student with a 3.5 cumulative GPA majoring in engineering.

Tuition and fees	\$	4,000.00/15 week semester
Room	\$	1,000.00/15 week semester
Board	\$	1,000.00/15 week semester
Books and Supplies (credit voucher at school store)	\$	500.00/15 week semester

School Authorized to Credit
Account for Other Charges: Yes (all charges)

Richard’s financial aid package included the following **annual** awards:

Pell Grant	\$	4,000.00
National SMART Grant	\$	4,000.00
State Grant	\$	1,000.00
FSEOG (Federal Portion)	\$	1,500.00
Net Unsubsidized Stafford Loan	\$	3,860.00

All of Richard’s financial aid for the first semester (i.e., 1/2 of his annual awards) was disbursed on the first day of classes.

Discussion

Richard is a brilliant computer engineering major in his third year at The ULSU. Over the summer between his second and third year Richard developed and submitted to Gigantic Computer Corporation (GCC) an idea for a new memory chip. In October, Richard got a six figure offer of employment from GCC. Richard was so excited by the offer that he packed his bags and headed for Seattle without telling anyone at the school that he was leaving.

Instructors at The ULSU must report a last date of attendance (LDA) whenever they submit a non-passing grade, and those dates appear on a report of Title IV recipients who failed to earn a passing grade in any of their classes that is provided by the Computer Center to the financial aid office at the end of each grading period.

On December 16, after grades have been submitted for the fall semester, the Computer Center at The ULSU ran the program that identified Title IV recipients who failed to earn a passing grade in any of their classes. When the aid office received and evaluated the report for the fall semester it found that Richard’s LDA was October 10. Because Richard did not provide official notification of his withdrawal, he is considered an unofficial withdrawal.

At the beginning of the semester, the following awards were posted to Richard's account at ULSU.

Pell Grant	\$	2,000.00
National SMART Grant	\$	2,000.00
State Grant	\$	500.00
FSEOG	\$	750.00
Unsubsidized Stafford	\$	1,930.00

Solution

The date of the institution's determination that Richard withdrew is the date the aid office received and processed the report from the Computer Center. Date of institution's determination that the student withdrew = December 16.

Note: For a student who withdraws without providing notification from a school that is not required to take attendance the school must determine the withdrawal date no later than 30 days after the end of the earlier of (1) the payment period or the period of enrollment (as applicable), (2) the academic year, or (3) the student's educational program.

STEP 1: Student's Title IV Aid Information

Box A. Because The ULSU uses the Aggregate method for matching the school's FSEOG federal allocation, the state grant funds that make up the match are excluded from the Return calculation.

Title IV grant aid disbursed –		
Pell Grant	\$	2,000.00
National Smart Grant	\$	2,000.00
FSEOG	\$	750.00
		4,750.00
A. =	\$	4,750.00

Box B. Net Title IV loans disbursed,
Unsubsidized FFEL/Direct Stafford = \$ 1,930.00

Box C. Title IV grants that could have been disbursed = \$ 0.00.

Box D. Net Title IV loans that could have been disbursed = \$ 0.00.

Box E. Total Title IV aid disbursed for the payment period = A + B = 4,750.00 + 1,930.00
= \$ 6,680.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period
 $= A + C = 4,750.00 + 0.00 = \$ 4,750.00.$

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period
 $= A + B + C + D = 4,750.00 + 1,930.00 + 0.00 + 0.00 = \$ 6,680.00.$

STEP 2: Percentage of Title IV Aid Earned

Because Richard did not officially withdraw from school and The ULSU is not required to take attendance by an outside agency (other than for a one day snapshot for state census purposes) the school may use either the midpoint of the payment period or the last date of Richard's attendance in an academically related activity as the withdrawal date. The school elects to choose the midpoint of the period as Richard's withdrawal date.

1. Payment period start date = September 1
2. Payment period end date = December 9
3. Date of withdrawal = October 20¹
4. Percentage of payment period completed
 - Number of calendar days completed = 50²
 - Number of calendar days in the payment period = 100
 - $50 \text{ days} \div 100 \text{ days} = 0.5000$. Percentage of payment period completed = 50.0%

Box H. Because this percentage is less than 60%, the Percentage of Title IV aid earned = 50.0%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 50.0% (Percentage of Title IV aid earned from Box H) X $\$6,680.00$ (Total of the Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment from Box G) = $\$3,340.00$. Amount of Title IV aid earned by the student = $\$3,340.00$.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.
Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.
 $\$6,680.00$ (Box E) – $\$3,340.00$ (Box I) = $\$3,340.00$. Title IV Aid to be returned = $\$3,340.00$.

1, 2 The midpoint of the period, or 50 of 100 days.

STEP 5: Amount of Unearned Title IV Aid Due from the School

Box L. Institutional charges for the payment period or period of enrollment = \$6,500.00.

Tuition and fees	\$	4,000.00
Room	\$	1,000.00
Board	\$	1,000.00
Books	\$	500.00

Box M. Subtract the percentage of Title IV earned from Box H (50.0%) from 100.0%. $100\% - 50.0\% = 50.0\%$. Percentage of Title IV aid unearned = 50.0%.

Box N. Calculate the amount of unearned charges. $\$6,500.00$ (institutional charges from Box L) \times 50% (% of Title IV aid unearned from Box M) = $\$3,250.00$ (no rounding needed). Amount of unearned institutional charges = $\$3,250.00$.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K =	\$	3,340.00
Box N =	\$	3,250.00

Amount of unearned Title IV aid due from the school = $\$3,250.00$.

STEP 6: Return of Funds by the School

Box P. The only Title IV loan disbursement Richard received was an Unsubsidized FFEL Stafford loan disbursement of $\$1,930.00$. Since $\$1,930.00$ is less than the $\$3,250.00$ (Box O) the school must return, the school must return the entire $\$1,930.00$. Box P = $\$1,930.00$.

After the school returns $\$1,930.00$ to the Title IV loan programs, $\$1,320.00$ remains to be returned by the school ($\$3,250$ (from Box O) - $\$1,930$ (from Box P)). Richard received $\$2,000.00$ in Pell Grant funds, so the school returns the $\$1,320.00$ to the Pell Grant program.

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return ($\$3,250.00$ from Box O) from the total amount of Title IV aid that is to be returned ($\$3,340.00$ from Box K) to find the Initial amount of Title IV aid Due from the Student. $\$3,340.00 - \$3,250.00 = \$90.00$.

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return ($\$1,930.00$ from Box P) from the Net Loans Disbursed to the Student ($\$1,930.00$ from Box B) to find the total of the loans the student must repay $\$1,930.00 - \$1,930.00 = \$0.00$.

Remember, you must notify the holder of Richard's loan that he has withdrawn from school.

STEP 9: Grant Funds to be Returned

Box S. Initial amount of Title IV grants for the student to return

Subtract the amount of loans to be repaid by the student (\$0.00 from Box R) from the Initial Amount of Unearned aid due from the student (\$90.00 from Box Q) to find the Initial amount of Title IV grants for the student to return. $\$90.00 - \$0.00 = \$90.00$.

Box T. Amount of grant protection

Multiply the Total of Title IV grant aid disbursed or could have been disbursed for the payment period or period of enrollment (\$4,740.00 from Box F) by 50.0%. $\$4,750 \times 50.0\% = \$2,375.00$.

Box U. Title IV grant funds for the student to return

Subtract the amount of grant protection (\$2,375.00 from Box T) from the initial amount of Title IV grants for the student to return (\$90.00 from Box S) to find the Title IV grant funds for the student to return. $\$90.00 - \$2375.00 = \$0.00^1$

¹ If this amount is less than or equal to \$0.00, enter = NA, and stop here. Richard is not required to return any Title IV grant funds.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name	Richard Sherman	Social Security Number	Example 3
Date form completed		Date of school's determination that student withdrew	12/16/
Period used for calculation (check one)	<input checked="" type="checkbox"/> Payment period	<input type="checkbox"/> Period of enrollment	

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed																					
1. Pell Grant	2,000.00		E. Total Title IV aid disbursed for the payment period or period of enrollment. <table style="width: 100%;"> <tr><td style="width: 50%;">A.</td><td style="width: 50%; text-align: right;">4,750.00</td></tr> <tr><td>+</td><td>B.</td><td style="text-align: right;">1,930.00</td></tr> <tr><td>=</td><td>E. \$</td><td style="text-align: right;">6,680.00</td></tr> </table>	A.	4,750.00	+	B.	1,930.00	=	E. \$	6,680.00												
A.	4,750.00																						
+	B.	1,930.00																					
=	E. \$	6,680.00																					
2. Academic Competitiveness Grant																							
3. National SMART Grant	2,000.00																						
4. FSEOG	750.00																						
A. 4,750.00		C. 0.00																					
Subtotal		Subtotal																					
Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed																					
5. Unsubsidized FFEL/Direct Stafford Loan	1,930.00		F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment. <table style="width: 100%;"> <tr><td style="width: 50%;">A.</td><td style="width: 50%; text-align: right;">4,750.00</td></tr> <tr><td>+</td><td>C.</td><td style="text-align: right;">0.00</td></tr> <tr><td>=</td><td>F. \$</td><td style="text-align: right;">4,750.00</td></tr> </table> G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment. <table style="width: 100%;"> <tr><td style="width: 50%;">A.</td><td style="width: 50%; text-align: right;">4,750.00</td></tr> <tr><td>B.</td><td style="text-align: right;">1,930.00</td></tr> <tr><td>C.</td><td style="text-align: right;">0.00</td></tr> <tr><td>+</td><td>D.</td><td style="text-align: right;">0.00</td></tr> <tr><td>=</td><td>G. \$</td><td style="text-align: right;">6,680.00</td></tr> </table>	A.	4,750.00	+	C.	0.00	=	F. \$	4,750.00	A.	4,750.00	B.	1,930.00	C.	0.00	+	D.	0.00	=	G. \$	6,680.00
A.	4,750.00																						
+	C.	0.00																					
=	F. \$	4,750.00																					
A.	4,750.00																						
B.	1,930.00																						
C.	0.00																						
+	D.	0.00																					
=	G. \$	6,680.00																					
6. Subsidized FFEL/Direct Stafford Loan																							
7. Perkins Loan																							
8. FFEL/Direct PLUS (Graduate Student)																							
9. FFEL/Direct PLUS (Parent)																							
B. 1,930.00		D. 0.00																					
Subtotal		Subtotal																					

STEP 2: Percentage of Title IV Aid Earned

09 / 01 /	12 / 09 /	10 / 20 /	
Start date	Scheduled end date	Date of withdrawal	

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date.

H. Percentage of payment period or period of enrollment completed
Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

50	÷	100	=	50.0 %
Completed days		Total days		

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 50.0 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

50.0 %	×	6,680.00	=	I. \$ 3,340.00
Box H		Box G		

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement
Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on page 3, the Post-withdrawal disbursement tracking sheet.

	-		=	J. \$ NA .
Box I		Box E		Step 4 continued ▶

Student's Name

Social Security Number

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned

Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

= **K.\$**
Box E Box I

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	<input type="text" value="4,000.00"/>
Room	<input type="text" value="1,000.00"/>
Board	<input type="text" value="1,000.00"/>
(Books) Other	<input type="text" value="500.00"/>
Other	<input type="text"/>
Other	<input type="text"/>

Total Institutional Charges = **L.\$**
(Add all the charges together)

M. Percentage of unearned Title IV aid

100% % = **M.** %
Box H

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

X % = **N.\$**
Box L Box M

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount.

O.\$

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	<input type="text" value="1,930.00"/>
2. Subsidized FFEL/Direct Stafford Loan	<input type="text"/>
3. Perkins Loan	<input type="text"/>
4. FFEL/Direct PLUS (Graduate Student)	<input type="text"/>
5. FFEL/Direct PLUS (Parent)	<input type="text"/>

Total loans the school must return **P.\$**

6. Pell Grant	<input type="text" value="1,320.00"/>
7. Academic Competitiveness Grant	<input type="text"/>
8. National SMART Grant	<input type="text"/>
9. FSEOG	<input type="text"/>

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

= **Q.\$**
Box K Box O

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

= **R.\$**
Box B Box P

- ▶ If Box Q is less than or equal to Box R, **STOP**. The only action a school must take is to notify the holders of the loans of the student's withdrawal date.
- ▶ If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

= **S.\$**
Box Q Box R

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

X = **T.\$**
Box F

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

= **U.\$**
Box S Box T

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes \$50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	<input type="text"/>
2. Academic Competitiveness Grant	<input type="text"/>
3. National SMART Grant	<input type="text"/>
4. FSEOG	<input type="text"/>

CASE STUDY 4: HARRY SPRINGER

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a period of enrollment basis, withdraws unofficially

Learning Objectives

Learn to complete Steps 1–8 of the Treatment of Title IV Funds when a Student Withdraws from a Clock-Hour Program worksheet, and be able to:

- determine withdrawal date for student who did not provide notification of intent to withdraw at a school required to take attendance;
- determine the scheduled clock hours;
- calculate the percentage of the period of enrollment the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned; and
- determine the amount to be offered to the student or returned.

School Profile

Quality Tech School (QTS) is a proprietary school that measures academic progress in clock hours.

Academic Year/Program/ Period of Enrollment	900 hours/30 weeks
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Payment Period	450 hours
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Period Start Date	January 8
-------------------	-----------

Period End Date	August 3
-----------------	----------

Institutionally Scheduled Break	None
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Required to Take Attendance	Yes
-----------------------------	-----

Period used in Return calculation	Period of Enrollment
-----------------------------------	----------------------

Student Profile

Harry Springer enrolled at QTS for a 30-week program of study period consisting of 900 clock hours offered over 30 weeks. The first payment period is 450 clock hours. Charges to Harry’s account are as follows:

Tuition and fees	\$	8,000.00/30 week program
Room	\$	non-residential program
Board	\$	non-residential program
Books and Supplies	\$	500.00/program

School Authorized to Credit
 Account for Other Charges: Yes (all charges)

Harry’s financial aid package included the following **annual** awards:

Pell Grant	\$	4,000.00
Net Subsidized Stafford Loan	\$	3,860.00

All of Harry’s financial aid for the first payment period (450 clock hours, i.e. one half his annual awards) was disbursed on the first day of classes.

Discussion

On the first day of the winter period, January 8, Harry received the following disbursements to his student account:

Pell Grant	\$	2,000.00
Subsidized Stafford Loan	\$	1,930.00

Everything seemed to be going very well for Harry. It wasn’t until January 26 that the school discovered Harry hadn’t been attending classes and didn’t plan on returning. The director of the program notified the aid office that Harry’s last day of attendance was January 17 (through which time Harry was scheduled to have attended 45 hours), and the aid office began the withdrawal process and required calculations.

Solution

The date of the institution's determination that Harry withdrew (January 26) is the date the aid office received the information from the Director of Student Services. Because QTS is required to take attendance, Harry's withdrawal date is his last day of attendance at an academically related activity, January 17.

At the beginning of the semester, the following awards were posted to Harry's account at QTS.

Pell Grant	\$	2,000.00
Subsidized Stafford Loan	\$	1,930.00

STEP 1: Student's Title IV Aid Information

Box A. Title IV grant aid disbursed –

Pell Grant	\$	2,000.00
A. =	\$	2,000.00

Box B. Net Title IV loans disbursed –

Unsubsidized FFEL/Direct Stafford	\$	1,930.00
B. =	\$	1,930.00

Box C. Because QTS uses the period of enrollment as the basis for its Return calculation, the \$2,000 in Pell funds Harry was scheduled to receive once he had completed the first 450 hours of his program is included as Title IV grants that could have been disbursed.

C. =	\$	2,000.00
-------------	----	----------

Box D. Because QTS uses the period of enrollment as the basis for its Return calculation, the \$1,930.00 in Subsidized Stafford Loan funds Harry was scheduled to receive once he had completed the first 450 hours and the calendar midpoint of his program of his program is included as Title IV grants that could have been disbursed.

D. =	\$	1,930.00
-------------	----	----------

Box E. Total Title IV aid disbursed for the period of enrollment = $A + B = 2,000.00 + 1,930.00 = \$ 3,930.00$.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the period of enrollment = $A + C = 2,000.00 + 2,000.00 = \$ 4,000.00$.

Box G. Total Title IV aid disbursed and could have been disbursed for the period of enrollment = $A + B + C + D = 2,000.00 + 1,930.00 + 2,000.00 + 1,930.00 = \$ 7,860.00$.

STEP 2: Percentage of Title IV Aid Earned

Because QTS is required to take attendance by an outside agency the school must use the last date of Harry's attendance in an academically related activity as determined from its attendance records as the withdrawal date. Harry's last date of attendance was January 17.

1. Period of enrollment start date = January 8.
2. Period of enrollment end date = August 3.
3. Date of withdrawal = January 17.

Box H. Percentage of payment period completed

Under the Higher Education Reconciliation Act of 2005 (HERA), only scheduled hours are used to determine the percentage of the period completed by a student withdrawing from a clock-hour program. The percentage of the period completed by a student is determined by dividing the number of hours the student was scheduled to complete in the payment period or period of enrollment as of the day the student withdrew, by the total number of clock hours in the same period.

- Number of clock hours Harry was scheduled to complete on January 17 = 45
- Number of clock hours in the period of enrollment = 900
- $45 \text{ clock hours} \div 900 \text{ clock hours} = 0.050$.

Percentage of period of enrollment completed = 5.0%

Because this percentage is less than 60%, the Percentage of Title IV aid earned, Box H = 5.0%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 5.0% (Percentage of Title IV aid earned from Box H) X $\$7,860.00$ (Total of the Title IV aid disbursed and could have been disbursed for the period of enrollment from Box G) = $\$393.00$. Amount of Title IV aid earned by the student = $\$393.00$.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.

Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.

$\$3,930.00$ (Box E) – $\$393.00$ (Box I) = $\$3,537.00$. Title IV Aid to be returned = $\$3,537.00$.

STEP 5: Amount of Unearned Title IV Aid Due from the School

Box L. Institutional charges for the period of enrollment = \$8,500.00.

Tuition and fees	\$	8,000.00
Books & Supplies	\$	500.00

Box M. Subtract the percentage of Title IV earned from Box H (5.0%) from 100.0%. $100\% - 5.0\% = 95.0\%$. Percentage of Title IV aid unearned = 95.0%.

Box N. Calculate the amount of unearned charges. $\$8,500.00$ (institutional charges from Box L) X 95% (% of Title IV aid unearned from Box M) = $\$8,075.00$ (no rounding needed).
Amount of unearned institutional charges = $\$8,075.00$.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K =	\$	3,537.00
Box N =	\$	8,075.00

Amount of unearned Title IV aid due from the school = $\$3,537.00$.

STEP 6: Return of Funds by the School

Box P. The only Title IV loan disbursement Richard received was a Subsidized FFEL Stafford loan disbursement of \$1,930.00. Since \$1,930.00 is less than the \$3,537.00 (Box O) the amount the school must return, the school must return the entire \$1,930.00 to the FFEL program.

Box P = \$ 1,930.00.

After the school returns \$1,930.00 to the FFEL program, the balance to be returned by the school is \$1,607.00 ($\$3,537.00$ (from Box O) - $\$1,930.00$ (from Box P)). Harry received \$2,000.00 in Pell Grant funds, so the school returns the \$1,607.00 to the Pell Grant program.

The school must return any unearned funds within 45 days from the date of the institution's determination that Harry withdrew.

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return ($\$3,537.00$ from Box O) from the total amount of Title IV aid that is to be returned ($\$3,537.00$ from Box K) to find the Initial amount of Title IV aid Due from the Student. $\$3,537.00 - \$3,537.00 = \$0.00$.

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return (\$1,930.00 from Box P) from the Net Loans Disbursed to the Student (\$1,930.00 from Box B) to find the total of the loans the student must repay $\$1,930.00 - \$1,930.00 = \$0.00$.

Since the amount from Box Q (\$0.00) is equal to (or less than) the amount from Box R (\$0.00), the calculation ends here.

Remember, you must notify the holder of Harry's loan that he has withdrawn from school.

Treatment Of Title IV Funds When A Student Withdraws From A Clock-Hour Program

Student's Name	Harry Springer	Social Security Number	Example 4
Date form completed	/ /	Date of school's determination that student withdrew	1 / 26 /
Period used for calculation (check one)	<input type="checkbox"/> Payment period	<input checked="" type="checkbox"/> Period of enrollment	

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed													
1. Pell Grant	\$2,000.00	\$2,000.00	E. Total Title IV aid disbursed for the payment period or period of enrollment. <table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%; border: 1px solid black;">A.</td><td style="width: 50%; border: 1px solid black;">\$2,000.00</td></tr> <tr><td style="text-align: right;">+</td><td style="border: 1px solid black;">B.</td></tr> <tr><td style="text-align: right;">=</td><td style="border: 1px solid black;">E.\$</td></tr> </table>	A.	\$2,000.00	+	B.	=	E.\$						
A.	\$2,000.00														
+	B.														
=	E.\$														
2. Academic Competitiveness Grant															
3. National SMART Grant															
4. FSEOG															
A. \$2,000.00 Subtotal		C. \$2,000.00 Subtotal													
Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed													
5. Unsubsidized FFEL/Direct Stafford Loan	\$1,930.00	\$1,930.00	F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment. <table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%; border: 1px solid black;">A.</td><td style="width: 50%; border: 1px solid black;">\$2,000.00</td></tr> <tr><td style="text-align: right;">+</td><td style="border: 1px solid black;">C.</td></tr> <tr><td style="text-align: right;">=</td><td style="border: 1px solid black;">F.\$</td></tr> </table>	A.	\$2,000.00	+	C.	=	F.\$						
A.	\$2,000.00														
+	C.														
=	F.\$														
6. Subsidized FFEL/Direct Stafford Loan															
7. Perkins Loan															
8. FFEL/Direct PLUS (Graduate Student)															
9. FFEL/Direct PLUS (Parent)															
B. \$1,930.00 Subtotal		D. \$1,930.00 Subtotal													
			G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment. <table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%; border: 1px solid black;">A.</td><td style="width: 50%; border: 1px solid black;">\$2,000.00</td></tr> <tr><td style="border: 1px solid black;">B.</td><td style="border: 1px solid black;">\$1,930.00</td></tr> <tr><td style="border: 1px solid black;">C.</td><td style="border: 1px solid black;">\$2,000.00</td></tr> <tr><td style="border: 1px solid black;">D.</td><td style="border: 1px solid black;">\$1,930.00</td></tr> <tr><td style="text-align: right;">+</td><td></td></tr> <tr><td style="text-align: right;">=</td><td style="border: 1px solid black;">G.\$</td></tr> </table>	A.	\$2,000.00	B.	\$1,930.00	C.	\$2,000.00	D.	\$1,930.00	+		=	G.\$
A.	\$2,000.00														
B.	\$1,930.00														
C.	\$2,000.00														
D.	\$1,930.00														
+															
=	G.\$														

STEP 2: Percentage of Title IV Aid Earned

Withdrawal date: 1 / 17 /

H. Determine the percentage of payment period or period of enrollment completed:
Divide the clock hours scheduled to have been completed as of the withdrawal date in the payment period or period of enrollment by the total clock hours in the payment period or period of enrollment.

45	÷	900	=	5.00 %
Hours scheduled to complete		Total hours in period		

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 5.00 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

5.00%	x	\$7,860.00	=	I.\$ 393.00
Box H		Box G		

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement
Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on Page 3 (Post-withdrawal disbursement tracking sheet).

	-		=	J.\$ NA .
Box I		Box E		

K. Title IV aid to be returned
Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

\$3,930.00	-	\$393.00	=	K.\$ 3,537.00
Box E		Box I		

Student's Name **Harry Springer**

Social Security Number **Example 4**

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	\$8,000.00
Room	
Board	
Books & Supplies	\$500.00
Other	
Other	

Total Institutional Charges
(Add all the charges together) = **L.\$ 8,500.00**

M. Percentage of unearned Title IV aid

100% - **5.00 %** = **M. 95.00 %**

Box H

N. Amount of unearned charges
Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

\$8,500.00 X **95.00 %** = **N.\$ 8,075.00**

Box L Box M

O. Amount for school to return
Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount.

O.\$ 3,537.00

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	\$1,930.00
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	
Total loans the school must return = P.\$ 1,930.00	
6. Pell Grant	\$1,607.00
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

\$3,537.00 - **\$3,537.00** = **Q.\$ 0.00**

Box K Box O

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

\$1,930.00 - **\$1,930.00** = **R.\$ 0.00**

Box B Box P

▶ If Box Q is less than or equal to Box R, **STOP**. The only action a school must take is to notify the holders of the loans of the student's withdrawal date.

▶ If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return
Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

- = **S. .**

Box Q Box R

T. Amount of Title IV grant protection
Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

X **50%** = **T. .**

Box F

U. Title IV grant funds for student to return
Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

- = **U. .**

Box S Box T

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes \$50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	

CASE STUDY 5: JORDAN AIRE

When a student receiving Title IV grants and loans at a school that measures academic progress in clock hours and performs its Return calculations on a payment period basis, withdraws unofficially

Learning Objectives

Learn to complete Steps 1–8 of the Treatment of Title IV Funds when a Student Withdraws from a Clock-Hour Program worksheet, and be able to:

- determine withdrawal date for student who did not provide notification of intent to withdraw at a school required to take attendance;
- determine the scheduled clock hours;
- calculate the percentage of the payment period the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned; and
- determine the amount to be offered to the student or returned.

School Profile

Learn to Earn Technical School (LETS) is a proprietary school that measures academic progress in clock hours.

Academic Year/Program/ Period of Enrollment	900 hours/30 weeks
Payment Period	450 hours
Period Start Date	April 2
Period End Date	October 26
Institutionally Scheduled Break	None
Required to Take Attendance	Yes
Period used in Return calculation	Payment Period

Student Profile

Jordan Aire enrolled at LETS for a 30-week program of study period consisting of 900 clock hours offered over 30 weeks. The first payment period is 450 clock hours. Charges to Jordan's account are as follows:

Tuition and fees	\$	9,000.00/30 week program
Room	\$	non-residential program
Board	\$	non-residential program
Books and Supplies	\$	500.00/program

School Authorized to Credit
 Account for Other Charges: Yes (all charges)

Jordan's financial aid package included the following **annual** awards:

Pell Grant	\$	4,000.00
Net Subsidized Stafford Loan	\$	3,860.00

All of Jordan's financial aid for the first payment period (450 clock hours, i.e. one half his annual awards) was disbursed on the first day of classes.

Discussion

On the first day of the period, April 2, Jordan received the following disbursements to his student account:

Pell Grant	\$	2,000.00
Subsidized Stafford Loan	\$	1,930.00

On May 3 the Retention Specialist at LETS is informed by the director of Jordan's program that since April 21, Jordan has not been attending classes. The Retention Specialist contacts Jordan who tells him that he's been ill, but plans on coming back to school during the next week. Since this falls within the time period for excused absences allowed by school policy as well as absences allowed by the state and the school's accrediting agency, the school delays taking any action. However, on May 11 when the Retention Specialist follows up with the Program Director, he finds that Jordan has not returned to school. Since Jordan has now exceeded the number of absences allowed by school policy, LETS must administratively withdraw Jordan from school.

Note: Remember that institutions that are required to take attendance are expected to have a procedure in place for routinely monitoring attendance records to determine in a timely manner when a student withdraws. Except in unusual instances, the date of the institution's determination that the student withdrew should be no later than 14 days after the student's withdrawal date.

The institution is not required to administratively withdraw a student who has been absent for 14 days. However, after 14 days, it is expected to have determined whether the student intends to return to classes or has withdrawn. Moreover, the institution must return any unearned funds within 45 days of the date of the institution's determination that Jordan withdrew (May 4).

Solution

Jordan's withdrawal date is his last day of attendance at an academically related activity as determined from the school's attendance records, April 20.

The school must use May 4 (14 days from the student's last day of attendance) as the date of the institution's determination that the student withdrew.

At the beginning of the semester, the following awards were posted to Jordan's account at LETS.

Pell Grant	\$	2,000.00
Subsidized Stafford Loan	\$	1,930.00

STEP 1: Student's Title IV Aid Information

Box A. Title IV grant aid disbursed –

Pell Grant	\$	2,000.00
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A. =	\$	2,000.00
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Box B. Net Title IV loans disbursed –

Unsubsidized FFEL/Direct Stafford =	\$	1,930.00
-------------------------------------	----	----------

B. =	\$	1,930.00
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Box C. Title IV grants that could have been disbursed = \$ 0.00.

Box D. Title IV loans that could have been disbursed = \$ 0.00.

Box E. Total Title IV aid disbursed for the payment period = $A + B = 2,000.00 + 1,930.00 = \$ 3,930.00$.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period = $A + C = 2,000.00 + 0.00 = \$ 2,000.00$.

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period = $A + B + C + D = 2,000.00 + 1,930.00 + 0.00 + 0.00 = \$3,930.00$.

STEP 2: Percentage of Title IV Aid Earned

Because LETS is required to take attendance by an outside agency, the school must use the last date of Jordan's attendance in an academically related activity as determined from its attendance records as the withdrawal date. Jordan's last date of attendance was April 20.

1. Payment Period start date = April 2.
2. Payment Period end date = October 26.
3. Date of withdrawal = April 20.

Box H. Percentage of payment period completed

Under the Higher Education Reconciliation Act of 2005 (HERA), only scheduled hours are used to determine the percentage of the period completed by a student withdrawing from a clock-hour program. The percentage of the period completed by a student is determined by dividing the number of hours the student was scheduled to complete in the payment period or period of enrollment as of the day the student withdrew, by the total number of clock hours in the same period.

- Number of clock hours Jordan was scheduled to complete on April 20 = 90
- Number of clock hours in the payment period = 450
- $90 \text{ clock hours} \div 450 \text{ clock hours} = 0.20$.

Percentage of payment period completed = 20.0%

Because this percentage is less than 60%, the Percentage of Title IV aid earned,

Box H = 20.0%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 20.0% (Percentage of Title IV aid earned from Box H) X \$3,930.00 (Total of the Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment from Box G) = \$786.00. Amount of Title IV aid earned by the student = \$786.00.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.

Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.

$\$3,930.00 \text{ (Box E)} - \$786.00 \text{ (Box I)} = \$3,144.00$. Title IV Aid to be returned = \$3,144.00.

STEP 5: Amount of Title IV Aid Due from the School

Box L. Because LETS provides students with their books and supplies on the first day of class, it includes the cost of books and supplies in costs for the first payment period.
Institutional charges for the payment period = \$5,000.00.

Tuition and fees	\$	4,500.00
Books & Supplies	\$	500.00

Box M. Subtract the percentage of Title IV earned from Box H (20.0%) from 100.0%. $100\% - 20.0\% = 80.0\%$. Percentage of Title IV aid unearned = 80.0%.

Box N. Calculate the amount of unearned charges. \$5,000.00 (institutional charges from Box L) X 80% (% of Title IV aid unearned from Box M) = \$4,000.00 (no rounding needed).
Amount of unearned institutional charges = \$4,000.00.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K =	\$	3,144.00
Box N =	\$	4,000.00

Amount of unearned Title IV aid due from the school = \$3,144.00.

STEP 6: Return of Funds by the School

Box P. Jordan received a Subsidized FFEL Stafford loan disbursement of \$1,930.00. Since \$1,930.00 is less than the \$3,144.00 (Box O) the school must return, the school must return \$1,930.00 to the lender. Box P = \$1,930.00.

After the school returns \$1,930.00 to the Title IV loan programs, the balance to be returned by the school is \$1,214.00 (\$3,144.00 (from Box O) - \$1,930 (from Box P)). Jordan received \$2,000.00 in Pell Grant funds, so the school returns \$1,214.00 to the Pell Grant program.

The school must return any unearned funds within 45 days from the date of the institution's determination that Jordan withdrew (May 4).

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return (\$3,144.00 from Box O) from the total amount of Title IV aid that is to be returned (\$3,144.00 from Box K) to find the Initial amount of Title IV aid Due from the Student. $\$3,144.00 - \$3,144.00 = \$0.00$.

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return (\$1,930.00 from Box P) from the Net Loans Disbursed to the Student (\$1,930.00 from Box B) to find the total of the loans the student must repay $\$1,930.00 - \$1,930.00 = \$0.00$.

Since the amount from Box Q (\$0.00) is equal to (or less than) the amount from Box R (\$0.00), the calculation ends here.

Remember, you must notify the holder of Jordan's loan that he has withdrawn from school.

Treatment Of Title IV Funds When A Student Withdraws From A Clock-Hour Program

Student's Name
Social Security Number

Date form completed
Date of school's determination that student withdrew

Period used for calculation (check one)
 Payment period
 Period of enrollment

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed	
1. Pell Grant	\$2,000.00	\$0.00	E. Total Title IV aid disbursed for the payment period or period of enrollment. <input type="text" value="A. \$2,000.00"/> + <input type="text" value="B. \$1,930.00"/> = E.\$ 3,930.00
2. Academic Competitiveness Grant			
3. National SMART Grant			
4. FSEOG			
A. \$2,000.00 Subtotal		C. \$0.00 Subtotal	
Title IV Loan Programs	Net Amount Disbursed	Net Amount that Could Have Been Disbursed	
5. Unsubsidized FFEL/Direct Stafford Loan	\$1,930.00	\$0.00	F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment. <input type="text" value="A. \$2,000.00"/> + <input type="text" value="C. \$ 0.00"/> = F.\$ 2,000.00
6. Subsidized FFEL/Direct Stafford Loan			
7. Perkins Loan			
8. FFEL/Direct PLUS (Graduate Student)			
9. FFEL/Direct PLUS (Parent)			
B. \$1,930.00 Subtotal		D. \$0.00 Subtotal	
			G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment. <input type="text" value="A. \$2,000.00"/> <input type="text" value="B. \$1,930.00"/> <input type="text" value="C. \$0.00"/> + <input type="text" value="D. \$0.00"/> = G.\$ 3,930.00

STEP 2: Percentage of Title IV Aid Earned

Withdrawal date

H. Determine the percentage of payment period or period of enrollment completed:
 Divide the clock hours scheduled to have been completed as of the withdrawal date in the payment period or period of enrollment by the total clock hours in the payment period or period of enrollment.

÷ =

Hours scheduled to complete Total hours in period

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H. 20.00 %

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

X = **I.\$ 786.00**

Box H Box G

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement
 Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. **Stop here**, and enter the amount in Box 1 on Page 3 (Post-withdrawal disbursement tracking sheet).

- = **J.\$ NA.**

Box I Box E

K. Title IV aid to be returned
 Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

- = **K.\$ 3,144.00**

Box E Box I

Student's Name Jordan Aire

Social Security Number Example 5

STEP 5: Amount of Unearned Title IV Aid Due from the School**L. Institutional charges for the payment period or period of enrollment**

Tuition	\$4,500.00
Room	
Board	
Books & Supplies	\$500.00
Other	
Other	

Total Institutional Charges(Add all the charges together) = **L.\$** \$5,000.00**M. Percentage of unearned Title IV aid**100% - 20.00 % = **M.** 80.00 %

Box H

N. Amount of unearned charges

Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

\$5,000.00 x 80.00 % = **N.\$** \$4,000.00

Box L

Box M

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount.

O.\$ \$3,144.00**STEP 6: Return of Funds by the School**

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs

	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	\$1,930.00
2. Subsidized FFEL/Direct Stafford Loan	
3. Perkins Loan	
4. FFEL/Direct PLUS (Graduate Student)	
5. FFEL/Direct PLUS (Parent)	

Total loans the school must return = P.\$ \$1,930.00

6. Pell Grant	\$1,214.00
7. Academic Competitiveness Grant	
8. National SMART Grant	
9. FSEOG	

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

\$3,144.00 - \$3,144.00 = **Q.\$** \$0.00

Box K

Box O

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).

These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

\$1,930.00 - \$1,930.00 = **R.\$** \$0.00

Box B

Box P

▶ If Box Q is less than or equal to Box R, **STOP.**

The only action a school must take is to notify the holders of the loans of the student's withdrawal date.

▶ If Box Q is greater than Box R, proceed to Step 9.

STEP 9: Grant Funds to be Returned**S. Initial amount of Title IV grants for student to return**

Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

[] - [] = **S.** .

Box Q

Box R

T. Amount of Title IV grant protection

Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

[] x 50% = **T.** .

Box F

U. Title IV grant funds for student to return

Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

[] - [] = **U.** .

Box S

Box T

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes \$50.00 or less.**Title IV Grant Programs****Amount To Return**

1. Pell Grant	
2. Academic Competitiveness Grant	
3. National SMART Grant	
4. FSEOG	

CASE STUDY 6: BOB WHITE

When a student receiving Title IV grants and loans at a school that utilizes a non-term modular course structure, measures academic progress in credit hours, and performs its Return calculations on a payment period basis, officially withdraws, reenters within 180 days, and withdraws again.

Learning Objectives

Learn to complete Steps 1–8 of the Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program worksheet, and be able to:

- determine the total number of days the student was in attendance over multiple periods of attendance;
- determine the total number of days in the payment period for the multiple periods of attendance;
- calculate the percentage of the payment period the student completed;
- calculate both the percentage and the amount of Title IV aid earned by the student;
- determine either that the student is due a post-withdrawal disbursement (PWD) of Title IV aid or that Title IV aid must be returned; and
- determine the amount to be offered to the student or returned.

School Profile

University of Huachuca (UH) is a non-residential postsecondary institution that utilizes a non-term modular course structure and measures academic progress in credit hours.

Academic Year/ Period of Enrollment	24 credits/ 32 weeks
Payment Period	12 credit hours 4 modules (each of 4 weeks duration) 16 weeks
Period Start Date	January 8
Period End Date	April 27
Institutionally Scheduled Break	None
Required to Take Attendance	No
Period used in Return calculation	Payment Period

School Profile, continued

Scheduled starting and ending dates for modules within the calendar year. At each starting point all modules are offered.

Start	End	Start	End
January 8	February 2	February 5	March 2
March 5	March 30	April 2	April 27
April 30	May 25	May 28	June 22
June 25	July 20	July 23	August 17
August 20	September 14	September 17	October 12
October 15	November 9	November 12	December 7

Student Profile

Bob White is a third-year student enrolled at UH for 12 credits offered in four three-credit modules. UH anticipates that Bob, as do most of the students at UH, will complete each of the modules in four weeks, and the period in 16 weeks. Charges to Bob's account for the period are as follows:

Tuition and fees	\$	6,000.00/12 credits
Room	\$	non-residential program
Board	\$	non-residential program

School Authorized to Credit

Account for Other Charges: Yes (all charges)

Bob's financial aid package included the following **annual** awards:

Pell Grant	\$	4,050.00
Net Unsubsidized Stafford Loan	\$	4,860.00
Net Subsidized Stafford Loan	\$	5,460.00

All of Bob's financial aid for the first payment period (one half his annual awards) was disbursed on the first day of classes.

Discussion

On the first day of the period, January 8, Bob received the following disbursements to his student account:

Pell Grant	\$	2,025.00
Unsubsidized Stafford Loan	\$	2,430.00
Subsidized Stafford Loan	\$	2,730.00

On January 19, Bob came to the financial aid office and informed you that he is withdrawing from school thereby beginning the school's formal withdrawal process.

Because Bob failed to begin attendance in all of the classes on which his Pell Grant was based, before performing the required Return calculation UH must to recalculate Bob's Pell based on his enrollment in just the one module he began – three credits. After eliminating the living expenses and tuition associated with the period of non-attendance, UH determined that based on the costs associated with the three credits Bob began that he was eligible for an annual award of \$1,550 and an award for the period of \$775. UH returned the difference of \$1,250 (\$2,025 — \$775) to the Pell Grant program.

Note : If Bob had received Campus-Based aid, the school would also have had to recalculate his COA, eliminating the costs attributable to the modules that he did not begin attending, to see whether a reduction of the Campus-Based aid was necessary.

UH performed a return calculation using January 19 as Bob's withdrawal date and \$775 as the amount of Pell Grant disbursed, and determined that the school was responsible for returning all of the funds that Bob received from the subsidized and unsubsidized Stafford loan programs and \$128.00 in Pell funds. UH also determined that Bob was not required to return any funds. On February 5, UH returned the funds for which it was responsible to the appropriate programs.

On March 5 Bob re-entered the program. Since this is within 180 days of his withdrawal date, Bob was considered to be in the same payment period so his Title IV eligibility is the same as before he left.

In order to ask the lender to redisburse his Stafford loans the school had to determine the new end for the payment period and the Bob's Borrower Based Academic Year (BBAY). Because the program is based on discrete modules, UH can easily identify the point at which Bob will have completed half the weeks **and** half the credits in the academic year. It is June 22. The end of the BBAY is October 12. Therefore, UH asked his lender to redisburse the subsidized and unsubsidized Stafford loans with a new scheduled date for the second disbursement of June 25 and a new end date for Bob's BBAY of October 12. Since the end of Bob's new BBAY was within one year of the beginning date of the period for which the loan was first certified (January 8), the lender agreed to and made the disbursement, and UH once again disbursed the Stafford loan funds to Bob's account. In addition, UH drew down and redisbursed the \$128.00 in Pell funds that it previously returned.

Bob completed his first module as scheduled on March 30 and began his second module on April 2. On April 10, Bob came to the financial aid office and informed UH that he is once again withdrawing from school.

UH must determine the correct number of days to include as completed days and total days in the Return calculation and correctly calculate the amount to be returned or disbursed.

Solution

Once again, because Bob has failed to begin attendance in all of the classes on which his Pell Grant was based, before performing the required Return calculation you must recalculate Bob's Pell Grant based on his enrollment in just the two modules he began – six credits. This, time after eliminating the living expenses and tuition associated with the period of non-attendance, UH determined that Bob remained eligible for an annual award of \$4,050 (an award for the period of \$2,025). Therefore, UH included the following awards in the Return calculation.

Pell Grant	\$	2,025.00
Unsubsidized Stafford Loan	\$	2,430.00
Subsidized Stafford Loan	\$	2,730.00

Bob's withdrawal date and the date of the institution's determination of Bob's withdrawal is the day he informed UH of his intent to withdraw – April 10.

STEP 1: Student's Title IV Aid Information

Box A.	Title IV grant aid disbursed –		
	Pell Grant	\$	2,050.00
	A. =	\$	2,050.00

Box B.	Net Title IV loans disbursed –		
	Unsubsidized FFEL/Direct Stafford	\$	2,430.00
	Subsidized FFEL/Direct Stafford	\$	2,730.00
	B. =	\$	5,160.00

Box C. Title IV grants that could have been disbursed = \$ 0.00.

Box D. Title IV loans that could have been disbursed = \$ 0.00.

Box E. Total Title IV aid disbursed for the payment period or period of enrollment = A + B = 2,025.00 + 5,160.00 = \$ 7,185.00.

Box F. Total Title IV grant aid disbursed and could have been disbursed for the payment period or period of enrollment = A + C = 2,025.00 + 0.00 = \$ 2,025.00.

Box G. Total Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment = A + B + C + D = 2,025.00 + 5,160.00 + 0.00 + 0.00 = \$ 7,185.00.

STEP 2: Percentage of Title IV Aid Earned

Bob's withdrawal date was April 10.

When Bob initially withdrew on January 19, he had completed twelve days out of 110. When he returned on March 5, UH determined a new period end date of June 22. In order to determine the correct number of days of attendance and days in the period, UH must subtract the 44 days Bob was originally scheduled to attend but did not attend (starting with January 20 and ending on March 4) from the *Total days*.

Note : If you are using ED's Web based software you can enter January 20 and March 4 (44 days) as beginning and ending dates of a scheduled break so that the software will correctly reflect this period of non-enrollment.

1. Payment Period start date = January 8.
2. Payment Period end date = June 22.
3. Date of withdrawal = April 10.
4. Scheduled break (for software purposes) January 20 through March 4 (44 days)
5. Percentage of payment period completed –
 - Number of calendar days completed = 49 (12 days from his first enrollment plus 37 days from his second)
 - Number of calendar days in the payment period = January 8 through June 22 – 166 days minus the 44 days of non-attendance = 122 days.
 - $49 \text{ days} \div 122 \text{ days} = 0.4016$. Percentage of payment period completed = 40.2%

Box H. Because this percentage is less than 60%, the Percentage of Title IV aid earned = 40.2%.

STEP 3: Amount of Title IV Aid Earned by the Student

Box I. 40.2% (Percentage of Title IV aid earned from Box H) X $\$7,185.00$ (Total of the Title IV aid disbursed and could have been disbursed for the payment period or period of enrollment from Box G) = $\$2,888.37$. Amount of Title IV aid earned by the student = $\$2,888.37$.

STEP 4: Total Title IV Aid to be Disbursed or Returned

Box J. Because the total Title IV aid earned (Box I) is less than the total Title IV aid disbursed (Box E), no post-withdrawal disbursement is due, and we proceed to Box K.

Post-withdrawal disbursement = NA.

Box K. Because the total Title IV aid disbursed (Box E) is greater than the total Title IV aid earned (Box I) Title IV aid must be returned.

$\$7,185.00$ (Box E) – $\$2,888.37$ (Box I) = $\$4,296.63$. Title IV Aid to be returned = $\$4,296.63$.

STEP 5: Amount of Title IV Aid Due from the School

Box L. The charges on Bob’s account are the charges initially assessed for the period of enrollment.

Tuition and fees \$ 6,000.00

Box M. Subtract the percentage of Title IV earned from Box H (40.2%) from 100.0%.
 $100\% - 40.2\% = 59.8\%$. Percentage of Title IV aid unearned = 59.8%.

Box N. Calculate the amount of unearned charges. \$6,000.00 (institutional charges from Box L) X 59.8% (% of Title IV aid unearned from Box M) = \$3,588.00 (no rounding needed).
 Amount of unearned institutional charges = \$3,588.00.

Box O. Compare the amount of Title IV aid to be returned (Box K) to unearned institutional charges (Box N), and enter the lesser amount in Box O.

Box K = \$ 4,296.63
 Box N = \$ 3,588.00

Amount of unearned Title IV aid due from the school = \$3,588.00.

STEP 6: Return of Funds by the School

Box P. Bob received an Unsubsidized FFEL Stafford loan disbursement of \$2,430.00. Since \$2,430.00 is less than the \$3,588.00 (Box O) the school must return, the school must return \$2,430.00 to the lender of Bob’s Unsubsidized Stafford loan. In addition, there is a balance of \$1,158.00 ($3,588 - 2,430$) that the school must return. So, the school returns \$1,158.00 to the lender of Bob’s Subsidized Stafford loan. $\text{Box P} = \$2,430.00 + \$1,158.00 = \$3,588.00$.

Box P = \$ 3,588.00

The school must return any unearned funds within 45 days from the date of the institution’s determination that Bob withdrew (April 10).

STEP 7: Initial Amount of Unearned Title IV Aid Due from Student

Box Q. Subtract the amount of Title IV aid the school must return (\$3,588.00 from Box O) from the total amount of Title IV aid that is to be returned (\$4,296.63 from Box K) to find the Initial amount of Title IV aid Due from the Student. $\$4,296.63 - \$3,588.00 = \$708.63$.

Box Q = \$ 708.63

STEP 8: Repayment of the Student's Loans

Box R. Subtract the Total Loans the school must return (\$3,588.00 from Box P) from the Net Loans Disbursed to the Student (\$5,160.00 from Box B) to find the total of the loans the student must repay $\$5,160.00 - \$3,588.00 = \$1,572.00$.

Since the amount from Box Q (\$708.63) is equal to (or less than) the amount from Box R (\$1,572.00), the calculation ends here.

Remember, you must notify the holder of Bob's loans that he has withdrawn from school.

Treatment Of Title IV Funds When A Student Withdraws From A Credit-Hour Program

Student's Name	Bob White	Social Security Number	Case Study 6
Date form completed	4 / 15 /	Date of school's determination that student withdrew	4 / 10 /
Period used for calculation (check one)	<input type="checkbox"/> Payment period	<input type="checkbox"/> Period of enrollment	

*Monetary amounts should be in dollars and cents (rounded to the nearest penny).
When calculating percentages, round to three decimal places. (For example, .4486 = .449, or 44.9%)*

STEP 1: Student's Title IV Aid Information

Title IV Grant Programs	Amount Disbursed	Amount that Could Have Been Disbursed	
1. Pell Grant	\$2,025.00		
2. Academic Competitiveness Grant			
3. National SMART Grant			
4. FSEOG			
A. Subtotal		\$2,025.00	
		C. Subtotal	\$0.00
E. Total Title IV aid disbursed for the payment period or period of enrollment.			
		A.	\$2,025.00
		+	B.
			\$5,160.00
		=	E. \$
			7,185.00
F. Total of Title IV grant aid disbursed + could have been disbursed for the payment period or period of enrollment.			
		A.	\$2,025.00
		+	C.
			\$0.00
		=	F. \$
			\$2,025.00
G. Total of Title IV aid disbursed + could have been disbursed for the payment period or period of enrollment.			
		A.	\$2,025.00
		+	B.
			\$5,160.00
		+	C.
			\$0.00
		+	D.
			\$0.00
		=	G. \$
			7,185.00

STEP 2: Percentage of Title IV Aid Earned

1 / 08 /	6 / 22 /	4 / 10 /	
Start date	Scheduled end date	Date of withdrawal	

A school that is not required to take attendance may, for a student who withdraws without notification, enter 50% in Box H and proceed to Step 3. Or, the school may enter the last date of attendance at an academically related activity for the "withdrawal date," and proceed with the calculation as instructed. For a student who officially withdraws, enter the withdrawal date. *(less 44 days of non attendance)*

H. Percentage of payment period or period of enrollment completed
Determine the calendar days completed in the payment period or period of enrollment divided by the total calendar days in the payment period or period of enrollment (excluding scheduled breaks of five days or more AND days that the student was on an approved leave of absence).

49	÷	122	=	40.16 %
Completed days		Total days		

- ▶ If this percentage is greater than 60%, enter 100% in Box H and proceed to Step 3.
- ▶ If this percentage is less than or equal to 60%, enter that percentage in Box H, and proceed to Step 3.

H.	40.2 %
-----------	--------

STEP 3: Amount of Title IV Aid Earned by the Student

Multiply the percentage of Title IV aid earned (Box H) times the total of the Title IV aid disbursed plus the Title IV aid that could have been disbursed for the payment period or period of enrollment (Box G).

40.2 %	X	7,185.00	=	I. \$	2,888.37
Box H		Box G			

STEP 4: Total Title IV Aid to be Disbursed or Returned

- ▶ If the amount in Box I is greater than the amount in Box E, go to Post-withdrawal disbursement (Item J).
- ▶ If the amount in Box I is less than the amount in Box E, go to Title IV aid to be returned (Item K).
- ▶ If the amounts in Box I and Box E are equal, **STOP**. No further action is necessary.

J. Post-withdrawal disbursement
Subtract Total Title IV aid disbursed for the payment period or period of enrollment (Box E) from the amount of Title IV aid earned (Box I). This is the amount of post-withdrawal disbursement due. Stop here, and enter the amount in Box 1 on Page 3 (post-withdrawal disbursement tracking sheet).

[]	-	[]	=	J. \$	NA
Box I		Box E			

Step 4 continued ▶

Student's Name

Social Security Number

STEP 4: Aid to be Disbursed or Returned CONTINUED

K. Title IV aid to be returned
 Subtract the amount of Title IV aid earned (Box I) from the Total Title IV aid disbursed for the payment period or period of enrollment (Box E). This is the amount of Title IV aid that must be returned.

= **K.\$**

Box E Box I

STEP 7: Initial Amount of Unearned Title IV Aid Due from the Student

Subtract the amount of Title IV aid due from the school (Box O) from the amount of Title IV aid to be returned (Box K).

- = **Q.\$**

Box K Box O

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the payment period or period of enrollment

Tuition	<input type="text" value="\$6,000.00"/>
Room	<input type="text"/>
Board	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>
Other	<input type="text"/>

Total Institutional Charges = **L.\$**
 (Add all the charges together)

STEP 8: Repayment of the Student's loans

Subtract the Total loans the school must return (Box P) from the Net loans disbursed to the student (Box B) to find the amount of Title IV loans the student is still responsible for repaying (Box R).
 These outstanding loans consist either of loan funds the student has earned, or unearned loan funds that the school is not responsible for repaying, or both; and they are repaid to the loan holders according to the terms of the borrower's promissory note.

- = **R.\$**

Box B Box P

▶ If Box Q is less than or equal to Box R, **STOP**.
 The only action a school must take is to notify the holders of the loans of the student's withdrawal date.

▶ If Box Q is greater than Box R, proceed to Step 9.

M. Percentage of unearned Title IV aid

- = **M.** %

Box H

N. Amount of unearned charges
 Multiply institutional charges for the payment period or period of enrollment (Box L) times the percentage of unearned Title IV aid (Box M).

X = **N.\$**

Box L Box M

O. Amount for school to return
 Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount.

O.\$

STEP 9: Grant Funds to be Returned

S. Initial amount of Title IV grants for student to return
 Subtract the amount of loans to be repaid by the student (Box R) from the initial amount of unearned Title IV aid due from the student (Box Q).

- = **S.\$**

Box Q Box R

T. Amount of Title IV grant protection
 Multiply the total of Title IV grant aid that was disbursed and could have been disbursed for the payment period or period of enrollment (Box F) by 50%.

X = **T.\$**

Box F

U. Title IV grant funds for student to return
 Subtract the protected amount of Title IV grants (Box T) from the initial amount of Title IV grants for student to return (Box S).

- = **U.\$**

Box S Box T

STEP 6: Return of Funds by the School

The school must return the unearned aid for which the school is responsible (Box O) by repaying funds to the following sources, in order, up to the total net amount disbursed from each source.

Title IV Programs	Amount for School to Return
1. Unsubsidized FFEL/Direct Stafford Loan	<input type="text" value="\$2,430.00"/>
2. Subsidized FFEL/Direct Stafford Loan	<input type="text" value="\$1,158.00"/>
3. Perkins Loan	<input type="text"/>
4. FFEL/Direct PLUS (Graduate Student)	<input type="text"/>
5. FFEL/Direct PLUS (Parent)	<input type="text"/>
Total loans the school must return P.\$ <input type="text" value="3,588.00"/>	
6. Pell Grant	<input type="text"/>
7. Academic Competitiveness Grant	<input type="text"/>
8. National SMART Grant	<input type="text"/>
9. FSEOG	<input type="text"/>

STEP 10: Return of Grant Funds by the Student

Except as noted below, the student must return the unearned grant funds for which he or she is responsible (Box U). The grant funds returned by the student are applied to the following sources in the order indicated, up to the total amount disbursed from that grant program minus any grant funds the school is responsible for returning to that program in Step 6.

Note that the student is not responsible for returning funds to any program to which the student owes \$50.00 or less.

Title IV Grant Programs	Amount To Return
1. Pell Grant	<input type="text"/>
2. Academic Competitiveness Grant	<input type="text"/>
3. National SMART Grant	<input type="text"/>
4. FSEOG	<input type="text"/>

Participation, Fiscal Procedures & Records

This chapter addresses fiscal procedures and recordkeeping requirements that are specific to the Campus-Based programs. For information on general fiscal procedures and records requirements for all Federal Student Aid programs, refer to Volume 2, School Eligibility and Operations, and the current edition of the Blue Book.

A school applies for and receives program funds directly from the U.S. Department of Education by submitting an application, the Fiscal Operations Report and Application to Participate (FISAP), each award year. The school's financial aid administrator is responsible for ensuring that eligible students at the school receive program funds according to the provisions of the law, the regulations, the Program Participation Agreement (PPA) signed by both a representative of the Secretary of Education and the school's chief administrative officer, and other criteria the Department may establish.

PROGRAM PARTICIPATION AGREEMENT

A school that wants to participate in any Federal Student Aid (FSA) program must sign a PPA with the Department. The school official legally authorized to assume the agreement's obligations on the school's behalf must sign the agreement. (For more information on this agreement, see *Volume 2, School Eligibility and Operations*.)

Under the PPA, the school agrees to use the funds it receives solely for the purposes specified in the regulations for that program and to administer each program in accordance with the Higher Education Act of 1965, as amended (HEA), and the General Provisions regulations. See Volume 2 for General Provisions requirements that apply to all of the FSA programs. The Federal Perkins Loan and FWS programs have additional requirements that are part of the PPA and that are specific to the individual program.

Perkins PPA Requirements

The agreement requires the school to annually submit to the Department a report containing information that determines the school's cohort default rate.

The agreement for the Federal Perkins Loan Program also requires the school to establish and maintain a Fund and to deposit into the Fund:

Chapter Highlights

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Allocation of Fund.....	6-3
Transfer of Funds.....	6-6
Carry Forward/Carry Back	6-8
Federal/Nonfederal Share	6-9
Recordkeeping	6-17
Perkins Reimbursement & Assignment	6-23
Administrative Cost Allowance.....	6-25

Program Participation Agreement

34 CFR 675.8

FISAP application

34 CFR 673.3

Perkins PPA

34 CFR 674.8

- the Federal Capital Contribution (FCC) the school receives as its federal allocation for the program for each award year (explained later in this chapter);
- the school's matching share—the institution's capital contribution (ICC), discussed on the next page;
- payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the fund;
- payments the school receives from the federal government for cancellations (such as teacher cancellations) of Perkins Loans and National Direct Student Loans (see Chapter 4 of this volume);
- any other earnings on fund assets, including net interest earnings on funds deposited in an interest-bearing account (total interest minus bank charges incurred on the account); and
- proceeds of any short-term no-interest loans the school makes to the fund in anticipation of receipt of its FCC or of loan collections.

Federal Work-Study PPA Requirements

Under the Program Participation Agreement, schools participating in the Federal Work-Study (FWS) Program must:

- make FWS employment reasonably available, to the extent of available funds, to all eligible students;
- award FWS employment, to the maximum extent practicable, that will complement and reinforce each recipient's educational program or career goals;
- assure that FWS employment may be used to support programs for supportive services to students with disabilities; and
- inform all eligible students of the opportunity to perform community services and consult with local nonprofit, government, and community-based organizations to identify those opportunities.

FISAP

APPLICATION FOR FUNDS

To apply for and receive funds from the Department for one or more of the Campus-Based programs, a school must submit a FISAP for each award year. By the 1st of August each year, the Department makes available the next FISAP, which is due no later than the 1st of October of the same year. If October 1st falls on a weekend, the

Federal Work-Study PPA

34 CFR 675.8

deadline is moved back to the previous business day. The Department posts instructions for submitting the FISAP in a Dear Partner Letter at [<http://www.ifap.ed.gov>]. (See box FISAP on the Web, below) The information reported on the FISAP must be accurate and verifiable.

A school that has applied to participate in the Campus-Based programs for the first time should submit a FISAP by the deadline even if the school has not been certified to participate in the programs. The Department will calculate a funding level for the school and put the funding on “hold” status until the school has been approved to participate. See “Allocation of Funds” for more information.

FISAP ON THE WEB

Schools must submit the FISAP through the FISAP on the Web, available at [<http://www.cbfsip.ed.gov>]. A list of all Campus-Based submission deadlines can also be found there.

Schools may also make corrections to the 2005-2006 Fiscal Operations Report and 2007-2008 Application to Participate via the FISAP on the Web site.

For assistance submitting corrections for years prior to the 2002-2003 Fiscal Operations Report and 2004-2005 Application to Participate or for questions concerning the preparation of the FISAP, schools should contact the Campus-Based Call Center at 1-877-801-7168 or CBFOB@ED.GOV. Questions about prior-year data listed on a FISAP should be referred to a FISAP administrator at the Campus-Based Call Center.

ALLOCATION OF FUNDS

The Department allocates funds for the Campus-Based programs directly to schools each award year. The allocation (or authorization) for each program is the amount of funding the school is authorized to receive from the Department for an award year. The Department bases the allocation amount on statutory formulas and on the amount of funds appropriated by Congress for the program. A school will not, however, receive an allocation that is in excess of its request. Your school’s initial Perkins allocation (FCC) is based on the amount allocated for the base award year, 1999-2000.

Allocation Schedule

If your school submits the FISAP by the 1st of October, the Department provides your school with tentative allocation information in January of the following year and with final allocation information by the 1st of April. The Department posts notification of the availability and calculation methodology used for final award figures in a Dear Partner Letter at [<http://www.ifap.ed.gov>]. Schools obtain their

Allocation of funds

HEA 462(a)
34 CFR 673.4

Campus-Based Programs allocation formula

Dear Partner Letters CB-99-16 and
CB-03-02
HEA Sections 413D, 442, and 462

specific award amounts by visiting the Self Service section of the FISAP on the Web site.

Sometimes, the Department calculates a school's final allocations, but does not issue the final allocation by April 1st. We may withhold a school's final allocation if:

- the school lost its eligibility to participate in FSA programs;
- the school is a new applicant for the FSA programs and/or for Campus-Based programs and hasn't been approved yet; or
- we have not received the FISAP signature/certification form with the required original signature of the school's CEO.

When the reason(s) for holding the school's final allocation is/are resolved, we will release the school's final allocation.

If a school does not use its total allocation of funds for the Campus-Based programs, the school must release unexpended amounts to the Department. In June/July, the Department posts a Dear Partner Letter at [<http://www.ifap.ed.gov>] that requests schools to release any previous award year funds that they have not expended and offers schools the opportunity to request supplemental FWS funds for community service. The Reallocation Form for schools wishing to return funds or request supplemental FWS funds can be found in the Setup section of the FISAP on the Web site.

Reallocation

You must complete the Campus-Based Reallocation form, available online at the eCampus-Based website (www.cbfsap.ed.gov) if you have the following situation at your school: If you do not intend to spend your entire 2006-2007 allocation in any of the Campus-Based programs, or if you want to request supplemental 2007-2008 FWS funds to pay students in community service jobs **and** your school has:

- a) spent at least 5 percent of its total 2006-2007 FWS funds to compensate students employed as reading tutors of children or in family literacy activities as part of its community service activities; **and**
- b) has an FWS fair share shortfall as shown on line 28 of the school's 2007-2008 final funding worksheet, provided with your final allocation letter.

Without the information provided on the Campus-Based Reallocation Form, we would not be able to reallocate unexpended 2006-2007 campus-based funds as supplemental 2007-2008 allocations. For additional information, contact the Campus-Based Call Center at (877) 801-7168.

Reallocation DCL

CB-05-10

Releasing Unused Funds

If a school returns more than 10% of its allocated funds for a given award year under any one of the Campus-Based programs, the Department will reduce the school's allocation for the second succeeding award year by the dollar amount returned unless the Department waives this provision. For example, if the school returns more than 10% of its 2005-2006 allocation, its 2007-2008 allocation will be reduced by the dollar amount returned.

The Department may waive this provision for a specific school if it finds that enforcement would be contrary to the interests of the program. The Department considers enforcement to be contrary to the interest of the program only if the school returned more than 10% of its allocation due to circumstances that are beyond the school's control and are not expected to recur.

After schools release their unexpended allocations, the Department reallocates the funds to schools that have met the criteria for receiving a supplemental allocation. Criteria for distributing these funds for each program are established in accordance with the Higher Education Act and the Campus-Based program regulations.

For Perkins loans, if you return unexpended funds, the Department reallocates 80% of the returned funds in accordance with 462(i) of the HEA and reallocates 20% in a manner that best carries out the purposes of the Federal Perkins Loan Program. Unexpended FSEOG funds returned to the Department will be reallocated to an eligible school in a manner that best carries out the purposes of the FSEOG program.

Unexpended FWS funds returned to the Department will be reallocated to an eligible school that used at least 5% of its total FWS allocation to pay students employed as reading tutors of children or performing family literacy activities in family literacy projects in the preceding award year. A school must request the reallocated FWS funds and the school must have a fair-share shortfall to receive these funds. A school must use all the reallocated funds only to pay students employed in community service jobs.

Fiscal Operations Report

The school uses the Fiscal Operations Report portion of the FISAP to report its expenditures under the Campus-Based programs in the previous award year. (See box FISAP on the Web.)

The Department provides materials essential for the preparation and submission of the FISAP in a Dear Partner Letter posted in July each year at [<http://www.ifap.ed.gov>].

Reduction of Allocation

34 CFR 673.4(d)(3)

Requesting Waiver of Allocation Reduction

To request a waiver, a school must submit an explanation of the circumstances with its FISAP. The Department explains the process a school must use to request a waiver for the 2007-2008 award year in the FISAP Instruction Booklet.

TRANSFER OF CAMPUS-BASED FUNDS

Perkins Transfer

Your school may transfer up to a total of 25% of its total Federal Perkins Loan allocation (initial plus supplemental) for an award year to either or both the Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study (FWS) programs. The Department's permission is not required.

If your school is a work-college, your school may transfer up to the total Federal Perkins Loan allocation (initial plus supplemental) for an award year to the Work-Colleges Program (see Chapter 2 of this volume for details on the Work-Colleges Program).

Your school must match any Perkins funds transferred to FSEOG or FWS at the matching rate of that program, but the match doesn't have to be made until the transfer has occurred.

You must award transferred Perkins funds according to the requirements of the program to which they are transferred.

You must report any transfer of Perkins funds on the Fiscal Operations Report portion of the FISAP.

A school that transfers funds to the FWS, FSEOG, and/or Work-Colleges Programs must transfer any unexpended funds **back** to the Federal Perkins Loan Program at the end of the award year.

Federal Work-Study Transfer

Your school may transfer up to 25% of its total FWS allocation (initial and supplemental) to the FSEOG Program. The Department's permission is not required. (Your school's total FWS allocation does not include funds carried forward or carried back from other award years. See chart on next page.)

Your school must match any FWS funds transferred to FSEOG at the matching rate of the FSEOG Program, but the match doesn't have to be made until the transfer has occurred.

Transfer of Perkins funds

34 CFR 674.18(b)

Work-Colleges funds

A work-college may transfer up to 100 percent of its initial and supplemental Perkins Loan allocations to the Work-Colleges Program. Any unexpended funds must be transferred back to the Federal Perkins Loan Program at the end of the award year.

GAPS: Transferred Perkins Funds

Any Perkins funds transferred to FSEOG or FWS must be entered in GAPS as an expenditure against the Perkins program, not the program into which the funds were transferred and used.

Future allocations not affected by transfer

A school's future allocations for all programs are not affected by past transferring of funds between programs.

You must award transferred FWS funds according to the requirements of the FSEOG Program.

You must report any transfer of FWS funds on the Fiscal Operations Report portion of the FISAP.

A school that transfers FWS funds to the FSEOG Program must transfer any unexpended funds **back** to the FWS Program at the end of the award year.

Transfer of FWS funds to FSEOG cite

34 CFR 675.18(e)

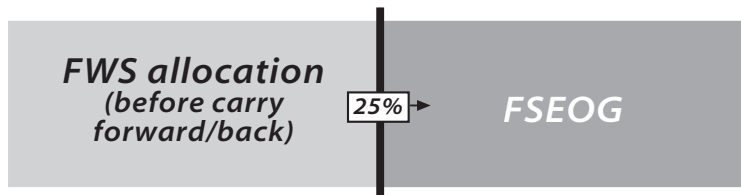
GAPS: Transferred FWS Funds

Any FWS funds transferred to FSEOG must be entered in GAPS as an expenditure against the FWS Program, not the FSEOG Program.

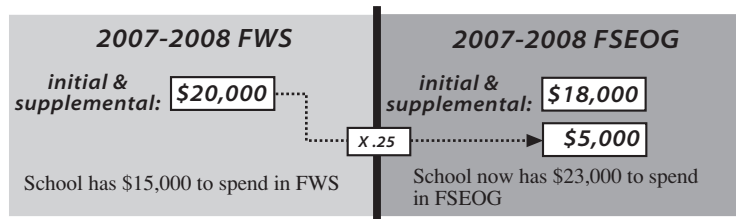
FSEOG Transfer Prohibited

The HEA prohibits the transfer of FSEOG funds to any other program. However, a school may transfer FWS and Perkins funds to the FSEOG program as covered under the headings Perkins Transfer and Federal Work-Study Transfer above.

Transfer from FWS to FSEOG



Example



GAPS: Funds Carried Forward/Back

Any FWS funds carried forward or carried back between award years must be entered in GAPS as an expenditure against the FWS authorization for the award year from which the funds were taken, not the authorization for the award year in which the funds were used. The same requirement holds for FSEOG funds.

FWS carry forward/carry back

34 CFR 675.18(b)

34 CFR 675.18(c)

FSEOG AND FWS CARRY FORWARD/CARRY BACK

Your school may spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) in the **following** award year (carry forward). Before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year.

Your school is also permitted to spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) for expenses incurred in the **previous** award year (carry back).

Your school must match FWS or FSEOG funds carried forward or carried back in the award year that they are spent. A school's future FWS or FSEOG program allocation is not affected by carrying forward or carrying back funds between award years.

You may "carry back" FWS funds for summer employment; that is, you may use any portion of your school's initial and supplemental FWS allocations for the current award year to pay student wages earned on or after May 1 of the previous award year but prior to the beginning of the current award year (July 1). This summer carry back authority is in addition to the authority to carry back 10% of the current year's FWS allocation for use during the previous award year.

Also, your school may spend any portion of its current award year's initial and supplemental FSEOG allocations to make FSEOG awards to students for payment periods that begin on or after May 1st of the prior award year but end prior to the start of the current award year (carry back for summer). This carry back authority for summer FSEOG awards is in addition to the authority to carry back 10% of the current award year's FSEOG allocation for use during the previous award year.

On the FISAP, you must report FWS or FSEOG funds that your school carries back and carries forward. For example, if a school carried forward 10% of its FWS 2006-2007 allocation to be spent in 2006-2007, the school must report this amount on the FISAP that is due no later than October 1st, 2007, in Part V of the Fiscal Operations Report for 2006-2007.

The official allocation letter for a specific award period is the school's authority to exercise these options. A school may not carry forward or carry back FWS funds to any award year in which there is no specific FWS allocation and the same requirement holds for FSEOG funds.

FISAP Form/Instructions/Due Date

Dear Colleague Letter CB 07-12

10 % Carry Back/Carry Forward for FWS and FSEOG



The same flexibility is available for FSEOG Funds

FWS Limitations on Use of Funds Carried Forward or Back

Schools are not permitted to add funds that are carried forward or back to the total FWS allocation for an award year when determining the maximum percentage of available funds that may be used in that award year for any of the following purposes (see next page):

- the transferring of FWS funds to FSEOG;
- providing the federal share of wages in private for-profit sector jobs; or
- the Job Location and Development (JLD) Program.

For example, for the 2007-2008 award year, a school may not add to the 2007-2008 total FWS allocation any FWS funds carried forward from 2006-2007 or carried back from 2007-2008 when determining the maximum percentage of available funds that may be used in 2007-2008 for the purposes listed above. The maximum amount usable for each of the three purposes listed in the previous paragraph is the appropriate percentage of a school's total 2006-2007 original FWS allocation plus any supplemental 2007-2008 FWS allocation.

FEDERAL SHARE LIMITATION

Federal Work-Study Federal Share

The federal share of FWS wages paid to a student may not exceed 75%, with the following exceptions:

- The federal share of FWS wages paid to a student working for a **private for-profit** organization may not exceed 50%; and
- The FWS regulations authorize a 100% federal share of FWS wages paid to a student who is
 - employed as a reading tutor for preschool-age children or elementary school children

Wages from federal agency

The portion of the FWS wages contributed as the institutional share by a federal off-campus agency is not considered part of the "federal share." Thus, a federal agency may provide the required share of student compensation normally paid by off-campus agencies plus any other employer costs that they agree to pay.

Federal shares cites

Federal share limitation

34 CFR 675.26(d)(1)

Private for-profit organizations

34 CFR 675.26(d)(3)

Reading tutor and family literacy projects

34 CFR 675.26(d)

Strengthening institutions

34 CFR 675.26(d)

90% federal share

34 CFR 675.26(d)(2)

Restrictions cite

34 CFR 675.26(b)

JLD cite

34 CFR 675.33(b)

Part 606 ▶
Developing Hispanic-Serving Institutions Program
Part 607 ▶
Strengthening Institutions Program
American Indian Tribally Controlled Colleges and Universities Program
Alaska Native and Native Hawaiian-Serving Institutions Program
Part 608 ▶
Strengthening Historically Black Colleges and Universities Program
Part 609 ▶
Strengthening Historically Black Graduate Institutions Program

- employed as a mathematics tutor for children in elementary school through ninth grade, or
- performing family literacy activities in a family literacy project that provides services to families with preschool age children or elementary school children.

The work performed by the student must be for the school itself, for a federal, state, or local public agency, or for a private nonprofit organization. A school is not required to ask the Department for a waiver of the FWS nonfederal share requirement to receive the 100% federal share authorization for an FWS student employed in one of these jobs. Instead, the school should use 100% federal dollars to pay such a student and then show on its FISAP that it did so. A discussion of employing FWS students as tutors and in family literacy projects is in Chapter 2 of this volume.

- The Department may authorize a federal share of 100% of FWS wages at schools designated as eligible schools under 34 CFR parts 606, 607, 608, or 609 (see sidebar). The work performed by the student must be for the school itself, for a federal, state, or local public agency, or for a private nonprofit organization. Your school is considered to have applied for a waiver of the nonfederal share requirement if your school is designated as an eligible school and your school submits a complete FISAP by the established deadline. Such schools will receive a letter from the Department indicating that they have been granted a waiver of the FWS nonfederal share requirement. (For more information, see *The Blue Book* on IFAP.)

If your school files a FISAP on behalf of two or more separately eligible school locations, but not all of these locations are eligible for a waiver of the nonfederal share requirement, you must file a separate FISAP for any locations that are not eligible for a waiver of the nonfederal share requirement. Only those locations that are eligible will receive a waiver of the nonfederal share requirement.

- The FWS regulations authorize a school to pay a federal share of FWS wages to a student in excess of the current 75% limit but not exceeding 90% under the following specific conditions:
 - The student is employed at a private nonprofit organization or a federal, state, or local public agency. (Employment at the school itself is not eligible.)
 - The school does not own, operate, or control the organization or agency. To satisfy this requirement, your school must keep a statement in the school's file, signed by both the agency and the school, stating that they have no such relationship.
 - The school selects the organization or agency on an individual, case-by-case basis. This requirement

is satisfied when the school selects the agency through its normal process of selecting potential employers.

- The organization or agency must be unable to pay the regular nonfederal share. To satisfy this requirement, the school must keep in its file a signed letter from an official of the agency stating that the agency cannot afford to pay the regular nonfederal share.
- The 90% federal share is limited to no more than 10% of the students paid under the FWS Program. For purposes of this calculation, the school must use the total number of FWS students paid during the current award year. The 10% limit on the number of students paid with the 90% federal share does not include students whose FWS wages have been exempted from the full nonfederal share requirement due to being employed as a reading tutor, mathematics tutor, or performing family literacy activities.

The federal share of FWS wages paid to a student may be lower than 75% if the employer chooses to contribute more than the minimum required nonfederal share. For example, if a school has a large demand for FWS jobs from its various departments, it may contribute more than the usual 25% to allow for additional employment.

The federal share may **not** be used to provide fringe benefits such as sick leave, vacation pay, or holiday pay, or employer's contributions to Social Security, workers' compensation, retirement, or any other welfare or insurance program. These restrictions on the federal share apply even when the Department authorizes a federal share of 100% of FWS wages.

The federal share of allowable costs in carrying out the JLD Program may not exceed 80% of such costs. (See Chapter 2 of this volume.)

Perkins Federal Share

The federal funds allocated to a school in an award year under the Federal Perkins Loan Program are called the Federal Capital Contribution (FCC). The FCC funds to be used for the Federal Perkins Loan Program must be deposited into the school's Perkins revolving fund. The FCC deposited into the school's Perkins revolving fund must not exceed 75% of the combined FCC and required nonfederal share. Unlike the FWS and FSEOG programs, the Department is not able to authorize a federal share of 100% for the FCC deposited into the school's Perkins revolving fund. It should be noted that when a school transfers new FCC to either the FWS or FSEOG programs, the FCC is not deposited into its Perkins revolving fund.

FSEOG Federal Share

The federal share of FSEOGs made by a school may not exceed 75% of the total FSEOGs. The school must contribute a nonfederal share (also called “institutional share”) of 25%. However, the Department may waive the nonfederal share requirement and may authorize for an award year a federal share of 100% to a school that is designated as an eligible school under 34 CFR parts 606, 607, or 608 (see chart p. 6-10).

Your school is considered to have applied for a waiver of the nonfederal share requirement if your school is designated as an eligible school and your school submits a complete FISAP by the established deadline. Such schools will receive a letter from the Department indicating that they have been granted a waiver of the nonfederal share requirement. (For more information, see *The Blue Book*, available on IFAP.)

NONFEDERAL SHARE

Federal Work-Study Nonfederal Share

The nonfederal share of a student’s FWS wages must be at least 25% each award year, except in the cases listed above. (See previous section.)

Your school may use any resource available to pay its share of FWS compensation except federal funds allocated under the FWS Program (or any other program funds where this use is prohibited). The school’s share may come from its own funds, from outside funds (such as from an off-campus agency), or from both. However, if a student is employed by a private, for-profit organization, that organization must provide the nonfederal share.

Your school may also pay the institutional share with noncash contributions. If the school’s noncash contribution is less than the remaining 25%, the school must make up the difference in cash.

If the Department grants an institutional share waiver to a school that is designated as an eligible school under 34 CFR parts 606, 607, 608, or 609 (see chart on p. 6-10), that school has the **option** of providing an institutional share and determining the amount of the share. However, the institutional share requirements for employment provided by a private for-profit organization (50% federal-share limitation) or for the administration of the JLD Program (80% federal-share limitation) are never waived.

If a school receives more money under an employment agreement with an off-campus agency than the sum of (1) required employer costs, (2) the school’s nonfederal share, and (3) any share of administrative costs the employer agreed to pay, the school must handle the excess in one of three ways:

Nonfederal share

34 CFR 675.27

- use it to reduce the federal share on a dollar-for-dollar basis;
- hold it in trust for off-campus employment during the next award year; or
- refund it to the off-campus employer.

Funds from programs sponsored by federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the nonfederal share, as long as the programs have the authority to pay student wages. A school should contact the appropriate federal agency to see if the program in question does have this authority.

Perkins Nonfederal Share

The nonfederal share required from the school's own funds for the Federal Perkins Loan Program is called the Institutional Capital Contribution (ICC). A school must deposit its ICC into the school's Perkins revolving fund either prior to or at the same time it deposits any FCC. Unlike the FWS and FSEOG programs, the Department is not able to grant a waiver of the ICC.

The required ICC must equal or exceed:

- One-third (33 1/3%) of the FCC, or
- One-quarter (25%) of the combined FCC and ICC.

For example, if a school receives and deposits into its Perkins revolving fund an FCC of \$3,000, it would be required to provide an ICC of at least \$1,000, for a combined amount of \$4,000. The FCC (\$3,000) x .3333 equals \$1,000. The combined FCC and ICC (\$4,000) x .25 equals \$1,000.

It should be noted that when a school transfers new FCC funds to either the FWS or FSEOG programs, the FCC is not deposited into its Perkins revolving fund and the school does not have to provide an ICC share. Instead, the school must provide a nonfederal share for those FCC funds at the level required by the program that it was transferred to and spent in by the school.

FSEOG Nonfederal Share

The nonfederal share of FSEOGs must be made from the school's own resources. These resources may include:

- institutional scholarships and grants;
- waivers of tuition or fees;
- state scholarships and grants; and
- funds from foundations or other charitable organizations.

The Department has determined that all state scholarships and grants, except for the Leveraging Educational Assistance Partnership (LEAP) and the Special Leveraging Educational Assistance Partnership (SLEAP) programs are eligible funds that may be used to meet

the nonfederal share requirement of FSEOGs. LEAP and SLEAP grants, for this purpose, are defined as the federal LEAP and SLEAP allocation plus the minimum required state matching amount. The remaining state grants are not considered LEAP or SLEAP grants, and therefore can be used for the match.

Dear Partner Letter CB-06-03, issued February 2006, provided a chart showing what percentage of each state's scholarships could be used to provide the nonfederal share of FSEOGs for the 2005-2006 award year. The Department computed the percentages in the chart on the basis of information furnished by the respective states regarding expected expenditures for state scholarships and grants for the 2005-2006 award year, and by using the 2005-2006 LEAP and SLEAP allocation data and required matching information. Each school can apply the appropriate state percentage to the state scholarships and grants its students receive to determine the total amount of state scholarships and grants that may be used to meet the FSEOG nonfederal share requirement.

Use of state scholarships and grants as the non-federal share of FSEOG

Dear Colleague Letter CB-06-03

State scholarship as nonfederal share component example

Dominic receives a grant of \$675 from a state with a percentage of 96.26. Jacob Broadcasting School multiplies 96.26% by \$675, resulting in \$650, which is the portion of the grant that may be used to meet the nonfederal share requirement for a \$2,600 FSEOG award (\$1,950 is the federal share of the FSEOG award).

As a variance from use of the percentages indicated in the chart, if a school has specific knowledge that a state scholarship or grant—irrespective of its name—is considered to be the required state matching portion of a LEAP or SLEAP grant, that scholarship or grant may not be used to meet the FSEOG nonfederal share. Also, if a school has documented knowledge that a state scholarship or grant is not comprised of LEAP or SLEAP monies (federal or state), 100% of the scholarship or grant may be used as the FSEOG nonfederal share.

The nonfederal share requirement of 25% (unless the school qualifies for a waiver) may be met by one of three methods. In the following discussion of these methods, you should note that for a student to meet the definition of an FSEOG recipient, some portion of the grant awarded the student must have come from the FSEOG federal dollars. Also, by the time the FSEOGs are disbursed (regardless of when in the award period the disbursements are made), the required match must have been accomplished; that is, the school's own resources must have been disbursed before or at the time the federal dollars are disbursed. However, it is important to note that outside resources (such as state grants, foundation, or other charitable organization funds) can be used to match FSEOGs even if the funds are received at a later date, provided that the school has written information about funds that the noninstitutional agency or organization is awarding to the student involved. The written information must be kept on file at the school.

The three methods a school may use to meet its nonfederal share follow:

1. Individual FSEOG recipient basis—the school provides its share to an individual FSEOG recipient together with the

federal share; that is, each student's total FSEOG would consist of 25% nonfederal resources and 75% federal dollars for the 2007-2008 award year.

2. **Aggregate basis**—the school ensures that the sum of all funds awarded to FSEOG recipients in the 2007-2008 award year comprises 75% FSEOG federal funds and 25% nonfederal resources. For example, if a school awards a total of \$60,000 to FSEOG recipients in 2006-2007, it has to ensure that \$45,000 comes from FSEOG federal funds and \$15,000 comes from nonfederal resources; if there are 100 FSEOG recipients, the entire \$15,000 nonfederal resource requirement can be met by awarding a total of \$15,000 in nonfederal resources to four FSEOG recipients. However, each FSEOG recipient must receive some FSEOG federal funds.
3. **Fund-specific basis**—the school establishes an FSEOG fund into which it deposits FSEOG federal funds and the required 25% nonfederal share. Awards to FSEOG recipients are then made from the fund.

USE OF FWS ALLOCATED FUNDS

An approved school may use part of its FWS allocation for the purpose of meeting the costs of the Work-Colleges Program discussed in Chapter 2.

Your school may use up to 25% of its FWS allocation and reallocation for an award year to pay the wages of FWS students employed by private for-profit organizations.

Community Service Jobs

There are two community service expenditure requirements that a school must meet. First, a school must use at least 7% of its FWS federal allocation for an award year to pay the federal share of wages to students employed in community service jobs for that year. Second, in meeting this 7% community service requirement, one or more of the school's FWS students must be employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

A school may request a waiver of either or both of these requirements by providing in writing detailed information to support its waiver request. The waiver request must be received by the deadline that is published annually in the Federal Register. The Department will approve a waiver only if it determines that the school has demonstrated that enforcing the requirements would cause a hardship for students at the school. The fact that it may be difficult for the school to comply with these requirements is not, in and of itself, a basis for granting a waiver.

The Department issues a letter annually on the FWS community service waiver process and deadline. To request a waiver for the

Allocation

The term allocation always refers to the original initial and supplemental allocation your school receives and never refers to an amount remaining after your school carries forward or carries back funds.

7% Citation

34 CFR 675.18(g)

Waiver request statement

Dear Partner Letter CB-05-05, dated April 2005

2007-2008 award year, a school must submit its waiver request and any supporting information to the Department by May 31, 2007. The waiver request must be signed by an appropriate school official, and above the signature the official must include this statement: "I certify that the information I provided in this waiver request is true and accurate to the best of my knowledge. I understand that the information is subject to audit and program review by the U.S. Department of Education." If a school official has any questions regarding the FWS community service expenditure requirements or waiver procedures, he or she may contact FSA's Campus-Based Call Center at 1-877-801-7168.

The Department has not specified the circumstances that would allow a school to receive a waiver of the community service requirements in order to allow flexibility for consideration of all factors that may be valid reasons for a waiver. The Department in the past has

COMMUNITY SERVICE APPROVED WAIVER EXAMPLES

Case Study #1 - Small FWS allocation

The school had a very small FWS allocation. The supporting information submitted by the school noted that 7% of the school's allocation only provided enough funds for a student to work for a short period of time. Therefore, the school was unable to find placement for a student in community service.

Case Study #2 - Rural area

The school was in a rural area that was located far away from the types of organizations that would normally provide community service jobs. The school provided information that showed that its students lacked the means of transportation to get to the town where the community service jobs were located. In a similar waiver request in which transportation did exist, a school provided documentation that showed that the transportation costs were extremely high for the students.

Case Study #3 - Specialized program

The school offered only a single program of specialized study that required its students to participate in extensive curriculum and classroom workloads. The school provided information that demonstrated that this specialized educational program prevented the students from performing community service jobs at the time those work opportunities were available.

These examples are not the only circumstances that may result in approval of a waiver request, however, you must always submit a justification of your request.

approved a limited number of waivers of the community service expenditure requirements for schools that have demonstrated that enforcing these requirements would have caused a hardship for their students. (See examples of waiver requests approved by the Department in the above box.) These examples are not the only circumstances that may result in approval of a waiver request.

FWS community service expenditures for the 2006-2007 award year are reported on the FISAP that is due no later than October 1st, 2007. When a school receives reallocated FWS funds, the minimum amount of FWS federal funds the school must expend on community service jobs is the greater of: 7% of its total FWS federal allocation for an award year; or 100% of the amount of its reallocated FWS federal funds.

CAMPUS-BASED RECORDKEEPING

A school must follow the recordkeeping requirements in the General Provisions (discussed in *Volume 2*), and those specific to the Campus-Based programs.

A school must keep financial records that reflect all Campus-Based program transactions and must keep all records supporting the school's application for Campus-Based funds. This documentation includes the applications and records of all students who applied for Campus-Based assistance for a specific award year and were included on the school's FISAP for that award year. The school must also retain applications and records of students who applied for, but did not receive aid, either because the school had no more funds to award or because the school determined that the student did not need funds. The school must keep general ledger control accounts and related accounts that identify each program transaction and must separate those transactions from all other institutional financial activity. Fiscal records must be reconciled at least monthly.

The Campus-Based records a school must maintain include but are not limited to:

- the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine a student's eligibility for Campus-Based program funds;
- application data submitted to the Department or the school on behalf of the student;
- documentation of the payment of any return of Title IV funds or overpayment to the FSA program fund or the Department;
- documentation of the amount of a Perkins Loan, FSEOG or FWS award, its payment period, and the calculations used to determine the amount of the loan, grant, or FWS award;
- documentation of each FSEOG or Perkins Loan disburse-

ment and the date and amount of each payment of FWS wages;

- documentation of the school’s calculation of any refunds or overpayments due to, or on behalf of, the student and the amount, date, and basis of the school’s calculation;
- information collected at initial and exit loan counseling required by Perkins Loan regulations; and
- reports and forms used by the school in its participation in a Campus-Based program, and any records needed to verify data that appear in those reports and forms.

Perkins Recordkeeping

Perkins Loan records a school must maintain include, but are not limited to:

- documentation of each student’s eligibility for a Perkins Loan;
- documentation of the amount of a Perkins Loan, its payment period, and the calculations used to determine the amount of the loan;
- documentation of the date and amount of each disbursement of Perkins Loan funds;
- information collected at initial and exit loan counseling required by Perkins Loan regulations.

For each Perkins Loan borrower, a school must also maintain a repayment history that shows:

- the date and amount of each repayment during the life of the loan;
- the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges;
- the date, nature, and result of each contact with the borrower (or endorser for loans made prior to July 23, 1992) in the collection of an overdue loan; and
- copies of all correspondence to or from the borrower (and endorser for loans made prior to July 23, 1992), except for bills, routine overdue notices, and routine form letters (demand letters, notices of intent to accelerate, and the like are not considered to be routine form letters).

When the borrower has fully repaid the Perkins Loan, your school is required to either mark the original note “paid in full,” have it certified by an official of the school, and return it to the borrower or to

Record retention cites

FISAP

34 CFR 668.24(e)(1)(i)

Perkins loans

34 CFR 674.19(e)

Records under question

34 CFR 668.24(e)(3)

notify the borrower in writing that the loan is paid in full. The school must keep a copy of the note for at least three years after the date the loan was paid in full.

The school must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid in full or until the original note and schedule are needed to enforce loan collection. Only authorized personnel may have access to these records. If a promissory note was signed electronically, you must store it electronically and ensure that it can be retrieved in a coherent format.

If the original promissory note is released for the purpose of enforcing repayment, the school must keep a certified true copy. To qualify as a certified true copy, a photocopy (front and back) of the original promissory note must bear the following certification statement signed by the appropriate school official.

The following is a sample certification statement that you may adopt:

Certification Statement

“CERTIFIED TRUE COPY: I declare under penalty of perjury that the foregoing is a true and correct copy of the original Promissory Note.

Signature: _____

Title: _____

Date: _____”

The Department recommends that the school maintain a certified copy of the signed promissory note as well as a record of the full amount owed in its records beyond the three-year record retention requirement.

FWS Recordkeeping

For schools administering FWS, you must also follow the procedures established in 34 CFR 675.19 for documenting a student’s FWS work, earnings, and payroll transactions. You must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize FWS payments and disburse FWS funds to students. If you use a fiscal agent for FWS funds, that agent may perform only ministerial acts.

Payroll records

In school records, schools must distinguish expenditures for FWS compensation from other institutional expenditures. You should enter FWS compensation on a separate voucher or, if listed on the general

FWS Recordkeeping

34 CFR 675.19(b)

Fiscal procedures and records

34 CFR 676.19(b)

payroll voucher, you should group FWS compensation separately from other compensation. If payrolls are handled on automatic data processing equipment, you should identify FWS with a special code.

You must establish and maintain program and fiscal records that are reconciled at least monthly. The records must include:

- a payroll voucher containing sufficient information to support all payroll disbursements;
- a noncash contribution record to document any payment of the school's share of the student's earnings in the form of services and equipment; and
- a certification by the student's supervisor, an official of the school (or off-campus agency) that each student has worked and earned the amount being paid. Your school may use an electronic certification process described below. The school may still continue to have the FWS student's supervisor sign a paper certification. If the students are paid on an hourly basis, the certification must include or be supported by a time record showing the hours each student worked in clock time sequence, or the total hours worked per day.

Electronic certification

As noted above, a school may use an electronic certification by an FWS student's supervisor that the student has worked and earned the amount being paid. This electronic certification enables a school to implement an electronic payroll system for its FWS students.

A school that uses an electronic certification must adopt reasonable safeguards against possible fraud and abuse. The school should provide a secure electronic certification through an electronic payroll system that includes:

- password protection;
- password changes at set intervals;
- access revocation for unsuccessful log-ins;
- user identification and entry-point tracking;
- random audit surveys with supervisors; and
- security tests of the code access.

Payroll vouchers

Payroll vouchers must support all payroll disbursements and should provide space for the following information:

- the school's name and address;
- the starting and ending dates of the payroll period;
- the student's name;
- an identification of the student's job;

- the number of hours worked during the pay period;
- the hourly rate of pay for an undergraduate student;
- the hourly rate of pay or salary for a graduate student;
- the student's gross earnings;
- any compensation withheld for federal, state, county, or city taxes, and other deductions;
- any noncash payments;
- the student's net earnings;
- a check number, duplicate receipt, or other payment identification; and
- any overtime earnings (a student may be paid overtime with FWS funds).

Job descriptions

Each FWS position should have a job description that includes the following:

- the name and address of the student's employer (department, public agency, nonprofit organization);
- the purpose of the student's job;
- the student's duties and responsibilities;
- the job qualifications;
- the job's wage rate or range;
- the length of the student's employment (beginning and ending dates); and
- the name of the student's supervisor.

The job description has several purposes:

- It clearly defines whether the job qualifies under the FWS Program.
- It provides the information needed to explain the position to a student and to help him or her select the type of employment most closely related to his or her educational or career objectives.
- It helps the financial aid administrator, the student, and the supervisor determine the number of hours of work required at the specified wage rate to meet a student's financial need.
- It establishes a written record, for both student and employer, of the job's duties and responsibilities so that there will be no misunderstanding.

If a student is employed with an agency or organization that provides community services, the school should, as with any other FWS position, have a job description that includes the duties and the responsibilities. Schools should use the job description to verify that

the job meets the definition of community services in the FWS regulations (see Chapter 2). In addition, for students performing reading tutoring or family literacy activities, the job description should support those jobs.

FSEOG Recordkeeping

In addition to following the fiscal procedures and records requirements mentioned above and in *Volume 2*, a school must meet the following requirements, which are included in the FSEOG regulations:

- A school must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize FSEOG payments and disburse FSEOG funds to students.
- A school must establish and maintain program and fiscal records that are reconciled at least monthly.
- Each year a school must submit a FISAP and other information the Department requires. The information must be accurate and must be provided on the form and at the time specified by the Department.

Record Retention

Your school must make its records readily available for review by the Department or its authorized representative at an institutional location the Department or its representative designates. Generally, a school must keep records relating to the school's administration of a Campus-Based program for three years after the end of an award year for which the aid was awarded and disbursed under that program.

Records readily available for review

34 CFR 668.24(d)

There are some exceptions to this requirement:

- The school must retain the FISAP containing reported expenditures and any records necessary to support the data contained in the FISAP, including “income grid information,” for three years after the end of the award year in which the FISAP is submitted.
- The school must keep repayment records for Perkins Loans, including records relating to cancellation and deferment requests for at least three years from the date a loan is repaid, cancelled, or assigned to the Department. If a loan is assigned to the Department due to total and permanent disability, the school must retain any loan-related documentation that it does not submit until the Department approves

a final discharge or the loan has been paid in full (Dear Colleague Letter CB-02-08).

- Records questioned in an audit or program review must be kept until the questions are resolved or until the end of the retention period applicable to the records, whichever is later.

Record Formats

A school must keep its Campus-Based program records in one of the following formats:

- Original signed promissory notes and signed repayment schedules for Perkins Loans, National Direct Student Loans, or National Defense Student Loans must be kept in a locked fireproof container until the loan is repaid or until the school needs the originals to enforce collection of the loan. If a loan is assigned to the Department, the school must send the original promissory note or a certified copy of the note, as well as a copy of the original deferment or cancellation form(s). The school may not send computer-generated form(s) or microform(s).
- A school may keep other required records in hard copy or in microform, computer file, optical disk, CD-ROM, or other media formats, but all record information must be retrievable in a coherent hard copy format or in other media formats acceptable to the Department except that (1) a student's SAR or ISIR used to determine eligibility for FSA program funds must be kept in the format in which the school received it, unless the school keeps the SAR in an imaged media format; and (2) any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be kept in its original hard copy or in an imaged media format.
- Any imaged media format used to keep required records must be capable of reproducing an accurate, legible, and complete copy of the original document, and, when printed, this copy must be approximately the same size as the original.

PERKINS REIMBURSEMENT & ASSIGNMENT

The Department may require your school to reimburse its Perkins Loan Fund for any outstanding balance on an overpayment or a defaulted loan for which your school failed to record or retain the promissory note, record disbursements, or exercise due diligence. Your school must also reimburse the Perkins Loan Fund for the amount of the administrative cost allowance claimed on any reimbursed portion of a loan.

You do not have to reimburse the Perkins Loan Fund if your

Format of records

34 CFR 674.19(e)(4)

34 CFR 668.24(d)

Perkins assignment

34 CFR 674.50

Dear Colleague Letter CB-03-12

Dear Colleague Letter CB-06-23

Assignment address

A school should mail assignments to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, TX 75403-4316

school can recover the defaulted loan or show the Department that the borrower would not have paid the loan even if your school properly exercised due diligence. Also, you should not reimburse the Perkins Loan Fund for loans on which your school obtains a judgment.

Your school must assign to FSA Collections all its Perkins and NDSL loans if:

- your school is closing;
- your school is withdrawing from the Federal Perkins Loan Program; or
- the Department is terminating your school's participation in the program.

For more detail on Perkins Assignment procedure and requirements, see p. 6-119 in this Volume.

Perkins Liquidation

There are seven basic steps to liquidating a school's Perkins Loan portfolio:

- 1) Notifying the Department of Education of your school's intent to liquidate its Perkins Loan portfolio;
- 2) Assigning all of your outstanding Perkins Loans to the Department;
- 3) Continuing National Student Loan Data System reporting until all your outstanding Perkins Loans have been either fully retired, accepted for assignment, or purchased by your school;
- 4) Returning the federal share of your school's Perkins Loan revolving fund to the Department;
- 5) Filing the final Fiscal Operation Report;
- 6) Having an independent compliance audit conducted of all Perkins Loan funds your school has received; and
- 7) Reconciling the FISAP information reported by your school with Department data.

After the Department completes the reconciliation process and determines that your school has satisfied the liquidation requirements, we will send a letter of approval to your school.

Perkins loan liquidation procedures

Dear Partner Letter CB-00-05

ADMINISTRATIVE COST ALLOWANCE (ACA)

A school participating in the Campus-Based programs is entitled to an ACA for an award year if it advances funds under the Perkins Loan Program, provides employment under the FWS Program, or awards grants under the FSEOG Program to students in an award year. The ACA may be used to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The ACA can also be used for service fees that banks charge for maintaining accounts. Computer costs associated with Perkins Loan billing may also be paid from this allowance. Schools may use the allowance to help pay the costs of administering not only the Campus-Based programs but the Federal Pell Grant Program as well. Administrative costs also cover expenses for carrying out the student consumer information services requirements.

The amount of the ACA is calculated as a percentage of the school's expenditures for students for an award year under the Campus-Based programs (see table below).

Administrative Cost Allowance (ACA) Calculation

5% of the first \$2,750,000 of a school's expenditures to students under the Campus-Based programs	+	
4% of expenditures to students greater than \$2,750,000 but less than \$5,500,000 under the Campus-Based programs	+	
3% of expenditures to students greater than \$5,500,000 under the Campus-Based programs		

When a school calculates its ACA for the 2007-2008 award year, the school is to include in its calculation the full amount of its FSEOG awards—both the 75% federal share and the required 25% nonfederal share. However, a school that chooses to provide more than a 25% institutional share to FSEOG recipients may not include an FSEOG institutional share in excess of 25% in its FISAP or in the calculation of its ACA.

If a school makes no match after receiving a waiver of its required institutional share for the FSEOG Program or the FWS Program, that school's ACA may be calculated only on the full federal portion of its awards for those programs.

The school takes the ACA out of the annual authorizations the school receives for the FSEOG and FWS programs and from the available cash on hand in its Perkins Loan fund. It is not a separate allowance sent to the school. A school may draw its allowance from any combination of Campus-Based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program. However, a school may not draw any part of its allow-

Administrative cost allowance

34 CFR 673.7

FSA Assessment: Administrative Cost Allowance

<http://ifap.ed.gov/qadocs/FiscalManagement/Activity8FM.doc>

Using ACA to Train FWS Tutor

A school may use a portion of its administrative cost allowance (ACA) to cover the costs of training an FWS tutor. A school may also use a portion of its ACA to cover expenses that are related to employing a student as a tutor with a local school district and that the school may not incur with another organization. If, for example, a school district requires all employees to undergo a background check and be fingerprinted at a cost of \$40 per employee, the postsecondary school may use a portion of its ACA to cover this cost. The FWS Program does not provide for any additional funds beyond the ACA for technical assistance and training of tutors.

ance from a Campus-Based program unless the school has disbursed funds to students from that program during the award year. If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

Your school may use up to 10% of the ACA, as calculated above, as attributable to its expenditures under the FWS Program to pay the administrative costs of conducting its program of community service. These costs may include:

- developing mechanisms to assure the academic quality of a student's experience;
- assuring student access to educational resources, expertise, and supervision necessary to achieve community service objectives; and
- collaborating with public and private nonprofit agencies and programs assisted under the National and Community Service Act of 1990 in the planning, development, and administration of these programs.

Some schools do not claim an ACA so that all the funds can be used for student awards. This option is the school's decision.

CERTIFICATIONS A SCHOOL MUST SUBMIT TO THE DEPARTMENT

The Department has incorporated the following form into Part I of the FISAP: Form 80-0013, Certifications Regarding Lobbying; Debarment, Suspension, and Other Responsibility Matters; and Drug-Free Workplace Requirements. The Standard Form LLL, Disclosure of Lobbying Activities, should only be completed if a school expends funds for lobbying activities. The form can be printed from FISAP on the Web. To participate in the Campus-Based programs each award year, a school's chief executive officer must complete, sign, date, and submit to the Department the above certification forms with the school's completed FISAP by the established deadline. A detailed discussion of the certification requirements is in *Volume 2*.

Operating a Federal Work-Study Program

This chapter covers issues specific to operating Federal Work-Study, Job Location and Development, and Work-College programs. For student eligibility criteria relating to campus-based programs, including FWS, refer to Volume 1. For information on selecting campus-based recipients, and calculating and packaging campus-based awards, see Volume 3. For information on disbursing campus-based aid, see Volume 4.

ASSIGNING FWS JOBS

Federal Work-Study (FWS) jobs may be on or off-campus. Off-campus FWS jobs with federal, state, or local public agencies or private nonprofit organizations must be in the public interest. Off-campus FWS jobs with private, for-profit organizations must be academically relevant to the maximum extent possible. Also, your school **must** use at least 7% of its FWS allocation to employ students in community service jobs with at least one FWS student employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

A school must make FWS jobs reasonably available to all eligible students at the school. To the maximum extent practicable, a school must provide FWS jobs that complement and reinforce each recipient's educational program or career goals.

In assigning an FWS job, a school must consider the student's financial need, the number of hours per week the student can work, the period of employment, the anticipated wage rate, and the amount of other assistance available to the student. While there is no minimum or maximum award, the amount for each student should be determined based on these factors.

EMPLOYMENT CONDITIONS AND LIMITATIONS

FWS employment must be governed by employment conditions, including pay, that are appropriate and reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable federal, state, or local law.

FWS employers must pay students at least the federal minimum wage in effect at the time of employment (\$5.15 as of September 1997). The Small Business Job Protection Act of 1996 established a subminimum, or training wage that is lower than the minimum wage.

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7% cite
34 CFR 675.18(g)

However, it is not permissible to pay the subminimum wage rate to students in FWS jobs.

Also, as noted earlier, the pay must meet the requirements of the state or local law. This means that when the state or local law requires a higher minimum wage, the school must pay the FWS student that higher wage. However, if the state or local law allows a wage that is less than the Federal minimum wage, the FWS student must be paid at least the Federal minimum wage.

A student's need places a limit on the total FWS earnings permissible but has no bearing on his or her wage rate. It is not acceptable to base the wage rate on need or on any other factor not related to the student's skills or job description. If a student's skill level depends on his or her academic advancement, the school may pay a student on that basis. For example, a junior or third-year lab student may be paid a higher rate than a sophomore or second-year lab student. However, in most cases, students performing jobs comparable to those of other employees should be paid comparable wages, whether the other employees are students at different class levels or are regular employees.

FWS employment must not displace employees (including those on strike) or impair existing service contracts. Also, if the school has an employment agreement with an organization in the private sector, the organization's employees must not be replaced with FWS students. Replacement is interpreted as displacement.

FWS positions must not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction. In determining whether any FWS employment will violate this restriction, a school should consider the purpose of the part of the facility in which the work will take place and the nature of the work to be performed. If the part of the facility in which the student will work is used for religious worship or sectarian instruction, the work cannot involve construction, operation, or maintenance responsibilities. If that part of the facility is not being used for religious worship or sectarian instruction, the school should make sure that any work the student will perform meets general employment conditions and that other limitations are not violated.

Neither a school nor an outside employer that has an agreement with the school to hire FWS students may solicit, accept, or permit the soliciting of any fee, commission, contribution, or gift as a condition for a student's FWS employment. However, a student may pay union dues to an employer if they are a condition of employment and if the employer's non-FWS employees must also pay dues.

The Fair Labor Standards Act of 1938, as amended, prohibits employers (including schools) from accepting voluntary services from any paid employee. Any student employed under FWS must be paid for all hours worked.

FWS limitations on religious jobs

675.20(c)(2)(iv)

A student may earn academic credit as well as compensation for FWS jobs. Such jobs include but are not limited to internships, practica, assistantships (e.g., research or teaching assistantships), and service learning programs. However, a student employed in an FWS job and receiving academic credit for that job may not be:

- paid less than he or she would be if no academic credit were given;
- paid for time while receiving instruction in a classroom, laboratory, or other academic setting; and
- paid unless the employer would normally pay a non-FWS person for the same job.

FWS earnings for the next period of enrollment

Many FWS students must pay the bulk of their education costs in the beginning of each period of enrollment before they have had a chance to earn FWS wages. To provide the opportunity to earn wages before incurring education costs, the Department allows students to earn FWS wages to cover expenses for the next period of enrollment offered by the school. The student must be planning to enroll for that next period and must demonstrate financial need for it. The next period of enrollment is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year. A student may earn FWS wages toward the next period of enrollment during any period, including during a period of non-attendance (see below) or a period of enrollment made up, in whole or in part, of mini-sessions.

Periods of non-attendance for FWS students

A student may be employed under FWS during a period of nonattendance, such as a summer term, an equivalent vacation period, the full-time work period of a cooperative education program, or an unattended fall or spring semester. The student must be planning to enroll for the next period of enrollment and must have demonstrated financial need for that period. The student's net earnings (earnings minus taxes and job-related costs) during this period of nonattendance must be used to cover expenses associated with her financial need for the next period of enrollment, which is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year.

A student who was not attending school in the summer but who was eligible for summer FWS employment because he anticipated being enrolled in the fall may fail to then attend school. When a student fails to attend for the next period of enrollment, the school that employed him must be able to demonstrate that he was eligible for employment and that the school had reason to believe the student intended to study at that school in the next period of enrollment. At a minimum, the school that employed the student must keep a written record in its files showing that he had accepted the school's offer of admittance for the next period of enrollment.

A student in an eligible program of study abroad may be employed during a period of non-attendance preceding the study abroad if she will be continuously enrolled in her American school while abroad and if her study is part of the American school's own program. In such a case, a student may be employed in a qualified position in the United States, at the American school's additional location in a foreign country, or at a U.S. government facility abroad.

FWS Mini-sessions

If a school combines a series of mini-sessions or modules into one term (e.g., three summer mini-sessions into one summer term), an FWS student attending any of the mini-sessions may earn FWS wages at any time throughout that term. The school may apply those earnings toward the student's financial need for the mini-session(s) attended or the next period of enrollment. The school must base the student's financial need for attending the summer term on the period of time for which the student is actually enrolled in the mini-sessions.

The amount of FWS wages a student may earn at any point in the term does not depend on whether the student is then enrolled in a mini-session. The school or student may choose how to distribute the hours worked throughout the summer term.

COMMUNITY SERVICE JOBS

Schools must make students aware of FWS community service opportunities available in the local community. The program participation agreement also requires your school to work with local nonprofit, governmental, and community-based organizations to identify community service opportunities, including those that assist supportive services to students with disabilities, and inform Federal Work-Study (FWS) students of these opportunities (see Chapter 1). Schools should promote those opportunities to students by notifying each student individually or via general means such as campus websites or other publication sites.

Your school must use at least 7% of its FWS allocation to employ students in community service jobs (see Chapter 1). At least one of the FWS students your school employs to fulfill this requirement must work:

- performing family literacy activities in a family literacy project that provides services to families with preschool age children or elementary school children; or
- as a reading tutor for children who are preschool age or are in elementary school.

Employing an FWS student in these positions serves the needs of the community and gives the FWS student an enriching and rewarding experience. To further encourage schools to employ FWS students in

Community service

Dear Colleague Letter CB-97-12,
Dear Colleague Letter CB-94-4,
Dear Colleague Letter CB-07-08

these positions and as mathematics tutors, FWS regulations authorize a 100% federal share of FWS wages (see Chapter 1).

How are Community Services Defined?

Community services are defined as services that are identified by an institution of higher education through formal or informal consultation with local nonprofit, government, and community-based organizations, as designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to their needs. These services include:

- such fields as health care, child care, literacy training, education (including tutorial services), welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention and control, recreation, rural development, and community improvement;
- work in service opportunities or youth corps as defined in Section 101 of the National and Community Service Act of 1990, and service in the agencies, institutions, and activities designated in Section 124(a) of that act;
- support services for students with disabilities (including students with disabilities who are enrolled at the school*); and
- activities in which an FWS student serves as a mentor for such purposes as tutoring (see “Employing reading and mathematics tutors,” in this chapter), supporting educational and recreational activities, and counseling, including career counseling.

To be considered employed in a community service job for FWS purposes, an FWS student does not have to provide a “direct” service. The student must provide services that are designed to improve the quality of life for community residents or to solve particular problems related to those residents’ needs. A school may use its discretion to determine what jobs provide service to the community.

See Appendix B at the end of this chapter for a model need assessment form that can be used with community service agencies.

The Department does not intend to indicate that certain activities are more important than others or that only jobs that have direct contact with community members are acceptable. For example, an FWS student working for the Meals on Wheels Program is performing community service when conducting research on where the program is needed, when recruiting or coordinating volunteers to distribute the meals, or when preparing meals for the program despite having no contact with the community residents. Such indirect services are very important in meeting community needs.

*This is the only statutory exception to the requirement that community service be open and accessible to the community.

Definition of community services

34 CFR 675.2(b)

The definition of community services includes the terms “service opportunity” and “youth corps program.” Section 101 of the National and Community Service Act of 1990 defines the terms as follows:

Service opportunity. A program or project, including a service learning program or project, that enables students or out-of-school youth to perform meaningful and constructive service in agencies, institutions, and situations where the application of human talent and dedication may help to meet human, educational, linguistic, and environmental community needs, especially those relating to poverty.

Youth corps program. A program, such as a conservation corps or youth service program, that offers full-time, productive work (to be financed through stipends) with visible community benefits in a natural resource or human service setting and that gives participants a mix of work experience, basic and life skills, education, training, and support services.

There is no restriction as to whether these jobs must be on or off-campus. However, a university or college is not considered a community for the purposes of the FWS Program community service requirements. On-campus jobs can meet the definition of community services, provided that the services are designed to improve the quality of life for community residents, or to solve problems related to their needs, and that they meet the regulatory and statutory provisions pertaining to the applicable FWS Program employment limitations and conditions.

Private, for-profit organizations do not qualify as employers for community service under the FWS Program.

In contacting potential community service agencies, schools should place a priority on jobs that will meet the human, educational, environmental, and public safety needs of low-income individuals. The Department has determined that at this time there is no need to burden schools with a formal definition of low-income individual for purposes of providing community service under the FWS Program. There is no statutory requirement that a particular number or proportion of the individuals must be low-income persons. Some examples of jobs that provide services to persons in the community who may not necessarily be low-income individuals are jobs that provide supportive services to individuals with disabilities or that prevent or control crime in the community.

LIST OF AGENCIES, INSTITUTIONS, AND ACTIVITIES INCLUDED IN THE DEFINITION OF COMMUNITY SERVICES

The definition of “community services” includes service in agencies, institutions, and activities that are designated in Section 124(a) of the National and Community Service Act of 1990:

1. Conservation corps programs that focus on:
 - conservation, rehabilitation, and the improvement of wildlife habitat, rangelands, parks, and recreation areas;
 - urban and rural revitalization, historical and site preservation, and reforestation of both urban and rural areas;
 - fish culture, wildlife habitat maintenance and improvement, and other fishery assistance;
 - road and trail maintenance and improvement;
 - erosion, flood, drought, and storm damage assistance and controls;
 - stream, lake, waterfront harbor, and port improvement;
 - wetlands protection and pollution control;

- insect, disease, rodent, and fire prevention and control;
 - the improvement of abandoned railroad beds and rights-of-way;
 - energy conservation projects, renewable resource enhancement, and recovery of biomass;
 - reclamation and improvement of strip-mined land;
 - forestry, nursery, and cultural operations; and
 - making public facilities accessible to individuals with disabilities.
2. Human services corps programs that include service in:
- state, local, and regional government agencies;
 - nursing homes, hospices, senior centers, hospitals, local libraries, parks, recreational facilities, child and adult daycare centers, programs serving individuals with disabilities, and schools;
 - law enforcement agencies and penal and probation systems;
 - private nonprofit organizations that primarily focus on social service such as community action agencies;
 - activities that focus on the rehabilitation or improvement of public facilities, neighborhood improvements, literacy training that benefits educationally disadvantaged individuals, weatherization of and basic repairs to low-income housing including housing occupied by older adults, energy conservation (including solar energy techniques), removal of architectural barriers to access by individuals with disabilities to public facilities, activities that focus on drug and alcohol abuse education, prevention and treatment, and conservation, maintenance, or restoration of natural resources on publicly held lands; and
 - any other nonpartisan civic activities and services that the commission determines to be of a substantial social benefit in meeting unmet human, educational, or environmental needs (particularly needs related to poverty) or in the community where volunteer service is to be performed; or
3. Programs that encompass the focus and services described in both paragraphs (1) and (2).

ESTABLISHING FWS COMMUNITY SERVICE JOBS

Step #1: Identify Potential Jobs and Employers

Identify jobs

- Brainstorm types of jobs that would meet the community service requirement. What jobs do your students currently hold, on campus or off-campus, that meet the community service definition?
- Communicate the community service requirements to your school's student employment office.

Identify employers

- Which local community service organizations might be interested in employing your FWS students?
- Contact local nonprofit, government, and community-based organizations to assess their needs and determine what interest exists for employing FWS students.

Talk to colleagues

- Talk to colleagues at other schools to get ideas on implementing, locating, and developing the community service jobs.

Step #2: Research Your Students' Interest in Community Service

- Research your FWS students' degrees or certificate programs, interests, and skills to determine which recipients might find community service jobs appealing.

Step #3: Promote Community Service Jobs

- Devise a plan to market community services under the FWS Program to eligible student employers and the community;
- obtain a listing of potential community service agencies;
- ask to be a presenter at various organizations' meetings;
- engage in networking activities;
- hold and attend job fairs;
- host a financial aid office "open house;" and
- visit local agencies.

What is a Family Literacy Project? How are Family Literacy activities defined?

Research shows that children whose parents work with them on literacy skills during early childhood have a better chance of reading well and independently. The family literacy concept recognizes the family as an institution for education and learning and the role of parents as their children’s first teachers.

A family literacy program integrates four components. It provides:

- literacy or pre-literacy education to children,
- literacy training for parents or other caregivers of children in the program,
- a means of equipping parents or other caregivers with the skills needed to partner with their children in learning, and
- literacy activities between parents or other caregivers and their children.

This definition is consistent with the Even Start and Head Start definitions of family literacy programs.

The Department does not define “family literacy activities” for purposes of the community service expenditure requirement or the waiver of the institutional share requirement. The Department gives schools reasonable flexibility to determine the job description and duties for an FWS student performing family literacy activities.

Family literacy activities are not limited to just tutoring positions. For example, family literacy activities may include training tutors, performing administrative tasks such as coordinating the tutors, or working as an instructional aide who prepares the materials for the project. However, it would not be reasonable to include janitorial or building repair jobs as family literacy activities.

WORK ON CAMPUS

A student may be employed on campus at any type of postsecondary institution, including at a proprietary school. A school, other than a proprietary school, may employ a student to work for the school itself, **including** certain services for which the school may contract, such as food service, cleaning, maintenance, and security. Work for the school’s contractors is acceptable as long as the contract specifies the number of students to be employed and specifies that the school selects the students and determines their pay rates. A proprietary school also may employ a student to work for the school itself with certain restrictions (discussed below under “Work for Proprietary School”).

At any type of postsecondary institution, including proprietary schools, an FWS student may be assigned to assist a professor if the student is doing work the school would normally support under its

Family literacy project definition

Dear Colleague Letter CB-98-6, dated May 1998

Reading tutor/family literacy project

34 CFR 675.18(g)

On-campus employment

34 CFR 675.21

own employment program. Having a student serve as a research assistant to a professor is appropriate, as long as the work is in line with the professor's official duties and is considered work for the school itself.

EMPLOYMENT IN A FOREIGN COUNTRY

Normally, employment in a foreign country is not permissible under the law. However, a school with an additional location in a foreign country may employ students under FWS if the branch has its own facilities, administrative staff, and faculty. Students may also be employed by a U.S. government facility such as an embassy or a military base. A student may not be employed for a nonprofit organization in a foreign country.

WORK FOR PROPRIETARY SCHOOL

A proprietary school may employ a student to work for the school itself but only in jobs that meet certain criteria:

1. If the jobs are in community service, they may be either on or off-campus. Students employed by a proprietary school and performing community service do not have to furnish student services that are directly related to their education.
2. If the jobs are **not** in community service, they must be on campus and must:
 - provide student services that are directly related to the FWS student's training or education;
 - not involve soliciting potential students to enroll at the proprietary school; and
 - to the maximum extent possible, complement and reinforce the FWS student's educational program or vocational goals.

Student Services

At a proprietary school, FWS students may not work in non-community service jobs that are not student services. In general, jobs that primarily benefit the proprietary school are not student services. For example, jobs in facility maintenance or cleaning are never student services. See the sidebar for a list of examples of jobs that do not provide student services. Again, this list is not exhaustive. Jobs in the admissions or recruitment area of a school are not acceptable student services because such jobs are considered to involve soliciting potential students to enroll at the school.

The non-community service job must provide student services that are directly related to the FWS student's training or education. This does not mean that the FWS student must be enrolled in an academic program for that field. Instead, it means that the FWS student must be receiving work experiences that are directly applicable to the skills

Proprietary school employment

34 CFR 675.21(b)

Student services definition cite

34 CFR 675.2(b)

needed for his or her career path. For example, an FWS student enrolled in an air-conditioning repair program wants to work in the school's library. Although the student is not pursuing a career as a librarian, the student would still be able to work in the library. The job is directly related to his or her training because he or she is learning customer service and basic office functions that are applicable to work in an air-conditioning repair shop or dealership. Similarly, a job in another student service office such as financial aid, registrar, and job placement would also be considered directly related to the FWS student's training.

Student services are services that are offered to students. Students are persons enrolled or accepted for enrollment at the school. An FWS student who provides services only to the school's former students is not providing student services because the services are not offered to currently enrolled students. However, an FWS student who provides services to both current students and former students *is* providing student services, because the services *are* offered to currently enrolled students. For example, an FWS student provides job placement assistance to current students and alumni of the school. The FWS student is considered to be providing student services because his or her services are offered to current students, as well as alumni.

Student services do not have to be direct services or involve personal interaction with other students. Services are considered student services if the services provide a benefit either directly or indirectly to students. For example, an FWS student may work in assisting an instructor in the lab or in other work related to the instructor's official academic duties at the school. See the sidebar for an expanded list of examples of jobs that provide student services. The list is not exhaustive. The fact that a job has some operational functions does not preclude it from being an acceptable FWS job as long as it furnishes student services.

Student services may include:

- jobs in financial aid
- jobs in a library
- peer guidance counseling
- job placement
- assisting an instructor with curriculum-related activities (e.g., teaching assistant)
- security
- social and health services
- tutoring

Student services never include:

- facility maintenance
- cleaning
- purchasing
- public relations

WORK OFF-CAMPUS

Work Off-campus for Nonprofit or Government Agency

If a student is employed off-campus by a federal, state, or local public agency or by a private nonprofit organization, providing jobs related to the student's academic or vocational goals is encouraged, but not required. However, the work performed **must be in the public interest**. Work in the public interest is defined as work performed for the welfare of the nation or community, rather than work performed for a particular interest or group.

Work is not "in the public interest" if:

- it primarily benefits the members of an organization that has membership limits, such as a credit union, a fraternal or religious order, or a cooperative;

- it involves any partisan or nonpartisan political activity or is associated with a faction in an election for public or party office;
- it is for an elected official unless the official is responsible for the **regular** administration of federal, state, or local government;
- it is work as a political aide for any elected official;
- it takes into account a student's political support or party affiliation in hiring him or her; or
- it involves lobbying on the federal, state, or local level.

A private nonprofit organization is one in which no part of the net earnings of the agency benefits any private shareholder or individual. An organization must be incorporated as nonprofit under federal or state law. A school classified as a tax-exempt organization by either the federal or state Internal Revenue Service meets this requirement. Examples of private nonprofit organizations generally include hospitals, daycare centers, halfway houses, crisis centers, and summer camps.

Nonprofit agencies do not qualify automatically as community service employers for purposes of the FWS Program because the work performed must meet the definition of community services in the regulations. A list of programs or activities that are recognized as appropriate work in community services under the FWS Program is included at the end of this section. In addition, work off-campus for a nonprofit agency must be in the public interest.

However, in deciding whether work is in the public interest, schools must consider the nature of the work as well as that of the organization. For example, a private nonprofit civic club may employ a student if the student's work is for the club's community drive to aid handicapped children. If the student's work is confined to the internal interests of the club, such as a campaign for membership, the work would benefit a particular group and would not be in the public interest. As another example, a student may work for a private nonprofit membership organization, such as a golf club or swimming pool, if the general public may use the organization's facilities on the same basis as its members. If only members may use the facilities, FWS employment is not in the public interest.

Political activity, whether partisan or nonpartisan, does not qualify as work in the public interest. For example, a student is not considered to be working in the public interest if working at voting polls—even if he or she only checks off the names of those who came to vote and does not pass out flyers supporting a particular candidate. Also, a student is not considered to be working in the public interest if working to support an independent candidate. Another example of nonpartisan political activity is work for a city political debate.

Working for an elected official as a political aide also does not qualify as work in the public interest. For example, a student could not represent a member of Congress on a committee. However, a

student could be assigned to the staff of a standing committee of a legislative body or could work on a special committee, as long as the student would be selected on a nonpartisan basis and the work performed would be nonpartisan.

Under certain circumstances, work for an elected official responsible for the **regular administration** of federal, state, or local government may be considered to be in the public interest. “Regular administration” means the official is directly responsible for administering a particular function. Such a person would not create, abolish, or fund any programs, but would run them. Working for a sheriff would be acceptable, as would working for an elected judge (because he or she has direct responsibility for the judicial system). As stated above, any **political** activity would not be acceptable—raising funds for the official’s reelection, for example. An FWS position that involves lobbying at the federal, state, or local level is not work in the public interest. FWS students are prohibited from working for the Department of Education due to the potential appearance of conflict of interest.

Work Off-campus for Private For-Profit Companies

Schools also may enter into agreements with private for-profit companies to provide off-campus jobs for students; however, these jobs must be academically relevant, to the maximum extent practicable, to the student’s program of study. (A student studying for a business administration degree could work in a bank handling customer transactions, for example.) Private for-profit organizations do not qualify as employers for community service under the FWS Program.

Private for-profit organizations may not hire FWS employees to replace regular employees.

Chapter 1 describes further limitations on the use of FWS funds to pay students employed at private for-profit organizations.

OFF-CAMPUS AGREEMENTS

If your school would like an off-campus organization to employ FWS students, your school must enter into a written agreement—a contract—with the off-campus organization. A written agreement is required with the off-campus organization even if your school is considered the employer of the FWS student. The school must make sure the off-campus organization is a reliable agency with professional direction and staff and that the work to be performed is consistent with the purpose of the FWS Program. (See Appendix A at the end of this chapter for a model off-campus agreement. The model need not be followed exactly but serves as a guide.)

The agreement should specify what share of student compensation and other costs will be paid by the off-campus organization. For-profit organizations **must** pay the nonfederal share of student earnings. Any off-campus organization **may** pay:

Work for Private for-profits

34 CFR 675.23

Off-campus agreements

34 CFR 675.20(b)

- the nonfederal share of student earnings;
- required employer costs, such as the employer's share of Social Security or workers' compensation; and
- the school's administrative costs not already paid from its administrative cost allowance (ACA).

The agreement sets forth the FWS work conditions and establishes whether the school or the off-campus organization will be the employer for such purposes as hiring, firing, and paying the student. The employer is generally considered to be the entity that will control and direct the work of the FWS students—supervising them at the work site, regulating their hours of work, and generally ensuring that they perform their duties properly. However, the school is ultimately responsible for making sure that payment for work performed is properly documented and that each student's work is properly supervised.

The agreement should define whether the off-campus organization will assume payroll responsibility and bill the school for the federal share of the students' wages, or whether the school will pay the students and bill the off-campus organization for its contribution. The school must make up any payments the off-campus organization does not make. It is the school's responsibility to ensure that FWS payments are properly documented, even if the off-campus organization does the payroll. To fulfill that responsibility, the school must keep copies of time sheets and payroll vouchers and keep evidence that the students were actually paid (usually copies of the canceled checks or receipts signed by the students). Payroll records are discussed in detail later in this chapter.

The school is also responsible for ensuring that each student's work is properly supervised. School officials should periodically visit each off-campus organization with which they have an off-campus agreement to determine whether students are doing appropriate work and whether the terms of the agreement are being fulfilled.

The agreement must state whether the school or off-campus organization is liable for any on-the-job injuries to the student. The employer is not automatically liable. Federal FWS funds cannot be used to pay an injured student's hospital expenses.

In determining whether to continue an off-campus agreement, many schools have found it helpful to require that students submit a formal evaluation of their work experience at the end of the assignment. The school may also use the evaluation to help off-campus agencies improve their work programs.

Staff members of the off-campus organization must become acquainted with a school's financial aid and student employment programs to better understand the school's educational objectives. The school must supply the off-campus organization with this information.

EMPLOYING FWS STUDENTS AS TUTORS

Many schools employ FWS students as reading or mathematics tutors. This type of employment allows students to help children develop reading or mathematics skills necessary for their education and future employment.

There is no limit on the amount of funds a school can spend from its FWS allocation to pay FWS reading or mathematics tutors.

When employing students as reading tutors, schools must, to the maximum extent possible, give placement priority to schools that are participating in a reading reform project that is (1) designed to train teachers how to teach reading on the basis of scientific research on reading; and (2) is funded under the Elementary and Secondary Education Act of 1965. The school must further ensure that reading tutors receive training from the employing school in the instructional practices used by the school.

For more information, see Frequently Asked Questions (FAQs) on the next page.

Reading reform cite

34 CFR 675.18(g)(3)

Reading and math tutors

Dear Colleague Letter CB-97-12, dated July 1999

Dear Partner Letter CB-99-12, dated July 1997

EMPLOYING FWS STUDENT AS TUTORS: FAQs

What are the requirements for a “reading tutor” or “math tutor?”

The Department does not define “tutor” for the FWS Program. This gives schools flexibility in determining the job description and duties of a tutor. For example, a reading tutor could be an FWS student who reads to a group of preschoolers in a public library.

An FWS student employed as a tutor does not have to meet certain statutory (for reading tutors) or regulatory (for reading and mathematics tutors) educational standards or qualifications for the school to receive an institutional-share waiver. However, an FWS reading or math tutor must have adequate reading or math skills, as appropriate, and the Department strongly recommends that the tutors be well trained before they tutor.

The Department does not require background checks of FWS tutors. However, some state and local jurisdictions may require such checks. The requirements will vary according to the agency or organization involved.

What is a preschool age child?

A preschool age child is a child from infancy to the age at which his or her state provides elementary education.

What is the definition of an elementary school?

The definition of an elementary school varies from state to state. Because the Department does not wish to interfere with a state’s determination of what constitutes children who are in elementary school, we will not provide guidance on the maximum grade level for elementary school for purposes of the institutional-share waiver for tutoring.

What setting must the tutoring take place in?

Tutoring may be one-on-one or in a group. Tutoring sessions can take place in a school setting or another location, such as a public library or community center. Tutoring sessions can be held during regular school hours, after school, on weekends, or in the summer.

Can FWS students tutor children in parochial schools?

An FWS student can tutor a child in a parochial school under certain conditions:

- The parochial school must be classified as a private, nonprofit school by the Internal Revenue Service or a state taxing body;
- The work may not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction; and
- The FWS tutor may not use religious material to tutor the child.

EMPLOYING FWS STUDENT AS TUTORS: FAQs (cont'd)

Should tutors be trained?

The Department strongly recommends that the tutors be well trained before they tutor. When an FWS student receives training from a specialist or expert for sufficient duration and intensity, he or she is more likely to be successful with the child he or she is tutoring. Tutor training should emphasize the importance of the tutor's communication with the regular classroom teacher to maximize effectiveness. The amount and type of training will often vary, depending on the needs of the child who is being tutored and the subject being studied. (See Chapter 1 for information on using the administrative cost allowance to pay for the cost of training tutors.)

Can students be paid while in training?

Under limited circumstances, an FWS tutor can receive FWS wages while he or she is being trained, and these wages can qualify for a waiver of the institutional share. This training period must be only for a reasonable and limited length of time. The Department would not consider a training period of an academic term to be reasonable. The Department would consider a reasonable training period to be one that occurs before the student begins tutoring and that does not exceed approximately 20 hours. A school may not pay an FWS student to take an academic course the school developed to provide classroom training on tutoring children. An FWS student may take such a course as long as he or she is not paid for taking the course (34 CFR 675.18(h)). See Chapter 4 for more information.

Can students be paid during preparation and evaluation activities?

The preparation time and evaluation time worked by an FWS tutor qualify for a 100% federal share as long as the time spent for this purpose is reasonable. For example, the Department would consider attending evaluation and preparation meetings once a week for approximately one hour to be reasonable. The Department wants to give some flexibility because of the value of evaluation and preparation time. However, the goal is to spend funds for FWS students to interact with the children in family literacy programs, not for other activities.

Will a tutoring job always satisfy the community service requirement?

An FWS tutor job might qualify for a waiver of the institutional share (100% federal share) but not qualify as part of the 7% community service requirement. If, for example, a postsecondary school employs FWS students to tutor young children in its daycare center and the center is not open and accessible to the community, the job would qualify for the waiver, but would not qualify as part of the 7% community service requirement.

EMPLOYING FWS STUDENT AS TUTORS: FAQs (cont'd)

What if the FWS student is training tutors, performing related administrative tasks, or works another FWS job?

The wages of an FWS student who is training tutors or who is performing administrative tasks related to supporting other people who are actually providing the reading or mathematics tutoring do not qualify for a federal share of up to 100%; rather, an institutional share is required.

Remember that it is the FWS reading or mathematics tutor job, not the student working in the job, that qualifies for the institutional-share waiver. Thus, an FWS student who is working another FWS job in addition to the tutor job can be paid with 100% federal funds only for the time he or she is working as a tutor, not for time spent on the other job. If, for example, an FWS student spends only half of his or her time working as a reading tutor (including preparation and evaluation time) and the other half on non-tutoring tasks, the student may be paid 100% federal funds only for half the time and the other half must be paid with a maximum of 75% federal funds and a minimum of 25% nonfederal funds.

How can my school start placing FWS students as tutors?

Your school may construct its own reading tutor program or join existing community programs.

You may use the Job Location and Development (JLD) Program to locate or develop jobs for FWS students as tutors of children. However, you may not use JLD funds exclusively for this purpose because you would be in violation of the JLD statutory requirement to expand off-campus jobs for currently enrolled students who want jobs regardless of their financial need.

JOB LOCATION AND DEVELOPMENT PROGRAM

JLD purpose cite

34 CFR 675.31

The Job Location and Development (JLD) Program is one of the FWS Programs. An institution is allowed to use part of the federal funds it receives under the FWS Program to establish or expand a JLD Program.

The JLD Program locates and develops off-campus job opportunities for students who are currently enrolled in eligible institutions of higher education and who want jobs regardless of financial need. This means that jobs may be located and developed under the JLD Program for FWS and non-FWS eligible students.

Under the JLD Program, your school must locate and develop off-campus jobs that are suitable to the scheduling and other needs of the employed student and must, to the maximum extent practicable, complement and reinforce the educational program or vocational goal of the student.

JLD jobs may be part time or full time, for either a for-profit or nonprofit employer.

The JLD Program encourages students to participate in community service activities. Your school must inform all eligible students of the opportunity to perform community services and must develop and make available information about community service opportunities. The JLD Program uses the same definition of community services that the FWS Program employs. However, the JLD Program does not have a specific minimum community service requirement, as does the FWS Program.

JLD Program Participation

A school that participates in the FWS Program is also eligible to participate in the JLD Program. A school that has an executed Program Participation Agreement (PPA) for the FWS Program may participate in the JLD Program without any prior contact with the Department and without any revision to its PPA. Under the PPA, the school agrees to administer the JLD Program according to the appropriate statutory and regulatory provisions.

If the Department terminates or suspends a school's eligibility to participate in the FWS Program, that action also applies to the school's JLD Program.

Student Eligibility

Any student employed in a job developed under the JLD Program must be currently enrolled at the school placing him or her in a job. A school may place in JLD jobs both students who do not meet FWS student eligibility criteria and those who do meet those criteria. However, using JLD funds to find jobs only for FWS students would not satisfy the program purpose of expanding off-campus jobs for students who want jobs regardless of financial need.

Maximum federal funds for JLD Programs cite

34 CFR 675.32

Use of FWS Allocation for JLD Program

When establishing or expanding a program to locate and develop off-campus jobs, including community service jobs, a school may use up to the lesser of the following two amounts:

- 10% of its FWS allocation and reallocation; or
- \$50,000.

Use of JLD funds cite

34 CFR 675.35(d)(2)

Use of JLD Program Funds

Your school may use federal JLD funds to pay for the cost of establishing and administering the JLD Program. You may not use JLD funds to:

- pay students whose jobs were located and developed through the JLD Program;
- locate and develop jobs at your school or other eligible schools;
- place students upon graduation; and
- displace employees or impair existing service contracts.

A school is expected to generate total student wages exceeding the total amount of the federal funds spent under JLD.

Federal and institutional shares

34 CFR 675.33(b)

34 CFR 675.33(c)

Federal Share Limitation

You may use federal FWS funds to pay up to 80% of the allowable costs (listed below). Your school must provide the remaining 20% of allowable costs either in cash or in services. This requirement, unlike the institutional-share requirement for FWS earnings, cannot be waived.

The institution's 20% share may be either (1) 20% of each allowable cost, or (2) varying percentages of allowable costs, as long as its total expenditures of institutional funds and/or provision of services equals at least 20% of the total allowable costs for the JLD Program.

You must maintain records that indicate the amount and sources of your school's matching share. Procedures and records requirements for JLD are the same as those for all campus-based programs.

Allowable Program Costs

Allowable costs of carrying out the JLD Program include:

- staff salaries (and fringe benefits, if they are the same as those paid to other institutional employees in comparable positions and are not paid to a student employed through the FWS Program);
- travel expenses related to JLD activities;
- printing and mailing costs for brochures about the JLD Program;

Allowable costs cite

34 CFR 675.33(a)

- JLD telephone charges, including installation of a separate line for off-campus employers;
- JLD costs for supplies, equipment, and furniture;
- newspaper or other types of advertising that inform potential employers of the services JLD offers; and
- JLD workshops for students and employers.

Costs that are not allowable are costs related to purchasing, constructing, or altering the facilities that house a JLD project. Indirect administrative costs also are not allowable. One example of an indirect administrative cost is a portion of the salary of someone who is not directly involved in the program, such as the JLD director's supervisor. Other examples of indirect administrative costs are lighting, heating, or custodial costs incurred as part of the normal operations of the facility in which the JLD Program is administered, such as the financial aid or placement offices.

Students as Staff in the JLD Program office

The prohibition against using JLD funds to locate and develop jobs at any school **does not** mean that your school is also prohibited from employing FWS and non-FWS students as staff in the JLD Program office. Your school may employ FWS and non-FWS students as staff in the JLD Program office as long as you do not use JLD funds to locate and develop these jobs. For example, your school could use the FWS Program to employ an FWS student as a staff member in the JLD Program office.

If your school places an FWS student as staff in the JLD Program office, there are some important points to note. The statute and the FWS regulations prohibit the use of any funds allocated under the FWS Program from being used to pay the institutional share of FWS compensation to its students. Hence, your school may not use federal JLD funds to pay the institutional share of FWS wages earned by an FWS student working as staff in the JLD Program office. Instead, you must use your school's funds to pay the institutional share of these wages.

JLD Reporting on the FISAP

If your school participates in the JLD Program during an award year, you must provide information about its JLD activities on the *Fiscal Operations Report and Application to Participate* (FISAP). You must report the total JLD expenditures, federal expenditures for JLD, institutional expenditures for JLD, number of students for whom jobs were located or developed, and total earnings for those students.

Your school **may not** include student staff jobs in the JLD Office on the FISAP in the JLD section for reporting the count of students and the earnings of students for whom jobs were located or developed through the JLD Program. However, if your school used its own funds to pay the institutional share of wages for student staff jobs, you may count those funds in meeting the minimum 20% institutional-share requirement for the JLD Program.

Multi-Institutional JLD Programs

Your school may enter a written agreement with other eligible schools for those schools to establish and to operate a JLD Program for its students. The agreement must designate the administrator of the program and must specify the terms, conditions, and performance standards of the program. Each school that is part of the agreement retains responsibility for properly disbursing and accounting for the federal funds it contributes under the agreement.

Multi-institutional programs cite

34 CFR 675.34

For example, each school must show that its own students have earned wages that exceed the amount of federal funds the school contributed to locate and develop those jobs. This fiscal information must be reported on each school's FISAP.

If your school uses federal funds to contract with another school, suitable performance standards must be part of that contract. Performance standards should reflect each school's philosophy, policies, and goals for the JLD Program. You may not develop performance standards, conditions, or terms that are inconsistent with the statute or regulations. In all cases, the performance standards should be clearly understandable, because they will be included in the formal written agreement that each party must observe as part of its responsibility within the particular arrangement.

WORK-COLLEGES PROGRAM

The Higher Education Amendments of 1992 authorized the Work-Colleges Program. Schools that satisfy the definition of "work-college" may apply to the U.S. Department of Education to participate in the program. A work-college may transfer funds from its allocation for the FWS Program and/or Federal Perkins Loan Program to fund the school's Work-Colleges Program.

Application to participate in the Work-Colleges Program

DCL CB-07-02

The Work-Colleges Program recognizes, encourages, and promotes the use of comprehensive work-learning programs as a valuable educational approach when used as an integral part of the school's educational program and as a part of a financial plan that decreases reliance on grants and loans. The program also encourages students to participate in community service activities.

Purpose of Work-Colleges Program cite

34 CFR 675.43

Definition of Work-College cite

34 CFR 675.41

The term "work-college" is defined as an eligible institution that:

- is a public or private nonprofit school with a commitment to community service;
- has operated a **comprehensive work-learning program** for at least two years;
- provides students participating in the comprehensive work-learning program with the opportunity to contribute to their education and to the welfare of the community as a whole;

- requires all students who reside on campus to participate in a comprehensive work-learning program; and
- requires providing services as an integral part of the school's educational program and as part of the school's educational philosophy.

A "comprehensive student work-learning program" is defined as a student work/service program that:

- is an integral and stated part of the institution's educational philosophy and program;
- requires participation of all resident students for enrollment, participation, and graduation;
- includes learning objectives, evaluation, and a record of work performance as part of the student's college record;
- provides programmatic leadership by college personnel at levels comparable to traditional academic programs;
- recognizes the educational role of work-learning supervisors; and
- includes consequences for nonperformance or failure in the work-learning program similar to the consequences for failure in the regular academic program.

Comprehensive student work-learning program definition cites

HEA Section 448
34 CFR 675.41(b)

Allowable Costs

The Higher Education Amendments of 1998 provided for additional flexibility for work-colleges in the use of funds. Allocated program funds may be used to:

- support the educational costs of students through self-help provided under the work-learning program within the limits of their demonstrated financial need;
- promote the work-learning-service experience as a tool of education and community service;
- carry out FWS and JLD program activities;
- administer, develop, and assess comprehensive work-learning programs;
- coordinate and carry out joint projects and activities to promote work-service learning; and
- conduct a comprehensive longitudinal study of academic progress and academic and career outcomes.

Additional requirements for the Work-Colleges Program are found in 34 CFR 675, Subpart C.

Volume 6 Appendices

Appendix A: Model Off-Campus
Agreement

Appendix B: Need Assessment for
FWS Community Service Program

Model Off-Campus Agreement

APPENDIX

a

The paragraphs below are suggested as models for the development of a written agreement between a school and a Federal, State, or local public agency or a private nonprofit organization that employs students who are attending that school and who are participating in the Federal Work-Study (FWS) Program. Institutions and agencies or organizations may devise additional or substitute paragraphs as long as they are not inconsistent with the statute or regulations.

This agreement is entered into between _____, hereinafter known as the “Institution,” and _____, hereinafter known as the “Organization,” a (Federal, State, or local public agency), (private nonprofit organization), (strike one), for the purpose of providing work to students eligible for the Federal Work-Study Program [FWS].

Schedules to be attached to this agreement from time to time must be signed by an authorized official of the institution and the organization and must set forth—

- 1 brief descriptions of the work to be performed by students under this agreement;
- 2 the total number of students to be employed;
- 3 the hourly rates of pay; and
- 4 the average number of hours per week each student will be used.

These schedules will also state the total length of time the project is expected to run, the total percent, if any, of student compensation that the organization will pay to the institution, and the total percent, if any, of the cost of employer’s payroll contribution to be borne by the organization. The institution will inform the organization of the maximum number of hours per week a student may work.

Students will be made available to the organization by the institution to perform specific work assignments. Students may be removed from work on a particular assignment or from the organization by the institution, either on its own initiative or at the request of the organization. The organization agrees that no student will be denied work or subjected to different treatment under this agreement on the grounds of race, color, national origin, or sex. It further agrees that it will comply with the provisions of the Civil Rights Act of 1964 (Pub. L. 88-352; 78 Stat. 252) and Title IX of the Education Amendments of 1972 (Pub. L. 92-318) and the Regulations of the Department of Education which implement those Acts. Two examples of Off-Campus Agreements are included to provide additional guidance.

(Where appropriate any of the following three paragraphs or other provisions may be included.)

- 1 Transportation for students to and from their work assignments will be provided by the organization at its own expense and in a manner acceptable to the institution.
- 2 Transportation for students to and from their work assignments will be provided by the institution at its own expense.
- 3 Transportation for students to and from their work assignments will not be provided by either the institution or the organization.

(Whether the institution or the organization will be considered the employer of the students covered under the agreement depends upon the specific arrangement as to the type of supervision exercised by the organization. It is advisable to include some provision to indicate the intent of the parties as to who is considered the employer. As appropriate, one of the following two paragraphs may be included.¹⁾)

- 1 The institution is considered the employer for purposes of this agreement. It has the ultimate right to control and direct the services of the students for the organization. It also has the responsibility to determine whether the students meet the eligibility requirements for employment under the Federal Work-Study Program, to assign students to work for the organization, and to determine that the students do in fact perform their work. The organization's right is limited to direction of the details and means by which the result is to be accomplished.
- 2 The organization is considered the employer for purposes of this agreement. It has the right to control and direct the services of the students, not only as to the result to be accomplished, but also as to the means by which the result is to be accomplished. The institution is limited to determining whether the students meet the eligibility requirements for employment under the Federal Work-Study Program, to assigning students to work for the organization, and to determining that the students do perform their work in fact.

(Wording of the following nature may be included, as appropriate, to locate responsibility for payroll disbursements and payment of employers' payroll contributions.)

Compensation of students for work performed on a project under this agreement will be disbursed—and all payments due as an employer's contribution under State or local workers' compensation laws, under Federal or State social security laws, or under other applicable laws, will be made—by the (organization) (institution) (strike one).

(Where appropriate any of the following paragraphs may be included.)

- 1 At times agreed upon in writing, the organization will pay to the institution an amount calculated to cover the organization's share of the compensation of students employed under this agreement.
- 2 In addition to the payment specified in paragraph (1) above, at times agreed upon in writing, the organization will pay, by way of reimbursement to the institution, or in advance, an amount equal to any and all payments required to be made by the institution under State or local workers' compensation laws, or under Federal or State social security laws, or under any other applicable laws, on account of students participating in projects under this agreement.
- 3 At times agreed upon in writing, the institution will pay to the organization an amount calculated to cover the Federal share of the compensation of students employed under this agreement and paid by the organization. Under this arrangement the organization will furnish to the institution for each payroll period the following records for review and retention:
 - a Time reports indicating the total hours worked each week in clock time sequence and containing the supervisor's certification as to the accuracy of the hours reported;

1. Although the following paragraphs attempt to fix the identity of the employer, they will not necessarily be determinative if the actual facts indicate otherwise. Additional wording that specifies the employer's responsibility in case of injury on the job may also be advisable, since federal funds are not available to pay for hospital expenses or claims in case of injury on the job. In this connection it may be of interest that one or more insurance firms in at least one state have in the past been willing to write a workers' compensation insurance policy which covers a student's injury on the job, regardless of whether it is the institution or the organization that is ultimately determined to have been the student's employer when he or she was injured.

- b A payroll form identifying the period of work, the name of each student, each student's hourly wage rate, the number of hours each student worked, each student's gross pay, all deductions and net earnings, and the total Federal share applicable to each payroll;² and
- c Documentary evidence that students received payment for their work, such as photographic copies of canceled checks.

2. These forms, when accepted, must be countersigned by the institution as to hours worked as well as to the accuracy of the total Federal share which is to be reimbursed to the organization or agency.

Need Assessment for FWS Community Service Program



Agency Name: _____

Date: _____

Contact Name: _____

Phone: _____

Address: _____

1. _____ Non-Profit _____ For Profit

2. Agency Mission Statement and Description of Clients Served:

3. Agency Funding Sources (check all that apply):

_____ Federal

_____ State

_____ County/City

_____ United Way

_____ Other (explain)

4. Agency's Fiscal Year: _____ to _____

5. Agency's Staffing (number of positions):

____ Full-time paid staff

____ Part-time paid staff

____ Student employees

____ Volunteers

6. How many student jobs may be available at your agency during:

Summer 2006 _____

2006-2007 Academic Year _____

Summer 2007 _____

7. For each student job expected to be available as indicated in #6, provide the following information, attaching a separate sheet for each position.

Job Title

Rate or Range of Pay per Hour

Begin and End Dates

Work Schedule-Days and Hours

Total Hours/Week

Description of Duties

Qualifications and Experience (indicate preferred or required)

8. Has your agency hired students through the Federal Work-Study Program in the past?

____ YES ____ NO

If YES:

Number of students: _____

Dates employed: _____

Average length employed: _____

9. Additional Comments:

Making Perkins Loans

The Federal Perkins Loan Program includes Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). (No new Defense Loans were made after July 1, 1972, but a few are still in repayment.) Perkins Loans and NDSLs are low-interest (currently 5%), long-term loans made through school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education. For Perkins disbursement rules, see Volume 4.

MAKING A PERKINS LOAN

A Perkins Loan (or NDSL) is made when the borrower has signed the Perkins Master Promissory Note (MPN) and the school makes the first disbursement of loan funds under that promissory note for that award year. The student is required to sign the MPN only once. Additional Perkins Loans may be disbursed to a student for up to 10 years after the date the MPN is signed. Although the borrower is only required to sign the MPN once, a school may choose to require a borrower to sign a new MPN for each award year. A student may also make a written request to sign a separate MPN for each award year.

After a student files a FAFSA and the Department determines an official Expected Family Contribution for the student, the school must award financial aid based on the student's loan eligibility and the maximum loan amounts for each loan program. For a complete explanation of awarding Perkins funds, see *Volume 3, Chapter 5, Awarding Campus-Based Aid*.

LOAN TYPES AND MAXIMUMS

A loan made to a new borrower under the Federal Perkins Loan Program is a Perkins Loan. (New borrowers should have no outstanding balance on a Defense Loan or NDSL.) If a borrower has an outstanding balance on a Defense Loan or NDSL when the new loan is obtained, the new loan is an NDSL. Loans made from July 1, 1972 through June 30, 1987 were NDSLs. Loans made before July 1, 1972 were Defense Loans.

The maximum amount an eligible student may borrow is \$4,000 per award year for a student who has not successfully completed a program of undergraduate education or \$6,000 per award year for a graduate or professional student.

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Annual maximum loan:

Undergraduate: \$4,000
Graduate: \$6,000

Aggregate maximum loan:

Undergraduate: \$20,000
Graduate: \$40,000

Perkins Overaward resolution

Overawards are discussed in detail in Volume 5

Maximum loan eligibility calculation

Loan limits cite

34 CFR 674.12

Note: All borrowing, including graduate level borrowing, counts against the undergraduate aggregate limit of \$20,000. In other words, the undergraduate loan limit applies to all loans, not just loans taken out as an undergraduate.

Disclosure

34 CFR 674.16(a)

Promissory Note

34 CFR 674.31

Retention of records cite

34 CFR 674.19(e)(4)(iii)

The aggregate loan limits now include only unpaid principal. (Previously, a student who had borrowed the maximum cumulative amount for a graduate or professional student would not be eligible for another loan even if the student had repaid part or all of the amount he or she had borrowed.) The maximum aggregate amount an eligible student may now borrow is: (1) \$20,000 for an undergraduate student who has completed two academic years and is pursuing a bachelor's degree; (2) \$40,000 for a graduate or professional student, including loans borrowed as an undergraduate student; and (3) \$8,000 for any student who has not completed two academic years of undergraduate work.

The annual maximums and aggregate maximums for both undergraduates and graduates include any amounts borrowed previously under the Federal Perkins Loan Program. Loans taken out as both undergraduate and graduate student status count toward the \$20,000 undergraduate limit.

Because previous aggregate loan maximums were not tied to the completion of two academic years of undergraduate work, schools may have inadvertently created an overaward by awarding more than \$8,000 to borrowers who had not completed two undergraduate years. The Department will not require schools to resolve such overawards if they were made prior to the publication of the revised statutory maximums.

A school may disburse a Perkins Loan to a student engaged in a program of study abroad if the student meets all eligibility requirements and is enrolled in an eligible program at the school that will accept credits earned abroad. If the reasonable costs of the foreign study program exceed the cost of attending the home school, the awarded Perkins Loan may exceed the annual and/or aggregate loan limits by up to 20%.

A student enrolled in a teacher certification program may be considered either an undergraduate or a graduate student as determined by the school. A teacher-certification student who is considered to be a graduate student and who has already borrowed the maximum aggregate allowed for an undergraduate is eligible to receive an additional Perkins Loan or NDSL. A teacher-certification student who is considered to be an undergraduate student and who has already borrowed the maximum aggregate allowed for an undergraduate is not eligible to receive an additional Perkins Loan or NDSL.

DISCLOSURE TO STUDENTS

Before making the first Perkins Loan or NDSL disbursement for an award year, the school must inform the student of his or her rights and responsibilities under the Federal Perkins Loan Program. The school must also remind the student that the loan may be used only for educational expenses and that the loan must be repaid. The school should also inform the student that the **school** holds the MPN.

The school must disclose all information to the student **in writing**—as part of the application material, as part of the promissory note, or on a separate form. Although the information can be mailed to a student, it is preferable for the aid administrator to meet with the student to answer any questions and to emphasize his or her responsibility to repay the loan.

The school must review all of the repayment terms in the promissory note. In addition, the school must give the following information to the student:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the maximum annual and aggregate amounts the student may borrow;
- the effect that accepting the loan will have on the borrower's eligibility for other types of student aid;
- a statement of the total cumulative balance owed by the student to that school and an estimate of the monthly payment amount needed to repay that balance;
- options the borrower may have to consolidate or refinance;
- a brief notice about the Department of Defense program for repaying loans based on certain military service;
- a complete list of charges connected with making the loan, including whether those charges are deducted from the loan or whether the student must pay them separately; and
- a notice that the school will report the outstanding balance of the loan to a national credit bureau **at least annually**.

The school should also update the identification and contact information in the promissory note and collect the following additional contact information:

- the name, address, and telephone numbers of the borrower's parents and spouse;
- the spouse's employer; and
- the names and addresses of two or three of the student's personal acquaintances.

A school may not require a borrower to provide this additional contact information as a condition for receiving a subsequent Perkins Loan. However, the additional contact information gained during loan counseling could be valuable later for use in collection procedures, and it will help the school locate a student who leaves school without notice or who does not attend the exit interview. This counseling may not be used to satisfy the requirement for an exit interview. (See chapter 5 of this volume.)

Perkins MPNs

You must use the Federal Perkins MPN for all Perkins loans.

See Dear Colleague letters CB-03-11, CB-03-13, and CB-03-14 on IFAP (www.ifap.ed.gov) for the Perkins MPN and eMPN and implementation guidance on these forms.

New Perkins eMPN

DCL CB-06-11

Master Promissory Note defined

The following new definitions are in effect:

A **Master Promissory Note (MPN)** is a promissory note under which the borrower may receive loans for a single award year or multiple award years.

The **making of a loan** occurs when the school makes the first disbursement of a loan to a student.

You must ensure that each Perkins Loan is supported by a legally enforceable promissory note.

You can no longer make a loan under an MPN:

- more than 10 years from the date the borrower signed the MPN or the date you received the MPN (schools can still disburse a remaining portion of a loan after this date);
- more than 12 months after the date the borrower signed the MPN, if you make no disbursement under that MPN;
- after the date you are notified by the borrower to stop using the MPN.

PROMISSORY NOTE

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to a school. The note includes information about the loan's interest rate, repayment terms, and minimum rates of repayment; deferment, forbearance, and cancellation provisions; credit-bureau reporting; late charges, attorney fees, collections costs, and consequences of default.

For loans made using the closed-end or open-end promissory notes, the borrower was required to sign the promissory note prior to the first disbursement of each Perkins Loan the borrower received. For loans made using the Perkins Master Promissory Note (MPN), the borrower is only required to sign the MPN once, prior to the first disbursement of the borrower's first Perkins Loan.

If the school does not have a valid note or other written evidence that would be upheld in a court of law, the school has no recourse against a borrower who defaults. Two examples of invalid notes are notes that have been changed after they were signed and notes without proper signatures or dates. In such cases, the school would have to repay to its Perkins Loan Fund any amounts loaned, whether recovered from the borrower or not, as well as any Administrative Cost Allowance (ACA) claimed on those amounts.

If an error is discovered in a promissory note, the school should obtain legal advice about what action it should take. The appropriate school official and the student should sign by or initial all approved changes in the note.

When the borrower has fully repaid the Perkins Loan, your school is no longer required to mark the original note "paid in full," have it certified by an official of the school, and give it back to the borrower. You may also now notify the borrower in writing that the loan is paid in full. The school must keep a copy of the note for at least three years after the date the loan was paid in full.

Master promissory note

A school must use a promissory note that the Department has approved. In Dear Partner Letter CB-03-14, dated August 2003, the Department issued the Perkins Master Promissory Note (MPN). The MPN must be used for all new loans for Perkins and former NDSL borrowers made on or after November 1, 2004.

In Dear Colleague Letter CB-03-13, dated August 2003, the Department issued an electronic version of the Perkins Master Promissory Note (Perkins eMPN). Before implementing the eMPN, your school should review the Standards for Electronic Signatures in Electronic Loan Transactions published in Dear Colleague Letter GEN-01-06, dated May 2001. The standards are voluntary; however, adherence to the standards will provide your school some protection should a court find a loan unenforceable due to the processing of an electronic signature or related records (see boxed text on previous

ELECTRONIC SIGNATURE STANDARDS: HIGHLIGHTS FOR eNOTES

(For complete instructions, see the Standards for Electronic Signatures in Electronic Loan Transactions (Standards) in Dear Partner Letter GEN-01-06, dated May 2001.)

Why apply these standards?

If your school's system for processing Perkins eNotes adheres to the standards and a court finds the loan legally unenforceable based solely on the processing of the electronic signature or related records, the Department will not consider your school liable for the loan and will not require your school to reimburse its Perkins Loan Fund.

If your school's system for processing Perkins eNotes does not adhere to the standards and a court finds the loan legally unenforceable based solely on the processing of the electronic signature or related records, the Department has the option to require your school to reimburse its Perkins Loan Fund.

Verify the borrower's identity. Verify the borrower's electronic signature.

Collect at least the following identifying information: name, Social Security number, driver's license number, date of birth. Verify the borrower's identity by authenticating this data with an independent source such as a national commercial credit bureau, a commercial data service, a state motor vehicle agency, or a government database.

The electronic signature may be a PIN, a password, another unique credential, a biometric value unique to the borrower, such as a fingerprint or retinal pattern, or a signature image. A typed name must be paired with one of the above to constitute an electronic signature.

Ensure that the electronic signature is secure.

Get the borrower's consent. Make sure the borrower understands.

Obtain consent from the borrower to use an electronic record. It must be clear that the borrower has consented to use a Perkins eNote in place of a paper promissory note. Require the borrower to confirm that he or she has the necessary hardware and software to view, print, download, or otherwise complete the electronic signature process. Keep a record showing that the borrower gave this consent prior to electronically signing the Perkins eNote.

Ensure that the borrower understands he or she is signing a promissory note. The borrower must click through all terms and conditions of the Perkins eNote and acknowledge that he has read the terms and conditions.

Notify the borrower when his or her electronic signature is about to be applied to the Perkins eNote. Give the borrower an opportunity to cancel the signature process.

After the borrower signs the Perkins eNote, provide the borrower with reasonable access to the full electronic record of the eNote.

page for more information).

A Master Promissory Note is a promissory note under which the borrower may receive loans for a single award year or multiple award years. Because the MPN can be used to award Perkins Loans on a multi-year basis, there is no box for loan amount or loan period on the note. If you choose to use the MPN as a single award-year promissory note, the borrower must sign an MPN for each award year. The borrower signs a new Perkins MPN for each subsequent award year. When used as a multi-year note, the borrower signs the MPN only once, before the first disbursement of the borrower's first Perkins Loan.

The signed MPN covers all loans that the school makes to the borrower until the MPN expires. You may make Perkins Loans under an MPN for up to 10 years from the date the borrower signed the MPN. However, the first disbursement must be made within 12 months of the date the borrower signed the MPN. If no disbursements are made within that 12 month period, the borrower must sign another MPN before receiving a Perkins Loan. In addition, no further loans may be made under an MPN after the school receives written notice from the borrower requesting that the MPN no longer be used as the basis for additional loans.

Your school must provide the disclosure information described earlier in this chapter annually before the first disbursement of each Perkins Loan made under the MPN. In addition, you must notify the borrower of each disbursement of a Perkins Loan made under the MPN. This notification should inform the borrower of the amount disbursed, and provide the borrower with an opportunity to cancel the disbursement, or cancel the Perkins Loan. You will need to retain subsidiary records of disbursements and adjustment to satisfy the requirement that each Perkins Loan is supported by a legally enforceable promissory note. Actual disbursement records or student account records would serve this purpose.

Making Changes to the MPN

You may not make changes to, deletions from, or additions to the prescribed language on the MPN. However, you may delete bracketed text. Of course, you may print information (name, address, and telephone number) identifying your school in Section B, Item 6. You may also use appropriate coding (for example, bar coding to reflect the source, type, or other identification system for filing or processing) in this area.

You may print bar coding or coding identifiers, such as student ID number or loan number, in the side or bottom margins to meet the requirements of your school's processing systems. You may not print these coding identifiers on the promissory note in a way that would alter the general layout of the note. You may also print in the lower margin of the note a reference to the type, for example: original,

Limits to promissory note changes cite

34 CFR 674.31(a)

student copy, file copy.

You may adjust the height of the boxes in Sections A and B to meet the requirements of individual processing systems, as long as the change doesn't alter the general format of the form, result in reduced point size, move text from one page to another, or otherwise change the general presentation of the form.

You must print the original and borrower copies of the promissory notes with black ink on white paper. You may not change the typeface, point size, and general presentation of the form from the documents approved by the Department. However, you may print your school's identifying information located in Section B, Item 6 in another color to make your school's name and address more pronounced. It is preferable to print the MPN on two sheets of paper, front and back. However, you may print the MPN on four single-sided pages as well.

Closed-end and Open-end Promissory Notes

The Perkins closed-end and open-end promissory notes expired on October 31, 2004. You **must** use the MPN for all loans made on or after November 1, 2004. Implementation guidance for the Perkins closed-end and open-end promissory notes was provided in Volume 5, Chapter 3, of the 2003-2004 FSA Handbook.

Minimum Monthly Payment Option

The optional provision regarding a minimum monthly repayment amount is included as a single, optional sentence at the end of the repayment paragraph on page 1 of the MPN. You would include this sentence in the MPN if your school is exercising the minimum monthly payment amount provision. Page 2 of the MPN includes a summary of this provision.

If the optional provision is included in the school's note, a minimum monthly payment of \$40 is required for a loan made on or after October 1, 1992, to a borrower who had no outstanding balance on a Perkins Loan, NDSL, or Defense Loan on the date the loan was made (for other borrowers, the monthly minimum amount remains \$30).

MASTER PROMISSORY NOTE—QUESTIONS AND ANSWERS

LOAN AMOUNT AND LOAN PERIOD

Q. Why are there no boxes for the loan amount and loan period on the MPN?

A. The borrower only signs the MPN once, prior to disbursement of the borrower's first loan. Since the MPN can be used as either an annual or multi-year promissory note, it does not contain specific reference to the dollar amount of the loan to be disbursed, the disbursement dates, or the enrollment or award period covered by the loan.

Q. If a school chooses to use the MPN on an annual basis, can the school put boxes on the MPN for the award amount and the loan period?

A. No. The MPN is a federal form approved by the Office of Management and Budget (OMB). Schools may not add data elements to an OMB-approved form. Schools may only make minimal modifications to the MPN, as described in Dear Colleague Letter CB-03-14 and elsewhere in this chapter.

NOTIFICATIONS AND DISCLOSURES

Q. Schools must provide loan amount and loan period information to the borrower through a means other than the MPN. Has a prototype been developed to meet this requirement?

A. The Department has not developed a prototype for providing loan amount or loan period information to borrowers. Schools may provide this information in any number of formats. This information may be provided in Award Letters or other written notifications and disclosures that schools are required to provide to the borrower.

Q. If a borrower's loan amount increases or decreases, should the school send the borrower a notification of the change in the amount borrowed?

A. Yes. Since the change in loan amount will not be reflected on the MPN, the school should notify the borrower, in writing, of the increase or decrease.

Q. What is the time frame for notifying borrowers that a disbursement has been made under the MPN? What information must be included in this notification?

A. When a school credits a Perkins Loan disbursement to a borrower's account, the school must notify the borrower of the date and amount of the disbursement, the borrower's right to cancel all or part of the disbursement, and the procedures for notifying the institution that the borrower wishes to cancel the loan or the loan disbursement. The school must send this notification to the borrower no earlier than 30 days before, and no later than 30 days after, crediting the borrower's account.

QUESTIONS AND ANSWERS, CONTINUED

Q. How frequently should the statement of the total cumulative balance be provided to the borrower? Is this a statement of the total amount borrowed, or the total amount owed? What amount should be used if a borrower makes payments on the loan while still in school?

A. Each Perkins Loan received under an MPN is a separate and distinct loan. The disclosure information must be provided to the borrower annually, before the first disbursement of each new Perkins Loan awarded under the MPN. The disclosure information must include a statement of the total cumulative balance owed by the borrower to the school and an estimate of the monthly payment amount needed to repay the balance. In the case of a borrower who makes payments on the loan while still in school, the statement of cumulative balance owed by the borrower should be adjusted to reflect those payments.

RECORD RETENTION

Q. Should a school retain a record of the date and amount of each disbursement in the borrower's file to document that the borrower received the loan?

A. Yes. Since this information is not shown on the MPN, the school should maintain documentation of the loan amount, award period, and disbursement dates as part of the borrower's records. Disbursement records or student account records showing a Perkins Loan credit would serve this purpose.

Q. Are third party servicers' records sufficient to satisfy a school's need to retain supporting records showing loan amount, award period, and disbursement dates?

A. Unless the servicer is performing loan origination and disbursement functions for the school, only school records definitively show that the borrower was enrolled, the borrower's account was credited from Perkins loan funds, and the date and amount of disbursements. With certain borrower challenges, third party servicer records may not be sufficient.

OTHER TRANSITION ISSUES

Q. After implementing the MPN, can a school add disbursements from a previous Perkins or NDSL open-end promissory note, rather than close that previous note?

A. No. A school may not add disbursements from a previous Perkins or NDSL promissory note to an MPN. The school must close the previous open-end notes and make all subsequent loans on or after November 1, 2004 using the MPN.

QUESTIONS AND ANSWERS (CONTINUED)

Q. Will the Department be issuing an NDSL MPN to replace the NDSL promissory notes that will expire on October 31, 2004?

A. No. Because there are so few NDSL borrowers who are likely to be enrolled, the Department has determined that it is unnecessary to continue to issue separate NDSL promissory notes. The bracketed sentence at the end of the repayment paragraph of the MPN provides for a \$30 minimum monthly payment for borrowers who have an outstanding balance on an NDSL. With the 1998 Amendments to the Higher Education Act, most of the remaining terms and conditions of an NDSL became the same as those of a Perkins Loan.

Perkins Repayment, Forbearance, Deferment, and Cancellation

*Repayment terms vary substantially among Perkins Loans, National Direct Student Loans, and National Defense Student Loans. Schools may obtain software from third-party vendors that have automated many of the following requirements and calculations. The Federal Perkins Loan Program offers borrowers a variety of forbearance and deferment options. These options do not allow for capitalization of interest at the end of any forbearance or deferment period. A borrower may have all or part of his or her loan (including interest) canceled for engaging in teaching, public service, service in the Peace Corps or Americorps*VISTA, or service in the military.*

GRACE PERIODS

A “grace period” is the period of time before the borrower must begin or resume repaying a loan. An “initial grace period” is one that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time.

Initial Grace Periods

A borrower who has been attending at least half-time is entitled to an initial grace period of nine consecutive months after dropping below half-time enrollment. For a student attending at least half-time, the initial grace period does not end until he or she ceases to be enrolled at least half-time for a continuous period of nine months. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period (nine consecutive months) from the date that he or she drops below half-time enrollment again.

If a borrower requests a deferment to begin during the initial grace period, the borrower must waive (in writing) his or her rights to the initial grace period. The request for a deferment alone is not sufficient documentation for a school to waive the initial grace period; the borrower must also acknowledge in writing that he or she wants the waiver.

For a borrower who is a member of the Armed Forces Reserve, the initial grace period does not include any period up to three years during which the borrower is called or ordered to active duty for more than 30 days, including the period necessary for the borrower to resume enrollment at the next available enrollment period. The period necessary for the borrower to resume enrollment at the next available enrollment period may not exceed 12 months. The borrower must notify you of the beginning and end dates of his or her service, and the date he or she resumes enrollment. Borrowers who enroll in

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Initial grace period definition

34 CFR 674.2

Length of initial grace period

34 CFR 674.31(b)(2)(i)(B)

Initial grace period example

Fenriz takes out a Perkins Loan in the fall quarter at Sims School of Botany, drops out of school for the winter quarter, and resumes at least half-time study for the spring quarter. Fenriz is entitled to a full initial grace period once he again leaves school or drops below half-time status.

Grace period delayed during active duty

34 CFR 674.31(b)(2)(i)(C)

Initial grace periods for NDSLs and Defense Loans

Repayment of an NDSL made before October 1, 1980, begins **nine months** after the date that the borrower drops below half-time enrollment. Repayment of an NDSL made on or after October 1, 1980, begins **six months** after the date that the borrower drops below at least half-time enrollment.

Post-deferment grace period definition cite

34 CFR 674.2

Less-than-half-time grace period cite

34 CFR 674.32

Less-than-half-time student/no loan grace period example

Paula starts school full time in September 2004. She does not have an outstanding Perkins Loan or NDSL. In January 2005, Paula drops to one-quarter time. In March 2005, she receives a Perkins Loan. Since Paula dropped below half-time enrollment **before** the Perkins Loan was made, Paula must begin repayment nine months after the date she dropped below half-time enrollment—October 2005.

Less-than-half-time student/outstanding loan grace period example

Jason has been making monthly payments on Perkins Loan #1. He takes out Perkins Loan #2 in September. His next payment on Loan #1 is due October 15. Jason will begin repaying Loan #2 at the same time. **Remember that the repayment status of the outstanding loan determines the repayment status of the second loan.**

Applicable Grace Periods	Perkins	NDSL on or after 10-1-80	NDSL before 10-1-80
<i>Initial Grace Period</i>	9 months	6 months	9 months
<i>Post-deferment Period</i>	6 months	6 months	6 months

a different program when they return from active duty are entitled to the same grace period benefits. A borrower who is in a grace period when called or ordered to active duty is entitled to a new grace period upon conclusion of the excluded period.

Post-deferment Grace Periods

A “post-deferment grace period” is the period of six consecutive months that immediately follows the end of a period of deferment and precedes the date on which the borrower must resume repayment on the loan. Neither the deferment nor the grace period is counted as part of the 10-year repayment period.

Except for hardship deferments on loans made before July 1, 1993, all deferments for all loans made under the Federal Perkins Loan Program have post-deferment grace periods of six consecutive months.

Initial Grace Period for Less-than-half-time Attendance

A borrower who is attending less than half-time and who has no outstanding Perkins Loan or National Direct Student Loan (NDSL) must begin repaying a new loan nine months from the date the loan is made or nine months from the date the borrower ceases to be enrolled as a regular student on at least a half-time basis¹, whichever is earlier.

A borrower who is attending less than half-time and who has an outstanding Perkins Loan or NDSL must begin repayment on an additional loan when the next scheduled installment of the outstanding loan is due; there is no formal grace period or in-school deferment on the new loan.

Calculating the Grace Period

A grace period is always day specific—an initial grace period begins the day after the day the borrower drops below half-time enrollment. Likewise, a post-deferment grace period begins on the day immediately following the day on which an authorized period of deferment ends.

If a borrower has received loans with different grace periods (and different deferment provisions), the borrower must repay each loan according to the terms of its promissory note; the borrower must pay the minimum monthly payment amount that applies to each loan that is not in a grace or deferment period.

1. This nine-month period includes the date the loan was made.

Grace Periods for Students Who Don't Return from Leaves of Absence

34 CFR 668.22 (b)(1)
 34 CFR 668.22 (c)(1)(v)
 34 CFR 668.22 (d)(1)(ix)

Students granted approved leaves of absence retain their in-school status for FSA loans. However, if a student does not return from an approved leave of absence, the student's grace period begins the date the student began the leave of absence. (If the school is required to take attendance, the grace period begins on the last date of academic attendance.)

For a student who does not return from an approved leave of absence, this withdrawal date might result in the exhaustion of some or all of the student's grace period.

Leaves of absence no longer qualify as approved leaves of absence for FSA purposes unless the school explains the effects that the student's failure to return from an approved leave of absence might have on the student's loan repayment terms, including the exhaustion of some or all of the student's grace period.

PREPAYMENT

If the borrower repays more than the amount due for any repayment period after the initial grace period has ended, the school must use the excess to prepay principal, unless the borrower designates the excess as an advance payment on the next regular installment. If the borrower designates the excess as an advance payment on the next installment and that advance payment exceeds the amount of the next regularly scheduled installment, the school must use the excess to prepay principal.

The borrower may prepay all or part of the loan at any time without penalty. Amounts repaid during the academic year the loan was made and before the initial grace period has ended are not considered prepayments but must be used to reduce the original loan amount.

INTEREST ACCRUAL

Interest on a Perkins Loan must be computed at the rate of 5% per annum simple interest on the unpaid principal balance. Although interest accrues on a Perkins Loan, *your school may not capitalize it*. This means that your school may not add unpaid interest to the principal balance to increase the principal balance of the Perkins Loan. Instead, your school must track principal and interest as separate figures, adding accrued interest to the interest balance, *not* the principal balance.

Prepayment cite

34 CFR 674.31(b)(4)

Payment made during initial grace period example

Shannon applies her yearly birthday check of \$400 to her \$1,000 Perkins Loan before the initial grace period ends. The principal advanced to Shannon becomes \$600. This is not considered a prepayment because payment was made before the end of the initial grace period.

Simple interest accrual example

Fred has been granted a hardship forbearance for a year. At the beginning of his forbearance period, Fred's loan balance is \$1000:

Principal: **\$1000**
 Interest: **\$0**

Interest accrues throughout the forbearance period at a simple rate of 5% per annum. At the end of the year-long forbearance period, Fred's loan balance is \$1050:

Principal: **\$1000**
 Interest: **\$50**

When Fred makes his first payment after the end of the forbearance, his payment is applied to interest first, then principal. Fred makes a payment of \$25, reducing his balance to \$1025:

Principal: **\$1000**
 Interest: **\$25**

Generally, interest is computed from the date a payment is received rather than from the due date. However, there are exceptions. Interest charges may be computed to the nearest first-of-the-month, or they may be computed in accordance with the borrower's established schedule of payments of principal and interest if the borrower is making payments on a regular basis according to that schedule. For example, if a grace period expires in the middle of a month, interest may be computed to the beginning of the next month. Also, if a past-due payment is received before the next regularly scheduled payment, the interest may be computed according to the established payment schedule—no adjustments are necessary.

National Defense Student Loans (Defense Loans), NDSLs, and older Perkins Loans have different interest rates. The interest rate is stated in the borrower's promissory note. The annual interest rate for loans made before July 1, 1981, was 3 percent; between July 1, 1981, and September 30, 1981, was 4 percent; on or after October 1, 1981, is 5 percent.

ESTABLISHING A REPAYMENT PLAN

A borrower must repay his or her loan, plus interest, in 10 years. This repayment period never includes authorized periods of deferment, forbearance, or cancellation.

The repayment plan must be established and disclosed to the student before the student ceases to be enrolled at least half-time.

If a borrower wants to repay the loan in graduated installments, he or she must request permission to do so from the school; if the school agrees to this type of repayment, a graduated installment schedule is prepared and submitted to the Department for approval. If the Department approves the school's request, the borrower may use the graduated method of repayment.

If a student receives loans from more than one school, the repayment of each loan is made to (or default is attributed to) the school where the student received the loan.

Calculating the Payment Amount

Schools may require the borrower to make payments on a monthly, bimonthly, or quarterly basis. Each of the borrower's payments must sufficiently cover the interest accruing between payments to ensure that the loan is repaid in 10 years. Schools calculate the correct payment amount by multiplying the principal by the appropriate constant multiplier (see table). (Schools using the minimum monthly payment plan option, introduced in the next section, may require the borrower to pay a minimum monthly amount of \$40 instead.)

If the installment for all loans a school made to a borrower is not a multiple of \$5, the school may round the installment payments to the

Repayment plan cite

34 CFR 674.33(a)

Payment amount cite

34 CFR 674.33(a)

Calculating payment amount example

Bernadine received a \$2,500 Perkins Loan to attend Jordan College, which requires quarterly payments. To calculate Bernadine's quarterly payment, Jordan College multiplies the original principal by the constant multiplier for a quarterly payment frequency:

$$\$2,500 \times .0319214 = \$79.80$$

10-Year Repayment Table of Constant Multipliers

<i>Annual Rate</i>	<i>Payment Frequency</i>	<i>Payments per Year</i>	<i>Total Payments</i>	<i>Constant Multiplier</i>
5%	Monthly	12	120	.0106065
5%	Bimonthly	6	60	.0212470
5%	Quarterly	4	40	.0319214

$$\text{Principal} \times \text{Constant Multiplier} = \text{Payment Amount}$$

next highest dollar amount that is a multiple of \$5.

If the last scheduled payment is \$25 or less, the school may combine it with the next-to-last payment.

MINIMUM MONTHLY REPAYMENT AMOUNTS

Schools may choose to include a minimum monthly repayment requirement in the Perkins Loan promissory note.

The minimum monthly repayment amount is \$40, unless the borrower on the date the new loan is made has an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a \$30 minimum monthly repayment provision. (See sidebar.)

To determine the minimum repayment for bimonthly and quarterly payment schedules, schools should multiply \$40 by 2 (months) and 3 (months) respectively.

Conditions for Minimum Monthly Repayment

A school may require a borrower to pay a minimum monthly payment amount of \$40 on a Perkins Loan if:

- the promissory note includes a provision specifying a minimum monthly repayment of \$40 and the monthly repayment of principal and interest for a 10-year repayment period (as calculated using a constant multiplier) would be less than \$40; or
- the borrower has received Perkins Loans with different interest rates at the same school and the total monthly payment would otherwise be less than \$40 (provided any of the promissory notes includes the minimum monthly repayment provision).

Under no circumstances may a school require a minimum

Minimum monthly repayment cite

34 CFR 674.33(b)

Minimum monthly repayment amount for older loans

The minimum monthly repayment amount is **\$30** for NDSLs, Perkins Loans made before October 1, 1992, and Perkins Loans made after October 1, 1992, to borrowers who have an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a \$30 minimum monthly repayment provision. The minimum monthly repayment amount is **\$15** for Defense Loans.

If a borrower has both Defense and NDSL or Perkins Loan from one or more schools and the total monthly repayment is less than \$30 and the monthly repayment on a Defense Loan is less than \$15, the amount applied to the Defense Loan may not exceed \$15.

Minimum monthly payment for multiple loans at same school example

Harv has Perkins Loans of \$1,500 and \$1,000 (for a total debt of \$2,500) and has a promissory note that includes the minimum monthly payment provision. Using the constant multiplier table, the total monthly payment on the two loans would be less than \$40:

Monthly payment on loan #1	
\$1,500 X .0106065 =	\$15.91
+ Monthly payment on loan #2	
\$1,000 X .0106065 =	\$10.61
= Total payment per month	\$26.52

Because the monthly payment on the two loans is less than \$40, Moore University may decide to exercise the minimum \$40 payment option. If the school does so, it calculates the monthly payment for each loan by dividing the original principal of the loan by the total original principal of all loans:

Monthly payment on loan #1	
\$1,500 ÷ \$2,500 =	.600000
	X \$40
	\$24

Monthly payment on loan #2	
\$1,000 ÷ \$2,500 =	.400000
	X \$40
	\$16

Monthly payment on loan #1	\$24
+ Monthly payment on loan #2	\$16
= Total payment per month	\$40

Two schools/minimum monthly payment amount example

Betsy has Perkins Loans from Heinz College and Elise University. Heinz does not exercise the minimum monthly payment option and receives from Betsy \$25 a month (the amount due under its established 10-year repayment plan). Elise exercises the \$40 option and receives from Betsy \$15, the difference between \$40 and the amount of principal and interest paid to Heinz.

monthly repayment of more than \$40.

Multiple Loans at Same School

If a borrower has multiple Perkins Loans from the same school, any of which include the minimum monthly payment provision, the school may require the borrower to make a minimum monthly payment if the borrower's total monthly payment on all the loans totals less than \$40². If the school exercises this option, the school must divide each monthly payment among all the loans proportionate to the amount of principal advanced under each loan. If the borrower's total monthly payment equals or exceeds \$40 for all of the loans made at that school, the school may not exercise the minimum monthly payment on any loan.

The school determines the minimum monthly repayment in this manner even if the Perkins Loans have different interest rates.

If the borrower has received Perkins Loans with different grace periods and deferments, the school must treat each note separately. The school still divides the minimum monthly payment proportionately among the loans. However, the borrower must pay each loan's portion when it is due.

Loans from multiple schools

A borrower may have received Perkins Loans from more than one school. If the borrower wants your school to coordinate minimum monthly payments with another school, he or she must request such coordination.

If the total of the monthly payments is at least equal to \$40, none of the lending schools may exercise the minimum monthly repayment requirement.

If the total monthly repayment is less than \$40, but only one school exercises the minimum monthly payment option, that school receives the difference between \$40 and the repayment owed to the second school.

If the total monthly repayment is less than \$40 and each school exercises the minimum repayment option, the \$40 minimum repayment is divided among the schools in proportion to the total amount of principal each has advanced.

If the borrower requests that your school coordinate minimum monthly payment amounts with another school, you should ask the borrower for:

- the names of all other schools to which the borrower owes funds under the Federal Perkins Loan Program;
- the approximate amount borrowed from, and the current indebtedness to, each school; and

2. A student's monthly payment amount may need to be higher than \$40 (or \$30), of course, so that his or her debt is repaid by the end of 10 years.

- any information that would help identify the loans—for example, the loan number and the dates of loan advances.

Using this information, the schools should contact each other and negotiate the amount each should receive from the borrower.

Hardship Payment Reduction

A school may reduce a borrower’s scheduled payments for up to one year at a time if the borrower is scheduled to pay the \$40 minimum monthly payment and the school determines that the borrower is unable to make the scheduled payments due to hardship, such as prolonged illness or unemployment.

PAYMENT PROCESSING

Any payment a school receives must be applied in the following order:

1. collection costs;
2. late charges (or penalty charges);
3. accrued interest; and
4. principal.

Past-due payments should be applied in the same order as other payments, except that past-due payments must be applied to the “oldest” past-due dollars first.

Payment processing cite

34 CFR 674.33(a)

INCENTIVE REPAYMENT PROGRAM

To encourage repayment, a school may:

- reduce a loan’s interest rate by up to 1% if the borrower makes 48 consecutive monthly payments;
- discount by up to 5% the balance a borrower owes on a loan if he or she pays the loan in full before the end of the repayment period; or
- with the Secretary’s approval, establish any other repayment incentive options that reduce default and replenish student loan funds.

A school may not use federal funds or school funds from the Perkins Loan revolving fund to absorb the costs associated with repayment incentives. On at least a quarterly basis, schools must reimburse the Perkins Loan Fund for income lost as a result of the discounts offered through the Incentive Repayment Program.

Incentive repayment program cite

34 CFR 674.33(f)

Perkins Loan Quarterly Billing Example (with four standard repayment dates)

Borrower's Termination Date	Initial 9-Month Grace Period Ends	Installment Due
<i>January 1</i>	<i>September 30</i>	<i>January 1</i>
<i>February 1</i>	<i>October 31</i>	<i>January 1</i>
<i>March 1</i>	<i>November 30</i>	<i>January 1</i>
<i>April 1</i>	<i>December 31</i>	<i>April 1</i>
<i>May 1</i>	<i>January 31</i>	<i>April 1</i>
<i>June 1</i>	<i>February 28</i>	<i>April 1</i>
<i>July 1</i>	<i>March 31</i>	<i>July 1</i>
<i>August 1</i>	<i>April 30</i>	<i>July 1</i>
<i>September 1</i>	<i>May 31</i>	<i>July 1</i>
<i>October 1</i>	<i>June 30</i>	<i>October 1</i>
<i>November 1</i>	<i>July 31</i>	<i>October 1</i>
<i>December 1</i>	<i>August 31</i>	<i>October 1</i>

ESTABLISHING REPAYMENT DATES

Depending on the repayment schedule (monthly, bimonthly, or quarterly), the borrower's first payment is due one, two, or three months from the date the grace period expires. Repayment schedules must be adjusted (preferably on the first installment) so that the loan will be repaid within the normal 10-year period or as prescribed in the terms of the promissory note.

For convenience, a school may establish standard repayment dates for borrowers who are on quarterly repayment schedules. The first repayment date may be the first day of the calendar quarter after the grace period has expired. Four standard repayment dates would be used: January 1, April 1, July 1, and October 1. (See the chart above.)

Another type of repayment schedule is a "rolling" quarterly repayment schedule in which each borrower's first payment is due exactly three months after the date his or her grace period expires. For example, if a borrower's first grace period expires on May 17, the first installment payment is due August 18. Another borrower's grace period expires May 18, so the first installment payment on that loan is due August 19.

For collection and bookkeeping purposes, a fixed repayment date is preferred. Otherwise, if the borrower is entitled to a deferment, the school may have problems computing payments due. Once the payment date is established, the borrower will owe principal and interest for any portion of a scheduled installment period not covered

by a deferment. However, if the borrower is in deferment on a due date, any amounts owed are carried over and paid on the first due date on which the borrower is out of deferment.

Extending the Repayment Period for Hardship and Low-Income Individuals

A school may extend a repayment period if the borrower is experiencing a period of prolonged illness or unemployment or if the borrower is a “low-income individual.” A low-income individual is one whose total income for the preceding calendar year does not exceed the maximum income level for his/her family size (see chart). Interest continues to accrue during an extension of a repayment period for any of these reasons.

For NDSLs made on or after October 1, 1980, and for all Perkins Loans, a school may extend the borrower’s repayment period up to 10 additional years if, during the repayment period, the school determines that the borrower qualifies as a low-income individual. The school must review the borrower’s status annually to determine whether he or she still qualifies. Once a borrower no longer qualifies, his or her repayment schedule must be amended so that the number of months in it does not exceed the number of months remaining on the original repayment schedule (not counting the extension period).

Repayment period extension cite
34 CFR 674.33(c)

There are two other ways that a school may adjust the repayment schedule for a borrower who qualifies as a low-income individual:

- The school may require the borrower to pay a reduced amount for a limited time and then later increase the payment amount so that the borrower catches up on payments. For example, a school reduces the payment amount to \$10 per month for six months and then increases it to \$50 per month until the borrower catches up. The repayment period does not have to be extended; or
- The school may allow the borrower to pay \$10 per month for a year and then resume normal payments. This type of adjustment extends the repayment period.

Low-Income Individual Maximum 2006 Income Levels for 2007-2008 Award Year

(derived from Income Protection Allowances published in the May 31, 2006 Federal Register)

<i>Number of Family Members (including student)</i>	1	2	3	4	5	6
<i>Maximum 2006 Income Level</i>	\$10,382	\$18,750	\$23,350	\$28,838	\$34,025	\$39,800

NOTE: For families of more than 6, add \$4,488 for each additional family member.

DISCHARGING PERKINS LOANS

Due to Death or Total and Permanent Disability

You must discharge the remaining balance of any Perkins Loan, NDSL, or Defense Loan if the borrower dies or becomes totally and permanently disabled. Your school does not receive reimbursement for discharges due to death or disability. See Dear Colleague Letters CB-02-8, CB-02-10, and CB-02-18 for total and permanent disability discharge forms and procedures.

Total and Permanent Disability Loan Discharge Application

Dear Colleague Letter GEN 06-14

You must base your determination of death of the borrower on an original or certified copy of the death certificate. Previously, you could make a discharge due to death on the basis of a death certificate or other certification recognized by state law.

Under exceptional circumstances and on a case-by-case basis, the chief financial officer of the institution may approve a discharge based upon other reliable documentation supporting the discharge request.

Total and permanent disability is the inability to work and earn money because of an injury or illness that is expected to continue indefinitely or to result in death. The definition of total and permanent disability no longer requires that the borrower be unable to attend school.

The borrower must submit a physician's certification of total and permanent disability. The physician must certify that the borrower is 100% disabled according to the Perkins Loan Program definition of disability.

The following procedures became effective on July 1, 2002:

If your school determines, based on certification from the borrower's physician, that the borrower is totally and permanently disabled, your school must assign the account to the Department. You must notify the borrower that you have assigned the account to the Department for determination of eligibility for a total and permanent disability discharge.

If the Department makes an initial determination that the borrower is eligible for discharge, the Department will place the loan in a conditional discharge status for up to three years after the date the borrower became totally and permanently disabled as certified by the borrower's physician. A loan placed in conditional discharge status is not considered past due or in default unless the loan was past due or in default at the time the conditional discharge was granted.

If your school receives payments from a borrower on a loan that is in conditional discharge status, you must forward these payments to the Department and notify the borrower that there is no need to make payments on the loan while it is in conditional discharge status. If the Department grants final discharge to the borrower, your school must refund any payments the borrower made after the certified disability

date and before the account was assigned to the Department. The Department will refund any payments received after the assignment.

Closed School Discharge

Your school must assign to Federal Student Aid (FSA) Collections all its outstanding Perkins and NDSL loans if it is closing (see Chapter 1 of this volume for assignment procedure).

FSA Collections may discharge a Perkins Loan or NDSL made on or after January 1, 1986 if the borrower is unable to complete his or her program of study due to the closure of the school. FSA Collections must reimburse borrowers for payments made voluntarily or by forced collection.

A borrower whose loan was in default and then discharged under this provision is not considered to have been in default and reestablishes FSA eligibility, provided he or she meets all other eligibility criteria.

FSA Collections reports the discharge to the credit bureaus to which the previous loan status was reported.

You can find a searchable database of closed schools on-line at <http://wdcrobcolp01.ed.gov/CFAPPS/FSA/closedschool/searchpage.cfm>.

Bankruptcy Discharge

The basic actions a school must take when a borrower files for bankruptcy protection are covered here, in Dear Colleague Letter GEN-95-40, dated September 1995, and in 34 CFR 674.49. For the best advice on how to proceed when a borrower files for bankruptcy protection, a school should consult its attorney. The school should ensure that the attorney is aware of the due diligence provisions that apply to school actions.

If a school receives notice that a borrower has filed for bankruptcy protection, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser.

The school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Effective for bankruptcies filed on or after October 8, 1998, a borrower who receives a general discharge in bankruptcy does not by that order obtain a discharge of a loan that has been in repayment for seven years or more at the time of the bankruptcy filing. For these bankruptcies, a student loan is discharged by a general discharge order only if the borrower also obtains a court ruling that repayment of the loan would impose an undue hardship on the borrower and his or her

For additional information on assigning loans for discharge contact:

Disability Discharge Loan Servicing Center

Phone: 1-888-869-4169
TDD: 1-888-636-6401
e-mail: disability_discharge@afsa.com.

Calculation of maximum incomes for low-income individuals

34 CFR 674.33(c)(2)(a),(b)

Closed school discharge cite

34 CFR 674.33(g)

Bankruptcy laws

11 U.S.C. 1307, 1325, and 1328(b) are laws applicable to bankruptcy cases in general, not just to Perkins Loan bankruptcy cases. 11 U.S.C. 1307 concerns the dismissal of a Chapter 13 case or the conversion of a case filed under Chapter 13 to a Chapter 7 proceeding. 11 U.S.C. 1325 concerns the confirmation by the court of a borrower's proposed repayment plan. 11 U.S.C. 1328(b) allows a debtor who fails to complete the payments required under the plan to obtain a discharge if conditions are met. A school should consult an attorney for the best advice in bankruptcy cases.

dependents.

Responding to complaint for determination of dischargeability

Customarily, a borrower obtains a judicial ruling of undue hardship by filing an adversary proceeding—a lawsuit within the bankruptcy proceeding—in the bankruptcy court seeking to prove undue hardship. If a borrower files an adversary proceeding to prove undue hardship under 11 U.S.C. 523(a) (8), the school must decide, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents.

If the school concludes that repayment would not impose an undue hardship, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, the school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. If necessary, the school may compromise a portion of that amount to obtain a judgment.

If the school opposes a request for determination of dischargeability on the ground of undue hardship, a school may also file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

Schools that are state instrumentalities may, as an alternative, oppose an undue hardship claim by asserting their immunity from suit in bankruptcy. As with any other action in defending student loans in bankruptcy, the school should consult with counsel and should ensure that counsel is fully informed about recent changes in Department regulations to support this position.

Procedures for responding to proposed Chapter 13 repayment plan

Under Chapter 13, the borrower may generally obtain an adjustment in repayment terms of all of his/her debts. The borrower proposes a repayment plan that addresses whether and how each debt or class of debts will be paid. If the court approves the plan, creditors are bound to the terms of that plan for duration of the plan, typically three to five years. If the borrower's repayment plan proposes full repayment of the Perkins Loan, including all principal, interest, late charges, and collection costs on the loan, no response from the school is required. The school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the Perkins Loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed and that the remainder be discharged, the school must determine, from its own records and court documents, the amount of the loan dischargeable under the plan. The school does this by subtracting the total proposed payments from the total amount owed. The school must also determine from its own records and court documents whether the borrower's proposed repayment plan meets the requirements of 11 U.S.C. 1325. Two of those requirements are particularly relevant:

- First, the amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.
- Second, to pay creditors under the plan, the debtor must use all income not needed to support himself or herself and his or her dependents.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, the school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, the school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, the school must determine whether grounds exist under 11 U.S.C. 1307 for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges. If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

After a borrower's proposed repayment plan is confirmed by the court, the school must monitor the borrower's compliance with the repayment plan. If the school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b), the school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, the school must move to convert or dismiss the case. If a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), the school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.

Resuming/terminating billing and collection

A school must resume billing and collection procedures after the borrower has received a discharge under 11 U.S.C. 727, 11 U.S.C. 1141, 11 U.S.C. 1228, 11 U.S.C. 1328(a), or U.S.C. 1328(b) unless the court has found that repayment would impose an undue hardship. If the court has found that repayment would impose an undue hardship, the school must terminate all collection action and write off the loan. If a school receives a repayment from a borrower after a loan has been discharged, it must deposit that payment in its Perkins Loan Fund.

Bankruptcies filed before October 8, 1998

For bankruptcies filed before October 8, 1998, loans in repayment more than seven years by the date of the bankruptcy filing may be discharged by a general discharge order. The school may therefore not resume collection after the borrower has received a discharge if the loan entered repayment more than seven years before the filing of the petition and either of the following conditions apply: (1) the discharge was obtained in a chapter 13 proceeding in which the plan provided for the debt specifically or for unsecured debts in general; or (2) the discharge was obtained in any other bankruptcy proceeding, and the debt was not excepted from discharge by a provision of the Code other than 11 U.S.C. 523(a)(8).

If these conditions are met, the school must terminate all collection action and write off the loan.

If the conditions above are met and the borrower additionally files an adversary proceeding for discharge of a loan on the ground of undue hardship under 11 U.S.C. 523(a)(8), the school still may not oppose a determination of dischargeability.

Bankruptcy and student eligibility

As stated earlier, a borrower is no longer required to establish eligibility for a new student loan by agreeing to repay a loan discharged in bankruptcy. Section 525(c) of the Bankruptcy Code provides that a student may not be denied student financial assistance solely on the basis of a bankruptcy filing or failure to pay a debt dischargeable in bankruptcy. If a student has filed for or received a discharge in bankruptcy, has had a student loan discharged in bankruptcy, or has not paid a student loan that has been determined by a court of law to be dischargeable in bankruptcy, the bankruptcy may be considered as evidence of an adverse credit history but cannot be the basis for denial of a future loan from the Federal Perkins Loan Program or other student loan programs. However, schools may continue to consider the student's post-bankruptcy credit history in determining willingness to repay the loan.

FORBEARANCE

Forbearance is usually a temporary postponement of payments. The borrower may alternatively request an extension of time allowed for making payments or the acceptance of smaller payments than were previously scheduled. Unlike deferment, interest continues to accrue during any period of forbearance. The borrower may request to pay interest as it accrues during periods of forbearance, but the school *may not* require the borrower to do so.

Schools may grant forbearance to borrowers who are experiencing financial hardship, poor health, or for other acceptable reasons. For example, the Department strongly encourages schools to grant periods of forbearance to borrowers who are serving in AmeriCorps. Also, the Department may authorize periods of forbearance due to national military mobilization or other national emergency.

Borrowers must request forbearance in writing, providing supporting documentation of the reason for forbearance. Both the borrower and the school must agree upon the terms of the forbearance.

Schools may grant the borrower forbearance for a period of up to one year at a time. The forbearance may be renewed, but the periods of forbearance collectively may not exceed a total of three years. A school may apply an authorized period of forbearance to begin retroactively (that is, to begin on an earlier date than the date of the borrower's request) if the borrower requests that the school do so and if he or she provides adequate documentation to support the request.

Schools may not include periods of forbearance in determining the 10-year repayment period.

Forbearance is available for all loans made under the Federal Perkins Loan Program, regardless of when they were made.

Hardship

A school must grant forbearance if the total amount the borrower is obligated to pay monthly on all FSA loans is equal to or greater than 20% of the borrower's total monthly gross income. Total monthly gross income is the gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources.

To receive forbearance for hardship, the borrower must submit at least the following documentation:

- evidence of the amount of the borrower's most recent total monthly gross income; and
- evidence of the amount of the monthly payments the borrower owes for the most recent month on his or her FSA loans.

Forbearance

34 CFR 674.33(d)

If the borrower's loan payments are due less frequently than monthly, a proportional share of the payments is used to determine the equivalent in total monthly payments. For example, if a payment is due quarterly, divide the amount by three (because the payment covers three months) to determine the equivalent monthly payment amount.

DEFERMENT

Deferment Procedures

Under certain circumstances, a borrower is entitled to have the repayment of a loan deferred. During deferment, the borrower is not required to pay loan principal and interest does not accrue. After each deferment, the borrower is entitled to a post-deferment grace period of six consecutive months.

Borrowers are no longer required to request deferments in writing. However, a borrower who requests deferment must provide the school with all the information and documents the school requires by the school's deadline. (The Department does **not** approve or supply deferment forms.) Borrowers must immediately report any change in their deferment status to lending schools. The borrower must request deferment *unless* the borrower is engaged in service for which a borrower may qualify for loan cancellation. (See the discussion of Concurrent Deferment later in this chapter.)

If a borrower is currently in deferment, the school must reaffirm continued eligibility for deferment on at least an annual basis. However, if the borrower is currently in economic hardship deferment for service in the Peace Corps, the school must grant deferment for the full term of the borrower's service, not to exceed three years or for the remaining period of economic hardship deferment eligibility, if it is less than the remaining period of service. Schools may not include periods of deferment in the 10-year repayment period.

The deferments that follow are available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date or contrary provisions in the promissory note.

Deferment procedures

34 CFR 674.38(a)

Concurrent deferment

34 CFR 674.34(c)

34 CFR 674.52(d)

Deferments for all Perkins Loans

In-school

A borrower may defer repayment of a Perkins Loan if he or she is enrolled at least half-time in an eligible school.

To receive an in-school deferment, the borrower must be enrolled as a regular student in an eligible institution of higher education or a comparable institution outside the United States approved by the Department for deferment purposes. A regular student is one who is enrolled for the purpose of obtaining a degree or certificate. (The eligible institution need not participate in the Federal Perkins Loan Program.)

If the borrower is attending at least half-time as a regular student for a full academic year and intends to do so in the next academic year, he or she is entitled to a deferment for **12 months**. This means that a school must continue to apply the in-school deferment through the summer session, even if the borrower does not attend classes during the summer session. In-school deferment ends on the day the borrower graduates or drops below half-time enrollment.

Schools may grant in-school deferments to borrowers based on student enrollment information provided by third-party servicers or other schools. The enrollment information must establish that the borrower is enrolled as a regular student on at least a half-time basis. If a school grants deferment based on this information, the school must notify the borrower of the deferment and offer the option to cancel deferment and continue repayment of the loan.

If a borrower is attending a school that ceases to qualify as an institution of higher education, the borrower's deferment ends on the date the school ceases to qualify.

Except for a program in dentistry, an in-school deferment may not be granted to a borrower who is serving in a medical internship or residency program.

Graduate fellowship

A borrower may defer repayment if he or she is enrolled and in attendance as a regular student in a course of study that is part of a graduate fellowship program approved by the Department, including graduate or postgraduate fellowship-supported study (such as a Fulbright grant) outside the United States.

To receive deferment for enrollment in a graduate fellowship program, the borrower must provide certification that he or she is engaged in full-time study in an approved graduate fellowship program (or has been accepted by the program).

In-school deferment cite

34 CFR 674.34(b)(1)(i)

Enrollment verification

34 CFR 674.38(a)(2)

Graduate fellowship and rehabilitation training deferments

34 CFR 674.34(b)(1)(ii)
34 CFR 674.34(b)(1)(iii)
34 CFR 674.34(b)(1)(iv)

Approval for graduate fellowship and rehabilitation training programs

The Department bases its approval of graduate fellowship and rehabilitation training programs on the requirements for the Federal Family Education Loan Program— see 34 CFR 682.210(d) and 34 CFR 682.210(e).

Seeking employment deferment cite

34 CFR 674.34(d)

Economic hardship deferment cite

34 CFR 674.34(e)

Rehabilitation training

A borrower may defer repayment if he or she is enrolled in a course of study that is part of a Department-approved rehabilitation training program for disabled individuals.

To receive this deferment, the borrower must provide the school with certification that:

- the borrower is receiving, or scheduled to receive, rehabilitation training from the agency;
- the agency is licensed, approved, certified, or otherwise recognized by a state agency responsible for programs in vocational rehabilitation, drug abuse treatment, mental health services, or alcohol abuse treatment; or by the Department of Veterans Affairs; and
- the agency provides or will provide the borrower rehabilitation services under a written plan that (1) is individualized to meet the borrower's needs; (2) specifies the date that services will end; and (3) is structured in a way that requires substantial commitment from the borrower.

A substantial commitment from the borrower is a commitment of time and effort that would normally prevent the borrower from holding a full-time job either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation.

Seeking full-time employment

A borrower may defer repayment on a Perkins Loan for up to three years, regardless of disbursement date and contrary provisions on the promissory note, if the borrower is seeking and unable to find full-time employment. Schools may determine the documents the borrower must provide to apply for this deferment.

Economic hardship

A borrower is entitled to an economic hardship deferment for periods of up to one year at a time, not to exceed three years cumulatively, if the borrower provides the school with satisfactory documentation showing that he or she is within any of the following categories:

1. has been granted an economic hardship deferment for either a Stafford or PLUS Loan for the same period of time for which the Perkins Loan deferment has been requested;
2. is receiving federal or state public assistance, such as Temporary Assistance to Needy Families (formerly, Aid to Families with Dependent Children), Supplemental Security Income, Food Stamps, or state general public assistance;
3. is working full time and is earning a total monthly gross income that does not exceed \$1,100 (\$1,375 for Alaska, \$1,265 for Hawaii) (see boxed elements);
4. is not receiving total monthly gross income that is more

than twice the amount in (3) above and that income minus an amount equal to the borrower's monthly payments on federal postsecondary education loans does not exceed the amount specified in (3) above;

5. is working full time and has a federal educational debt burden that is 20% or more of the borrower's total monthly gross income and the borrower's total monthly gross income minus such burden is less than 220% of the amount specified in (3) above; or
6. is serving as a volunteer in the Peace Corps.

**ECONOMIC HARDSHIP DEFERMENT:
DETERMINING THE MAXIMUM MONTHLY GROSS INCOME**

To qualify for an economic hardship deferment, the borrower's monthly gross income must not exceed the greater of:

the monthly gross income of a minimum wage earner;

OR

the monthly gross income of a family of two at 100% of the poverty line.

Monthly Gross Income of Minimum Wage Earner

The current minimum wage is available at <http://www.dol.gov/dol/topic/wages/minimumwage.htm>.

$$\text{Monthly Gross Income} = \text{Minimum Wage} \times \frac{(40\text{hrs}) \times (52\text{wksyr})}{(12\text{mos/yr})}$$

As of September 1, 1997, the minimum wage is \$5.15, making the current monthly gross income of a minimum wage earner \$892.66.

Monthly Gross Income of a Family of Two at 100% of the Poverty Line

Annual poverty line guidelines, as defined by Section 673(2) of the Community Service Block Grant Act, are available at <http://aspe.hhs.gov/poverty/poverty.shtml>

$$\text{Monthly Gross Income} = \frac{\text{Annual Poverty Line (yearly)}}{12\text{mos/yr}}$$

For 2007, the monthly gross income for a family of two at the poverty line is:

All states and the District of Columbia (except Alaska and Hawaii).....	\$1,140
Alaska.....	\$1,427
Hawaii.....	\$1,313

For purposes of qualifying under option 3 or 5 of the economic hardship deferment, a borrower is considered to be working full time if he or she is expected to be employed for at least three consecutive months for at least 30 hours per week.

To qualify for a **subsequent** period of deferment that begins less than one year after the end of the deferment described in option 3 or 4 above, the borrower must submit a copy of his or her federal income tax return if the borrower filed a tax return within the eight months preceding the date the deferment is requested.

To receive an initial economic hardship deferment based on option 4 above, the borrower must submit at least the following documentation:

- evidence showing the amount of the borrower's most recent total monthly gross income from all sources—that is, the gross amount of income the borrower received from employment (either full-time or part-time) and from other sources; and
- evidence showing the most recent monthly amount due on each of the borrower's federal postsecondary education loans, as determined by the method described below.

If the repayment schedule for the loan is **10 years or less**, use the actual monthly payment amount. If the repayment schedule for the loan is **more than 10 years**, use a monthly payment amount that would have been due for a 10-year repayment schedule. If the borrower's payments are due less frequently than monthly, use the payment amount that is proportional for a month.

Schools may grant deferments for Peace Corps service for periods longer than one year at a time, but these periods must not collectively exceed three years.

Military service deferment

A borrower who is serving on active duty or performing National Guard duty during a war, military operation, or national emergency does not need to pay principal or interest on Perkins, NDSLs, and Defense Loans. However, note that a student may not be reimbursed for any payments made by or on behalf of a borrower during a period for which the borrower qualified for a deferment.

For purposes of deferment, active duty means full time duty in the active military service of the United States, except that it does not include active duty for training or attendance at a service academy.

For purposes of deferment, performing National Guard duty means training or other duty, other than inactive duty, when called to active service authorized by the President of the United States or Secretary of Defense for a period of more than 30 consecutive days in connection with a war, national emergency, or other military operation.

Proportional monthly amount example

Eric pays \$90 every three months on his Perkins Loan. When he applies for an economic hardship deferment, Rouge College determines his eligibility using a proportional monthly payment amount of \$30.

Military service deferment

34 CFR 674.34(h)

For purposes of deferment, military operation means a contingency operation that is designated by the Secretary of Defense as an operation in which members of the armed forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States or an opposing military force.

For purposes of deferment, national emergency means a national emergency by reason of terrorist attacks as declared by the President on Sept 14, 2001, or subsequent national emergencies declared by the President by reason of terrorist attacks.

Concurrent deferment

Schools must automatically defer loans during periods when the borrower is performing service that will qualify him or her for loan cancellation. Borrowers do not need to apply for concurrent deferment. Schools may grant concurrent deferment for up to 12 months at a time. Concurrent deferment is available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date and contrary provisions on the promissory note.

A borrower who receives concurrent deferment is also entitled to a post-deferment grace period of six consecutive months. Therefore, regardless of the length of time that the eligible service is performed, repayment is deferred during that period of service and does not resume until six months after the cessation of service.

Schools exercising the minimum monthly payment provision listed in the promissory note must cease doing so and grant a deferment to cover any period of qualifying service. The amount to be deferred and subsequently canceled must be calculated using the 10-year repayment period.

Deferments for Loans Made Before July 1, 1993

Parenting deferments

A borrower may defer repayment (and interest will not accrue) during a period of up to one year if the borrower is a mother of a preschool-age child, provided the mother is working (or going back to work) at a salary that is no more than \$1.00 above the minimum hourly wage.

A borrower may also defer repayment for up to six months if the borrower is pregnant, or if he or she is taking care of a newborn or newly adopted child. This deferment is called a parental leave deferment. The borrower must be unemployed and not attending school and must apply for deferment within six months of leaving school or dropping below half-time status.

Concurrent deferment cites

34 CFR 674.34(c)

34 CFR 674.52(d)

Postponement for Loans made Prior to October 7, 1998

Prior to October 7, 1998, a borrower of a Perkins Loan, National Direct Student Loan (NDSL), or National Defense Student Loan (Defense Loan) made before July 1, 1993, could not receive a deferment during a period while he or she was performing a service that would subsequently qualify him or her for cancellation of all or a portion of the loan; rather, he or she could qualify for loan postponement. For information on postponement, see Chapter 6 of the Federal Student Financial Aid Handbook, 1998-99.

Hardship deferments

Loans disbursed before July 1, 1993 are eligible for an additional type of hardship deferment, which is **separate and different** from an **economic** hardship deferment.

Hardship deferments cites

34 CFR 674.35(g)
34 CFR 674.36(e)
34 CFR 674.37(e)

A borrower may defer repayment for hardship, as determined by the school (for example, if the borrower is facing a prolonged period of illness or unemployment). A borrower may qualify for *unlimited* deferments due to hardship.

Interest will continue to accrue during the hardship deferment.

Also, hardship deferments **do not** have post-deferment grace periods.

Exclusive deferments list cites

34 CFR 674.35(c)
34 CFR 674.36(c)

Deferment Exclusive to Perkins Loans Made Before July 1, 1993, and NDSLs Made Between October 1, 1980, and July 1, 1993.

The deferments in this section are only available for Perkins Loans made before July 1, 1993, and NDSLs made between October 1, 1980 and July 1, 1993. See the subsections following this list for more details on these deferments and for information on additional deferments.

A borrower may defer repayment for up to three years and interest will not accrue while he or she is:

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the armed forces;
- an officer in the Commissioned Corps of the U.S. Public Health Service;
- **(for Perkins Loans made before July 1, 1993, only)** on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps;
- a Peace Corps or Americorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer **or** comparable service (see below);
- temporarily totally disabled or unable to work because he or she must care for a **spouse or other dependent** who is so disabled;
- **(for Perkins Loans made before July 1, 1993, only)** a working mother (up to 12 months deferment); and
- **(for Perkins Loans made before July 1, 1993, only)** a new parent (up to six months deferment).

Service Comparable to Peace Corps/ Americorps*VISTA Volunteer

A borrower is considered to be providing service comparable to Peace Corps or Americorps*VISTA service if he or she meets **all** of the following five criteria:

1. The borrower serves in an organization that is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954;
2. The borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions;
3. The borrower does not receive compensation that exceeds the rate prescribed under Section 6 of the Fair Labor Standards Act of 1938 (the federal minimum wage), except that the tax-exempt organization may provide the volunteer with health, retirement, and other fringe benefits that are substantially equivalent to the benefits offered to other employees of the organization;
4. The borrower, as part of his or her duties, does not give religious instruction, conduct worship service, engage in religious proselytizing, or engage in fund-raising to support religious activities; and
5. The borrower has agreed to serve on a full-time basis for a term of at least one year.

Peace corps/Americorps*VISTA deferment cites

34 CFR 674.35(c)(5)
34 CFR 674.36(c)(4)

Temporary Total Disability Deferment

An affidavit from a qualified physician¹ is required to prove disability. A borrower is temporarily totally disabled if he or she is, due to illness or injury, unable to attend an eligible school or to be gainfully employed during a reasonable period of recovery.

A borrower may receive deferment for temporary total disability of a spouse or dependent if the spouse or dependent requires continuous nursing or other services from the borrower for a period of at least three months due to illness or injury.

The definition of dependent for temporary total disability deferment purposes is the same as the definition used in the *Free Application for Federal Student Aid* (FAFSA) for a member of the independent applicant's household: A borrower's dependent is a child who receives more than half of his or her financial support from the borrower or another person who lives with the borrower and who receives more

Temporary total disability deferment cites

34 CFR 674.35(c)(6)
34 CFR 674.36(c)(5)

1. A qualified physician is a doctor of medicine or osteopathy who is legally authorized to practice medicine.

Internship deferment cites

34 CFR 674.35(d)

34 CFR 674.36(d)

Deferments Exclusive to Loans Made Before October 1, 1980

For information on deferment provisions exclusive to loans made before October 1, 1980, see the 1994-95 Federal Student Financial Aid Handbook or 34 CFR 674.37.

Deferment and default cite

34 CFR 674.38(b)

than half of his or her financial support from the borrower.

Internship/Residency Deferment

A borrower who is serving in a medical internship or residency program is not considered to be in school for deferment purposes and may not receive an in-school deferment on that Perkins Loan for the internship or residency program; however, the borrower is eligible for an **internship deferment** for up to two years.

While the borrower is serving an eligible internship, he or she may defer repayment for up to two years. Interest will not accrue during the internship deferment. An eligible internship is one that requires the borrower to hold at least a bachelor's degree before beginning the program.

The internship must also be *required by a state licensing agency* as a prerequisite for certification of the individual for professional practice or service. The borrower must provide the school certification from an official of the appropriate state licensing agency indicating that the successful completion of the internship is required by the state licensing agency as a prerequisite for certification for professional practice or service. The borrower must further provide a statement from the organization where the borrower will be an intern certifying:

- that applicants must hold a bachelor's degree to be admitted into the internship program;
- that the borrower has been accepted into the internship program; and
- the dates when the borrower is expected to begin and complete the program.

Borrowers of Perkins Loans made before July 1, 1993, may alternatively show that the internship or residency program *leads to a degree or certificate* awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training. The borrower must provide the school with a statement from an authorized official of the internship program certifying that:

- an individual must have a bachelor's degree to be admitted into the program;
- the borrower has been accepted into the program; and
- the internship or residency program leads to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

Deferment and Default

A borrower is not entitled to a deferment on a defaulted loan. If the borrower signs a new repayment agreement, however, a school may grant a deferment even if the school has “accelerated”* the loan. The school would have to de-accelerate the loan before granting the deferment. The policy permitting deferments on defaulted loans applies to all requests for deferment received after February 3, 1988, regardless of the date the loan was made.

The borrower must file for deferment by a deadline that the school establishes and provide satisfactory documentation that he or she qualifies for the deferment.

Before granting a deferment on a defaulted loan, the school may require the borrower to pay immediately late fees, collection costs, and some or all of the amount past due as of the date on which the school determined that the borrower had demonstrated eligibility for a deferment. The Department encourages schools to require the borrower to do so, thus “curing” the default.

A school is not required to grant deferments on loans in default. However, if a school does so, it is expected to calculate past-due accrued interest. If a school believes this is too burdensome, it may deny deferments on defaulted loans.

Deferment vs. In-School Enrollment Status

Sometimes the borrower transfers to another school—successfully maintaining at-least-half-time enrollment and therefore maintaining in-school status—but the borrower does not notify the school that he or she has transferred until after the initial grace period expires. In this situation, the borrower often requests deferment when he or she is actually entitled to continuation of his or her in-school status.

In such cases, the borrower may submit proof at any time—even after a loan has been accelerated—that he or she reenrolled at least half-time before the initial grace period expired. Upon receipt of this proof, **the school must recalculate the first date of repayment.** The school must also deduct from the loan balance any interest accrued and any late charges added before the date the repayment period actually should have begun. The borrower is entitled to a full initial grace period when he or she ceases half-time enrollment in the new program.

Note that the borrower remains responsible for payments that would have been due under the recalculated repayment period and that the school is not obligated to grant a deferment for any payments past due under that period.

*Loan acceleration is one of the penalties a school may impose on a defaulted loan. A loan that has been accelerated becomes due and payable immediately in one lump sum.

In-school status cite

34 CFR 674.38(c)

Cancellation procedures

34 CFR 674.52

PERKINS CANCELLATION

The Higher Education Act was amended to extend all service cancellations to all Perkins, NDSL, and Defense Loan borrowers who were previously ineligible as of October 7, 1998. However, only periods of qualifying service performed on or after October 7, 1998, are eligible for cancellation benefits if the borrower was not previously eligible due to the date the loan was made.

Application for Cancellation

The following cancellation application procedures apply to any loan under this program.

The borrower applies for cancellation of his or her loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan (or from the school's billing service if it uses one). The borrower submits the form to the school, along with any supporting documentation the school requests, by the deadline the school establishes. Schools determine, based on the borrower's documentation, whether the borrower is entitled to have any portion of his or her loans canceled. This responsibility cannot be delegated. For information on documentation, see the appropriate cancellation category in this section.

For teacher cancellations, the cancellation form the borrower files must be signed by an official in the school system or agency to certify the borrower's service.

Cancellation Rates

With the exception of cancellations for Head Start, military, and volunteer service, the cancellation rate per completed academic year of full-time teaching or for each year of otherwise qualifying full-time service is:

- 15% of the original principal loan amount—plus the interest that accrued during the year—for each of the first and second years;
- 20% of the original principal loan amount—plus the interest that accrued during the year—for each of the third and fourth years; and
- 30% of the original principal loan amount—plus any interest that accrued during the year—for the fifth year.

A “year of service” consists of 12 consecutive months of service. (See exceptions for teacher cancellation later in this chapter.) For cancellation rates for Head Start, military, and volunteer service, please see the corresponding sections in this chapter.

Concurrent Deferment

Schools must automatically defer loans during periods of service for which schools also grant loan cancellation. Borrowers do not need to apply for these automatic deferments.

Payment Refund

Schools may not refund payments made during a period for which the borrower qualified for a cancellation, unless the borrower made the payment because of the school's error. To reduce the chance of error, a school should keep the borrower informed of any new cancellation benefits.

Payment refund cite

34 CFR 674.62(b)

CANCELLATION RESTRICTIONS

Prior Service

Schools may not cancel any portion of a loan for services the borrower performed either before the date the loan was disbursed or during the enrollment period covered by the loan.

Prior service cite

34 CFR 674.62(d)

Defaulted Loans

A school may cancel a defaulted loan if the only reason for the default was the borrower's failure to file a cancellation request on time.

Defaulted loans cite

34 CFR 674.52(c)

If the loan has already been **accelerated**, only eligible service performed **prior** to the date of acceleration can be considered for cancellation. A borrower is not entitled to cancellation for any eligible service performed **after** the date of acceleration.

National and Community Service Act of 1990

Schools may not grant cancellation of a Perkins Loan or National Direct Student Loan (NDSL) to a borrower who has received a national service education award for volunteer service with Americorps (Subtitle D of Title I of the National and Community Service Act of 1990).

National community service cite

34 CFR 674.52(e)

Teacher Cancellation

Schools may cancel up to 100% of a Perkins Loan if the borrower has served full time in a **public or nonprofit elementary or secondary school system** as a:

- teacher in a school serving students from low-income families;
- **special-education** teacher, including teachers of **infants, toddlers, children, or youth with disabilities**; or
- teacher in the fields of **mathematics, science, foreign languages, or bilingual education**, or in any other **field of expertise** that is determined by a state education agency to have a shortage of qualified teachers in that state.

Eligibility for teacher cancellation is based on the duties presented in an official position description, not on the position title. To receive a cancellation, the borrower must be **directly employed** by the school system. There is no provision for cancelling Perkins Loans or NDSLs for teaching in postsecondary schools. However, a borrower may receive a Defense Loan cancellation for teaching in a public or private nonprofit postsecondary institution.

Who is a teacher?

A teacher is a person who provides students direct classroom teaching, classroom-type teaching in a non-classroom setting, or educational services directly related to classroom teaching (e.g., school librarian, guidance counselor).

It is not necessary for a teacher to be certified or licensed to receive cancellation benefits. However, the employing school must consider the borrower to be a full-time professional for the purposes of salary, tenure, retirement benefits, and so on. In other words, to qualify, the borrower should accrue the same benefits as teachers who are licensed and/or certified.

A supervisor, administrator, researcher, or curriculum specialist is not a teacher unless he or she primarily provides direct and personal educational services to students.

Under certain conditions, a teacher's aide may be considered eligible for teacher cancellation. The teacher's aide must meet the definition of a "full-time teacher." He or she must have a bachelor's degree and be a professional recognized by the state as a full-time employee rendering direct and personal services in carrying out the instructional program of an elementary or secondary school.

Teacher cancellation cite

34 CFR 674.53

Teacher Loan Forgiveness Application and Forbearance Forms

Dear Colleague Letter CB-06-13

Teacher definition cite

34 CFR 674.51(q)

Service Cancellations

Teaching Cancellations

Schools may cancel up to 100% of a Perkins Loan if the borrower has served full time in a public or nonprofit elementary or secondary school system as a:

- teacher in a school serving students from low-income families;
- special-education teacher, including teachers of infants, toddlers, children, or youth with disabilities; or
- teacher in the fields of mathematics, science, foreign languages, or bilingual education, or in any other field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state.

Other Service Cancellations

Schools may cancel up to 100% of a Perkins Loan if the borrower has served full time as a/an:

- nurse or medical technician providing health care services;
- employee of an eligible public or private nonprofit child or family service agency who is providing or supervising the provision of services to both high-risk children who are from low-income communities, and the families of such children;
- qualified professional provider of early intervention services in a public or other nonprofit program under public supervision;
- staff member in the educational part of a preschool program carried out under the Head Start Act; or
- qualifying law enforcement or corrections officer.

Schools may cancel up to 50% of a Perkins Loan if the borrower has served a period of full-time active duty in the armed forces (that is, the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard), the National Guard, or the Reserves. The service must be in an area of hostilities or an area of imminent danger that qualifies for special pay under Section 310 of Title 37 of the U.S. Code.

Schools may cancel up to 70% of a Perkins Loan if the borrower has served as a Peace Corps or Americorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer.

Teaching both children and adults

34 CFR 674.53(f)

Volunteer teachers are not professionally employed on a full-time basis and, therefore, are not eligible for teacher cancellation benefits.

If the borrower teaches both children and adults, the majority of students must be children for the borrower to qualify for cancellation.

Academic year definition

34 CFR 674.51(a)

What qualifies as teaching full time for a full academic year?

The borrower must teach full time for a full academic year or its equivalent. There is no requirement that a teacher must teach a given number of hours a day to qualify as a full-time teacher; the employing school is responsible for determining whether or not the individual is considered to be a full-time teacher.

An “academic year or its equivalent” for teacher cancellation purposes is defined as one complete school year or two half years that are:

- from different school years, excluding summer sessions;
- complete;
- consecutive; and
- generally fall within a 12-month period.

A borrower who cannot complete the academic year because of illness or pregnancy may still qualify for cancellation if he or she has completed the first half of the academic year and has begun teaching the second half, but the borrower’s employer must consider the borrower to have fulfilled his or her contract for the academic year.

Incomplete year due to illness or pregnancy

34 CFR 674.52(b)(2)

What if the borrower teaches part time at multiple schools?

Schools must grant cancellation to a borrower who is simultaneously teaching part time in two or more schools *if* an official at one of the schools where the borrower taught certifies that the borrower taught full time for a full academic year. For example:

- under a consortium agreement, a borrower may be employed by the consortium and teach at member schools;
- two or more schools, by mutual agreement, could arrange to have one school employ the borrower on a full-time basis and then hire out his or her services to the other school(s) involved in the agreement; or
- a borrower can be considered to have been a full-time teacher for an academic year if he or she can obtain appropriate certifications that he or she has taught in two half-time teaching positions for a complete academic year in two elementary or secondary schools or in two secondary schools.

Teaching in multiple schools simultaneously

34 CFR 674.52(b)(1)(i)

A school may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily determine that the teaching was full time.

What if the borrower teaches in a private school?

A borrower may receive teacher cancellation for services performed in a private elementary or secondary school or academy, if the private school or academy has established its nonprofit status with the Internal Revenue Service (IRS) and if the school or academy is providing elementary or secondary education according to state law. The school or academy does not necessarily need to be accredited for a borrower teaching there to qualify for teacher cancellation.

What if the borrower teaches in a preschool or prekindergarten program?

A borrower may receive teacher cancellation for teaching service performed in a preschool or prekindergarten program only if the state considers the program to be a part of its elementary education program. A low-income-school-directory designation that includes prekindergarten or kindergarten does not suffice for a state determination of program eligibility. The school must check with the state superintendent of public instruction to determine whether these programs are part of the state elementary education program.

A borrower cannot receive teacher cancellation for teaching service performed in a Job Corps Project unless the teaching is conducted in an elementary or secondary school or school system.

Cancellation for teaching in low-income schools

A cancellation based on teaching in a school serving students from low-income families may be granted only if the borrower taught in an eligible school that is listed in the *Directory of Designated Low-Income Schools for Teacher Cancellation Benefits*. The Department compiles and publishes this directory of low-income schools annually after consulting with each state's educational agency.

The Directory lists, on a state-by-state and territory-by-territory basis, the schools in which a borrower may teach during the school year to qualify for deferment and cancellation benefits. The Directory is currently available in electronic format at:

<http://www.tcli.ed.gov/CBSWebApp/tcli/TCLIPubSchoolSearch.jsp> .

Low-income schools

34 CFR 674.53(a)

Low-Income Schools: Developing the Directory

The Department considers a school to be a low-income school only if:

- 1) it is in a school district that qualifies for federal funding based on the large number of low-income families in the district; and
- 2) more than 30 percent of the school's enrollment is made up of children from low-income families.

Information about the compilation and publication of the directory is available from the Campus-Based Call Center at 1-877-801-7168.

Contact Person: Pamela Wills	U.S. Department of Education
	Campus-Based Operations
	UCP, Sixth Floor
	830 First Street, NE
	Washington, DC 20202-5453

BIA schools

34 CFR 674.53(a)(5)

All elementary and secondary schools operated by the Bureau of Indian Affairs (BIA) are considered to qualify as schools serving low-income families for the purpose of teacher cancellations of Perkins Loans and NDSLs. Elementary and secondary schools operated on reservations by Indian tribal groups under contract with the BIA are also considered to qualify for this purpose.

Losing low-income status

34 CFR 674.53(a)(6)

If a borrower is teaching at a school that is on the list one year but not in subsequent years, the borrower may continue to teach in that school and remain eligible to receive a cancellation for service in that school. If a list is not available before May 1st of any year, the Department may use the previous year's list to make the service determination for that year.

Cancellation for teaching in special education

Special education

34 CFR 674.51(q)(3)

A person who provides one of the following services does not qualify as a teacher unless (1) that person is licensed, certified, or registered by the appropriate state education agency for that area in which he or she is providing related special educational services and (2) the services provided by the individual are part of the educational curriculum for handicapped children:

- speech and language pathology and audiology;
- physical therapy;
- occupational therapy;
- psychological and counseling services; or
- recreational therapy.

Cancellation for teaching in a field of expertise

For a borrower to be considered as teaching in a field of expertise that has been identified by a state education agency to have a shortage of teachers, the majority of classes taught must be in that field of expertise.

A borrower who is teaching in science, mathematics, foreign language, or bilingual education qualifies for cancellation even if the State has not designated the subject area in which he or she is teaching as a shortage area.

Nurse or Medical Technician Cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full time as a **nurse** or **medical technician** providing health care services. The borrower must provide health care services *directly* to patients. (See definitions at the end of this chapter.)

Child or Family Services Cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full time as an employee of an eligible public or private nonprofit child or family service agency and has provided or supervised the provision of services to both **high-risk children** who are from **low-income communities** and the families of such children.

To receive loan cancellation for being employed at a child or family service agency, a borrower must be providing services only to high-risk children who are from low-income communities. The borrower must provide services directly and exclusively to high-risk children from low-income communities or must supervise employees who provide services directly and exclusively to such children. The borrower may also be providing services to adults, but these adults must be members of the families of the children for whom services are provided. The services provided to adults must be secondary to the services provided to the high-risk children.

The types of services a borrower may provide to qualify for a child or family service cancellation include child care and child development services, health, mental health and psychological services, as well as social services. The Department has determined that an elementary or secondary school system or a hospital is not an eligible employing agency.

When reviewing child or family service cancellation requests, Perkins schools and their servicers should refer to Dear Colleague Letter GEN-5-15, which provides a more detailed discussion of the eligibility requirements for child or family service cancellations.

Early Intervention Cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has been employed full time as a **qualified professional provider of early intervention services** in a public or other nonprofit program under public supervision.

Field of expertise

34 CFR 674.51(r)

Nurse or medical technician

34 CFR 674.56(a)

Child or family services agency eligibility cite

34 CFR 674.56(b)

GEN-05-15

Sec. 465(a)(2)(I) of the HEA

Early intervention

34 CFR 674.56(c)

Head Start cite

34 CFR 674.58

Head Start Cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full time as a staff member in the educational part of a preschool program carried out under the Head Start Act.

A full-time staff member is someone who is regularly employed in a full-time professional capacity to carry out the educational part of a Head Start Program. The program must operate for a full academic year, or its equivalent, and the borrower's salary may not be more than that of a comparable employee working in the local educational agency. An authorized official of the Head Start Program must sign the borrower's cancellation form to certify the borrower's service. The cancellation rate is 15% of the original principal loan amount—plus the interest that accrued during the year—for each complete school year.

Law enforcement cite

34 CFR 674.57

Law Enforcement or Corrections Officer Cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full time as a qualifying law enforcement or corrections officer.

To establish the eligibility of a borrower for the law enforcement or corrections officer cancellation provision, the school must determine that (1) the borrower's employing agency is eligible and that (2) the borrower's position is essential to the agency's primary mission.

1. A local, state, or federal agency is an eligible employing agency if it is publicly funded and its activities pertain to crime prevention, control, or reduction or to the enforcement of the criminal law. Such activities include, but are not limited to, police efforts to prevent, control, or reduce crime or to apprehend criminals; activities of courts and related agencies having criminal jurisdiction; activities of corrections, probation, or parole authorities; and problems relating to the prevention, control, or reduction of juvenile delinquency or narcotic addiction.

Agencies that are primarily responsible for enforcement of civil, regulatory, or administrative laws are ineligible. However, in recognition of the fact that the activities of many divisions and bureaus within local, state, and federal agencies pertain to crime prevention, control, or reduction, or to the enforcement of criminal law, the Department has determined that a sub-unit within a larger, non-law enforcement agency may qualify as a law enforcement agency for purposes of a law enforcement cancellation.

2. For the borrower's position to be considered essential to the agency's primary mission, he or she must be a full-time employee of an eligible agency and a sworn law enforcement or corrections officer or person whose principal responsibilities are unique to the criminal justice system and are essential in the performance of the agency's primary

mission. The agency must be able to document the employee's functions.

Individuals whose official responsibilities are supportive, such as those that involve typing, filing, accounting, office procedures, purchasing, stock control, food service, transportation, or building, equipment, or grounds maintenance are not eligible for the law enforcement or correction officer loan cancellation, regardless of where these functions are performed.

Prosecuting attorneys whose primary responsibilities are to prosecute criminal cases on behalf of public law enforcement agencies are eligible for cancellation benefits.

However, a borrower employed as a public defender does not qualify for cancellation benefits under this provision.

Military Service Cancellation

Schools must cancel up to 50% of a Perkins Loan if the borrower has served a period of full-time active duty in the armed forces (that is, the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard), the National Guard, or the Reserves. The service must be in an **area of hostilities** or an **area of imminent danger** that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. The cancellation rate for every complete year of qualifying service is 12.5% of the original principal loan amount plus any interest that accrued during the year.

To qualify for military cancellation, a borrower must be serving a period of full-time active duty in the armed forces (that is, the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard). A member of the National Guard or the Reserves serving a period of full-time active duty in the armed forces is also eligible to receive a military deferment. For a Perkins Loan or NDSL cancellation, the service in the armed forces must be in an **area of hostilities** or an **area of imminent danger** that qualifies for special pay under Section 310 of Title 37 of the U.S. Code. For Defense Loan cancellation, the service does not have to be in an area of hostilities or area of imminent danger. The borrower's commanding officer must certify the borrower's service dates.

The cancellation rate of 12.5% of the original principal loan amount is for each **complete** year of service. Service for less than a complete year or a fraction of a year beyond a complete year does not qualify. A complete year of service is 12 consecutive months. The Department of Defense does not prorate or reduce a hostile fire/imminent danger pay area payment if the service in the hostile fire/imminent danger pay area is for a period of time less than a full month. If a member of the U.S. Armed forces is on active duty in a hostile fire/imminent danger pay area for any part of a month, the service member qualifies for the full payment of hostile fire/imminent danger pay for that month. Therefore, the Department of Education has determined that if a borrower is on active duty in a hostile fire/imminent danger pay area for any part of a month, that month counts towards the borrower's eligibility for a military cancellation.

Military service

34 CFR 674.59

Cancellations for Defense Loans

Borrowers of Defense Loans are eligible for additional teaching cancellations. See 34 CFR 674.55.

DoD Hostile Fire/Imminent Danger pay areas list

The Department of Defense maintains an updated listing of hostile fire/imminent danger pay areas at the following URL:
<http://www.dod.mil/comptroller/fmr/07a/index.html>

Volunteer Service Cancellation

Schools must cancel up to 70% of a Perkins Loan if the borrower has served as a Peace Corps or Americorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer. An authorized official of the Peace Corps or Americorps*VISTA program must sign the borrower's cancellation form to certify the borrower's service. Americorps volunteers do not qualify for this cancellation unless their volunteer service is with Americorps*VISTA. An Americorps*VISTA volunteer may only qualify for this cancellation if the Americorps*VISTA volunteer elects not to receive a national service education award for his or her volunteer service. The Americorps*VISTA volunteer must provide appropriate documentation showing that the volunteer has declined the Americorps national service education award. Schools apply cancellation for volunteer service in the following increments:

- 15% of the original principal loan amount—plus any interest that accrued during the year—for each of the first and second 12-month periods of service; and
- 20% of the original principal loan amount—plus any interest that accrued during the year—for each of the third and fourth 12-month periods of service.

Reimbursing Amounts Cancelled

For Perkins Loans and NDSLs, the Department will reimburse each school every award year for the principal and interest canceled from its Perkins Loan Fund for all of the cancellation provisions except for death, total and permanent disability, bankruptcy, and closed school discharge. The school must deposit in its fund the amount reimbursed. Note that interest does not accrue on any loan during the period that a borrower is performing service to qualify for cancellation benefits. Schools are not required to deposit reimbursements for loans made prior to July 1, 1972, into the Perkins Loan Fund. These reimbursements are considered institutional funds. For more information and a full Q&A on reimbursing amounts cancelled, see Dear Colleague Letter CB-05-08.

Volunteer service cite

34 CFR 674.60

Cancellation reimbursement

34 CFR 674.63(b)
DCL CB-06-07

U.S. ARMY LOAN REPAYMENT PROGRAM

It is useful to know that the U.S. Army offers a loan repayment program as an enlistment incentive. If a Perkins Loan (or Stafford Loan) borrower serves as an enlisted person in the U.S. Army, in the Army Reserves, or in the Army National Guard, the U.S. Department of Defense will repay a portion of the loan. For more information, the student should contact his or her local military recruiting office. This is a recruitment program, not a cancellation, and does not pertain to an individual's prior Army service.

DEFINITIONS

Definitions cite

34 CFR 674.51

The following are definitions of terms used in this chapter:

Children and youth with disabilities. Children and youth from ages three through twenty-one, inclusive, who require special education and related services because they have disabilities as defined in section 602(3) of the Individuals with Disabilities Education Act (the Act).

The Act defines a “child with a disability” as one (1) with mental retardation, hearing impairments (including deafness), speech or language impairments, visual impairments (including blindness), serious emotional disturbance, orthopedic impairments, autism, traumatic brain injury, other health impairments, or specific learning disabilities; and (2) who, by reason thereof, needs special education and related services.

For a child age three through nine, the term a “child with a disability” may include, at the discretion of a state and the local education agency, individuals (1) experiencing developmental delays, as defined by the state and as measured by appropriate instruments and procedures, in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development; and (2) who, by reason thereof, require special education and related services.

Early intervention services. Those services defined in section 632(4) of the Individuals with Disabilities Education Act that are provided to infants and toddlers with disabilities.

High-risk children. Individuals under the age of 21 who are low-income or at risk of abuse or neglect, have been abused or neglected, have serious emotional, mental, or behavioral disturbances, reside in placements outside their homes, or are involved in the juvenile justice system.

Infants and toddlers with disabilities. Infants and toddlers under age three, inclusive, who need early intervention services for specified reasons, as defined in section 632(5)(A) of the Individuals with Disabilities Education Act.

The Act defines an infant or toddler with a disability as an individual under three years of age who needs early intervention services because the individual (1) is experiencing developmental delays, as measured by appropriate diagnostic instruments and procedures in one or more of the areas of cognitive development, physical development, communication development, social or emotional development, and adaptive development; or (2) has a diagnosed physical or mental condition which has a high probability of resulting in developmental delay.

The term **infants and toddlers with disabilities** may also

include, at a state's discretion, individuals under age three, who are at risk of having substantial developmental delays if early intervention services are not provided.

Low-income communities. Communities in which there is a high concentration of children eligible to be counted under Title I of the Elementary and Secondary Education Act of 1965, as amended.

Medical Technician. An allied health professional (working in fields such as therapy, dental hygiene, medical technology, or nutrition) who is certified, registered, or licensed by the appropriate state agency in the state in which he or she provides health care services; an allied health professional is someone who assists, facilitates, or complements the work of physicians and other specialists in the health care system. You can find a list of accredited allied health professions at [<http://www.ama-assn.org/ama/pub/category/10481.html>]. Note that *this is not a complete list of all allied health professions.*

Nurse. A licensed practical nurse, a registered nurse, or other individual who is licensed by the appropriate state agency to provide nursing services.

Qualified professional provider of early intervention services. A provider of services, as defined in section 632 of the Individuals with Disabilities Education Act.

Section 632 of that Act defines early intervention services as developmental services that:

- are provided under public supervision;
- are provided at no cost except where federal or state law provides for a system of payments by families, including a schedule of sliding fees;
- are designed to meet the developmental needs of an infant or toddler with a disability in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development;
- meet the standards of the state in which they are provided;
- are provided by qualified personnel, including: special educators; speech and language pathologists and audiologists; occupational therapists; physical therapists; psychologists; social workers; nurses; nutritionists; family therapists; orientation and mobility specialists; and pediatricians and other physicians;
- to the maximum extent appropriate, are provided in natural environments, including the home, and community settings in which children without disabilities participate; and

- are provided in conformity with an individualized family service plan adopted in accordance with section 636 of the Individuals with Disabilities Education Act.

Under the Individuals with Disabilities Education Act, early intervention services include: family training, counseling, and home visits; special instruction; speech-language pathology and audiology services; occupational therapy; physical therapy; psychological services; service coordination services; medical services only for diagnostic or evaluation purposes; early identification, screening, and assessment services; health services necessary to enable the infant or toddler to benefit from the other early intervention services; social work services; vision services; assistive technology devices and services; and transportation and related costs necessary to enable infants, toddlers, and their families to receive other services identified in 632(4).

Teaching in a field of expertise. The majority of classes taught are in the borrower's field of expertise.

Perkins Billing, Collection, and Default

Your school must follow the Due Diligence requirements of Subpart C of the Perkins regulation (34 CFR 674.41-50). You must afford the borrower maximum opportunity to repay a Federal Perkins Loan. Specific steps the school must take include (but are not limited to) billing the borrower, sending overdue notices, and conducting address searches if the borrower cannot be located. If billing procedures fail, a school must take more aggressive collection steps such as hiring a collection firm and/or litigating. Default in the Federal Perkins Loan Program is defined as “the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement.”

PERKINS COLLECTION REQUIREMENTS

While billing and collection activities involve many steps, there are general requirements that your school must adhere to at all times. For information about maintaining billing and collection records, see Chapter 1 of this volume.

You must inform the borrower of all program changes that affect his or her rights and responsibilities. Your school must respond promptly to the borrower’s inquiries. If a borrower disputes a loan and you cannot resolve the dispute, you must explain the services provided by the Department’s Federal Student Aid (FSA) Ombudsman’s office.

Keeping current information on a borrower makes it easier for the school to know when repayment must begin and where to send billing notices. The various offices at the school—the admissions, business, alumni, placement, financial aid, and registrar’s offices, and others, as necessary—must provide any available information about the borrower that is relevant to loan repayment, including:

- the borrower’s current enrollment status;
- the borrower’s expected graduation or termination date;
- the date the borrower officially withdraws, drops below half-time enrollment, or is expelled; and
- the borrower’s current name, address, telephone number, Social Security number, and driver’s license number (if any).

EXIT INTERVIEWS

Contact with the borrower becomes even more important as the borrower’s last day of attendance approaches. Your school must conduct exit counseling with borrowers either in person, by audiovisual presentation, or by interactive electronic means. (If you conduct exit counseling through interactive electronic means, you must take reasonable steps to ensure that each student borrower receives the counseling materials and participates in and completes the exit coun-

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General requirements

General

34 CFR 674.41(a)

Coordination of information

34 CFR 674.41(b)

Exit interview

34 CFR 674.42(b)

FSA Ombudsman

The Ombudsman’s office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman.

Office of the Ombudsman	Toll-free:	1 (877) 557-2575
U.S. Dept. of Education		1 (202) 377-3800
830 First St NE	Fax:	1 (202) 275-0549
Mailstop #5144		
Washington, DC 20202-5144		http://fsahelp.ed.gov

seling.) Schools must conduct this counseling shortly before the student graduates or drops below half-time enrollment (if known in advance). If individual interviews are not possible, group interviews are acceptable. Your school may employ third party servicers to provide Perkins Loans borrowers with exit counseling.

As an alternative, in the case of students enrolled in a correspondence program or a study-abroad program that your school approves for credit, you may provide written counseling materials by mail within 30 days after the borrower completes the program.

During the exit interview, the financial aid counselor must review and update all of the repayment terms and information addressed in the initial loan counseling session. (See chapter 3 for a list of information included in the loan counseling session.) The school must also exchange the following additional information with the borrower:

- the name and address of the borrower’s expected employer;
- debt-management strategies that would facilitate repayment;
- the availability of Title IV loan information on the National Student Loan Database System (NSLDS); and
- how to contact the FSA Ombudsman’s office and an explanation of the services this office provides.

The financial aid counselor must emphasize the seriousness and importance of the repayment obligation the borrower is assuming, describing the likely consequences of default, including adverse credit reports, litigation, and referral to a collection agency. The counselor must further emphasize that the borrower is obligated to repay the full amount of the loan even if the borrower has not completed the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with the school’s educational or other services.

NSLDS

Web site

<http://www.nsls.ed.gov>

Phone number

1 (800) 4FEDAID

If the borrower withdraws from school without the school's prior knowledge or fails to complete an exit counseling session, the school must provide exit counseling through either interactive electronic means or by mailing counseling material to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from school or failed to complete exit counseling.

Finally, schools must document all exit interviews.

DISCLOSURE OF REPAYMENT INFORMATION

Either shortly before the borrower ceases at least half-time study or during the exit interview, schools must disclose critical repayment information to the borrower **in a written statement**. Most of the repayment terms that the school must disclose to the borrower already appear in the promissory note. The school must also give the borrower the following information:

- contact information for requesting a copy of the signed promissory note;
- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the name and address of the party to which payments should be sent;
- the estimated balance owed by the borrower on the date on which the repayment period is scheduled to begin;
- the repayment schedule for all loans covered by the disclosure including the date the first installment payment is due, the rate of interest, and the number, amount, and frequency of required payments; and
- the total interest charges that the borrower will pay on the loan pursuant to the projected repayment schedule.

If your school exercises the minimum monthly payment option, you must inform the borrower that if he or she wants your school to coordinate payments with another school, he or she must request such coordination.

Since schools must conduct exit interviews, schools may find it is most convenient to give the borrower the repayment disclosure during the exit interview.

If a borrower enters the repayment period without the school's knowledge, the school must provide the required disclosures to the borrower in writing immediately upon discovering that the borrower has entered the repayment period.

Disclosure of repayment information

34 CFR 674.42(a)

CONTACT DURING GRACE PERIODS

A school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin or resume.

Your school must contact the borrower three times during the nine-month initial grace period. For a loan with a six-month initial grace period, the school must contact the borrower twice during that period. The school must also contact the borrower twice during any six-month post-deferment grace period. The chart above shows the length of initial and post-deferment grace periods for NDSLs and Perkins Loans.

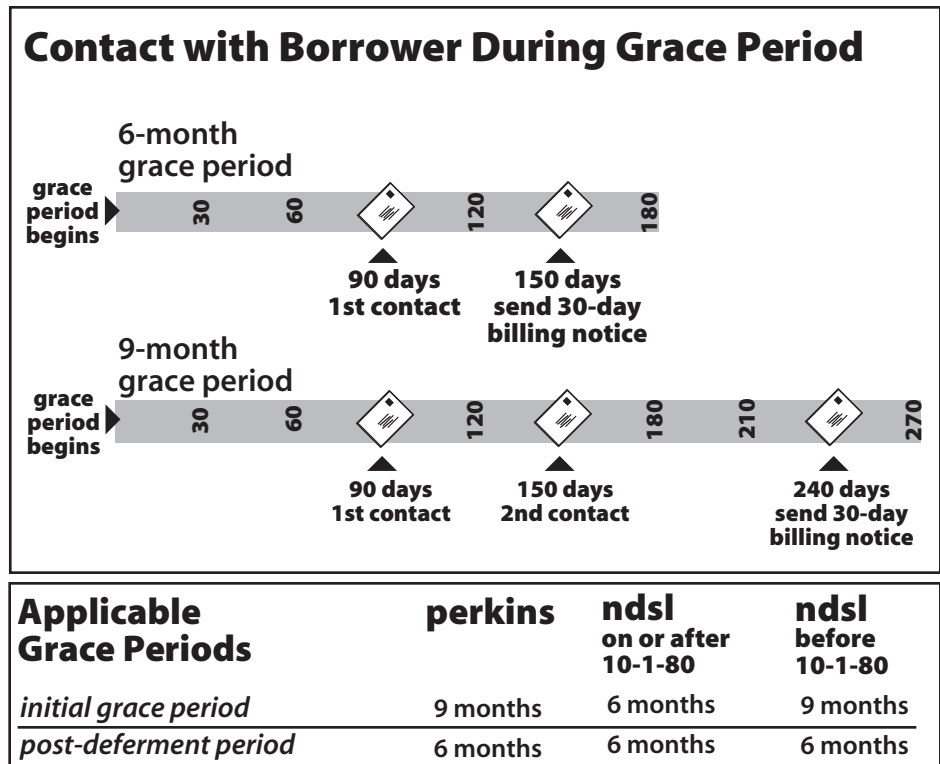
Grace period contact

34 CFR 674.42(c)

The **first contact** must be **90 days** after any grace period (initial or post-deferment) begins. The school must remind the borrower that he or she is responsible for repaying the loan. The school must also inform the borrower of the amount of principal and interest, as projected for the life of the loan, and the due date and amount of the first (or next) payment.

The **second contact** must be **150 days** after any grace period begins, when the school must again remind the borrower of the due date and amount of the first (or next) payment. For loans with six-month grace periods, the second contact should coincide with the first billing notice. These two notices may be combined.

For loans with nine-month grace periods, the school must make a **third contact 240 days** after the grace period begins to remind the



borrower of the date and amount of the first payment. This contact should coincide with the first billing notice. Again, the school may combine the two notices.

BILLING PROCEDURES AND OVERDUE PAYMENTS

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

The school may choose a coupon payment system as its method of billing. If so, the school must send the coupons to the borrower at least 30 days before the first payment is due.

If the school does not use a coupon system, it must, at least **30 days** before the first payment is due, send the borrower a statement of account and a written notice giving the name and address of the party to which payments should be sent. The statement of account includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment. For subsequent payments, the school must send the borrower a statement of account at least **15 days** before the due date of the payment.

If the borrower elects to make payments by means of an electronic transfer of funds from the borrower's bank account, the school is not required to send the borrower a statement of account at least 15 days before the due date of each subsequent payment. However, the school must send the borrower an annual statement of account.

Late Charges

The assessment of late charges on an overdue Perkins Loan borrower is now optional. However, a school that adopts a policy of assessing late charges must impose them on all borrowers with overdue payments. The charge is based either on the actual costs the school incurs in taking steps to obtain the overdue amount or on average costs incurred in similar attempts with other borrowers. The charge may not exceed 20% of the installment payment most recently due.*

If your school assesses a late charge, it must also impose a late charge if a borrower's payment is overdue and the borrower has not filed a complete request for forbearance, deferment, or cancellation on time. (To be complete, the request must contain enough information for you to confirm the borrower's eligibility.) If a school opts to charge late fees, the school may charge late fees only during the billing process; a school may not charge late fees once the school begins collections procedures.

You may add the penalty or late charge to the principal amount of the loan as of the first day the payment was due. Alternatively, you may include the charge with the next payment that is scheduled after the

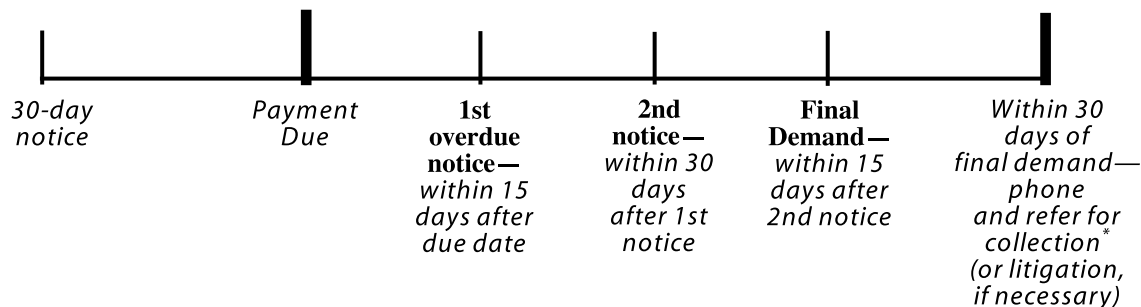
Billing procedures

34 CFR 674.43

Late charges

34 CFR 674.43(b)(2)

Billing Procedures



* The school can use the services of the Department's Default Reduction Assistance Project (DRAP) before the loan goes to a collection firm; DRAP is discussed in chapter 5 of this Volume.

date you notify the borrower that the charge must be paid in full by the next payment due date. You must inform the borrower of the late charge, preferably in the first overdue payment notice.

Optional penalty charge for periods of enrollment beginning before 1/1/86

34 CFR 674.31(b)(5)(iii)

34 CFR 674 Appendix E

Schools are authorized but not required to assess a penalty charge for an overdue payment on a loan made for a period of enrollment that began before January 1, 1986. The maximum penalty charge that may be assessed on a loan payable monthly is \$1 for the first month and \$2 for each additional month a payment is overdue; the maximum penalty for a loan payable bimonthly is \$3; the maximum penalty for loans payable quarterly is \$6. Penalty charges on these loans may be assessed only during the billing process.

For a borrower who repays the full amount of past-due payments, the school may waive any late charges that were imposed.

Notices of Overdue Payments

If a payment is overdue and you have not received a request for forbearance, deferment, or cancellation, you must send the borrower:

the **first** overdue notice 15 days after the payment due date;

the **second** overdue notice 30 days after the first overdue notice;

the **final demand letter** 15 days after the second overdue notice.

The final demand letter must inform the borrower that unless the school receives a payment or a request for forbearance, deferment, or cancellation **within 30 days** of the date of the letter, the school will refer the account for collection or litigation and will report the default to a credit bureau as required by law.

You may skip the first two letters and send just the final demand letter within **15 days** after a payment is overdue if the borrower's repayment history has been unsatisfactory or if you can reasonably conclude the borrower does not intend to repay the loan or to seek forbearance, deferment, or cancellation. A borrower is considered to have an unsatisfactory repayment history if he or she has failed to make payments when due, has failed to request deferment, forbearance, or cancellation on time, or has received a final demand letter.

Contacting the Borrower by Telephone

If the borrower does not respond to the final demand letter within 30 days, you must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, one call may avoid the more costly procedures of collection.

Telephone contact

34 CFR 674.43(f)

34 CFR 674.45(a)(2)

You should make at least two attempts to reach the borrower on different days and at different times. If the borrower has an unlisted telephone number, you must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If you are still unsuccessful, you should document the contact attempts in your files.

Contacting the Endorser—Loans Before July 23, 1992

If the borrower does not respond satisfactorily to the final demand letter, you must try to recover the amount owed from the borrower. For loans made prior to July 23, 1992, the school must also try to collect the amount owed from any endorser of the loan. It may help to send the endorser a copy of the final demand letter that was sent to the borrower and copies of all subsequent notices, including dunning letters. For loans made on or after July 23, 1992, an endorser is no longer required.

Loan Acceleration

You may *accelerate* a loan if the borrower misses a payment or does not file for deferment, forbearance, or cancellation on time. Acceleration means immediately making payable the entire outstanding balance, including interest and any applicable late charges or collection fees. Because this marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower a written acceleration notice at least 30 days in advance. The notice may be included in the final demand letter or in some other written notice sent to the borrower. If the loan is accelerated, you must send the borrower another notice to inform him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. However, if you plan to assign the loan to the Department for collection, you must first accelerate the loan. Once a loan has been accelerated, the borrower loses all rights to deferment and cancellation benefits for qualifying service performed *after* the date of acceleration.

Loan Acceleration

34 CFR 674.43(e)

Address Searches

The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail):

- review the records of all appropriate school offices and
- review printed or web-based telephone directories or check with information operators in the area of the borrower's last known address.

If these methods are unsuccessful, you must intensify efforts to locate the borrower, using either school personnel or a commercial skip-trace firm. If you use school personnel, you must employ and document efforts comparable to commercial skip-tracing firms. You

Address search

34 CFR 674.44

IRS/ED Skip-tracing Program

To help locate a borrower whose collection notices are returned undelivered, a school may participate in the IRS/ED skip-tracing service. The Higher Education Amendments of 1992 eliminated the requirement that schools use the IRS/ED skip-tracing service in carrying out the provisions of due diligence. However, we strongly encourage schools to continue to use this service, which is one of the most powerful tools for locating defaulted borrowers. The Department will continue to post periodic Dear Partner letters that give instructions for completing the Safeguard Procedures and Activity Reports for schools that participate in the Federal Perkins Loan Program.

Schools wishing to participate in the IRS/ED skip-tracing service for the first time must submit a Safeguard Procedures Report. To maintain eligibility to participate in the IRS/ED skip-tracing service, you must submit an annual Safeguard Activity Report, in accordance with the IRS publication 1075. If your school fails to submit the Safeguard Activity Report, it will lose its eligibility to participate in the service. The reports document that the school has procedures to safeguard the names and addresses of defaulted borrowers under the Federal Perkins Loan Program.

General questions should be directed to the Campus-Based Call Center at 1-877-801-7168. Schools may also wish to review Dear Partner Letter CB-02-16, November 2002, for more information about the IRS/ED Skip-tracing Program.

may also choose to use the Internal Revenue Service skip-tracing service provided through the Department.

If you still can't locate the borrower after taking these steps, you must continue to make reasonable attempts at least twice a year until the account is assigned to the Department or the account is written off.

Collection procedures

34 CFR 674.45

Ombudsman information

34 CFR 674.45(h)

Credit bureau reporting

34 CFR 674.45(a)(1)

34 CFR 674.45(b)

DEFAULT AND COLLECTION PROCEDURES

Collection procedures are the more intensive efforts a school must make when borrowers have not responded satisfactorily to billing procedures and are considered seriously in default.

As part of the following collection activities, the school must inform the borrower of the availability of the FSA Ombudsman's Office.

Credit Bureau Reporting

A school must report an account to credit bureaus as being in default when a borrower fails to respond to the final demand letter or the following telephone contact. You must report the default to any one national credit bureau or to an affiliated credit bureau that transmits credit information to one of the three national credit bureaus with which the Department has an agreement (see below). You must report any subsequent changes in the status of the borrower's account to the same national credit bureau, using the procedures required by that credit bureau. You must respond within one month to any inquiry received from any credit bureau about reported loan information. Finally, you must notify all credit bureaus to which you reported the default when a borrower makes six consecutive, on-time monthly payments.

The Department has entered into an agreement with the three national credit bureaus listed below:

Trans Union Corporation	(1-800-888-4213)
Experian (formerly TRW)	(1-888-397-3742)
Equifax	(1-888-202-4025)

National credit bureaus charge fees for their services. These fees differ from credit bureau to credit bureau. Credit bureaus affiliated with the above credit bureaus may have different fees from those of the national credit bureaus. The Department does not keep a list of these affiliated bureaus and their fees.

The Privacy Act authorizes disclosure of a borrower's account information to creditors without the borrower's consent if the disclosure helps enforce the terms and conditions of the loan. You may also make such disclosures about loans that haven't defaulted and/or are being disbursed. Reporting good credit history (as well as reporting defaulted loans) is essential to ensure that current and future creditors have complete information regarding the credit obligations of the borrower.

Under the Fair Credit Reporting Act, a borrower may appeal the accuracy and validity of the information reported to the credit bureau and reflected in the credit report. You should be prepared to handle the appeal and make necessary corrections to the report as required by the provisions of the act.

Efforts to Collect

The school must make a **first effort** to collect using either its own personnel or hiring a collection firm.

If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, or cancel-

Efforts to collect

First effort

34 CFR 674.45(a)(2)

Litigation or second effort

34 CFR 674.45(c)

lation), the school has two options—either to litigate or to make a second effort to collect.

A **second effort** to collect requires one of the following procedures:

If the school first attempted to collect by using its own personnel, it must refer the account to a collection firm unless state law prohibits doing so.

If the school first used a collection firm, it must attempt to collect by using its own personnel or by using a different collection firm, or the school must submit the account to the Department for assignment.

If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the firm must return the account to the school.

If the school is unsuccessful in its effort to place the loan in repayment after following the procedures above, the school must continue to make yearly attempts to collect from the borrower until:

- the loan is recovered through litigation;
- the account is assigned to the Department; or
- the loan is written off.

Ceasing Collection

A school may cease collection activity on defaulted accounts with balances of less than **\$200** (including outstanding principal, accrued interest, collection costs, and late charges) if the school carried out the required due diligence and if the account has had no activity for four years. Although interest will continue to accrue and may put the account over \$200, you will not have to resume collection activity if you document that you ceased collection activity when the account was under \$200. The borrower will remain responsible for repaying the account, including accrued interest. The account will still be included in the school's cohort default rate, if applicable, and the borrower will still be in default and ineligible for FSA funds.

Your school may write off an account with a balance of **less than \$25.00** (including outstanding principal, accrued interest, collection costs, and late charges). Your school may write off an account with a balance of **less than \$50**, if your school appropriately billed the borrower for at least two years. If you write off an account, the borrower is relieved of all payment obligations and you must deduct the amount of the account from the Perkins Loan Fund. If you receive a payment from a borrower after you have written off the loan, you must deposit that payment into the Fund.

Annual efforts to collect

34 CFR 674.45(d)

Ceasing collections

34 CFR 674.47(g)

Account write-off

34 CFR 674.47(h)

Alternatives to Litigation

To avoid litigation, a school may offer to waive collection costs as incentive for repayment. You may waive *all* collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding, including principal and interest; a written repayment agreement is not required. You may also waive a *portion* of the collection costs on a loan if the borrower agrees to pay a corresponding portion of the loan within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays one-half the outstanding balance on a loan within 30 days of the agreement, the school may waive one-half of the collection costs incurred through the date of that payment. The amount of waived collection costs may be charged to the Perkins Loan Fund.

You may compromise the repayment of a defaulted loan if you have fully complied with all due diligence requirements and the borrower pays, in a single lump-sum payment, at least 90% of the outstanding principal balance, plus all interest and collection fees. The federal share of the compromise repayment must bear the same relation to the school's share as the Federal Capital Contribution (FCC) bears to the Institutional Capital Contribution (ICC).

A borrower may rehabilitate a defaulted Perkins Loan by making 12 consecutive on-time payments. A rehabilitated loan is returned to regular repayment status. (See Rehabilitation later in this chapter.)

A borrower may include his or her defaulted Perkins Loan, NDSL, or Defense Loan in a Direct or Federal Consolidation Loan. The amount eligible for consolidation under either program is the sum of the unpaid principal, accrued unpaid interest, late charges, and outstanding collection costs. A defaulted loan that is being repaid under a court order remains in default status until paid and is not eligible for consolidation.

Litigation

If the collection procedures described in this section do not result in the repayment of a loan, the school must review the account for litigation once every two years. If all the conditions are met, the school

Collection costs waiver

34 CFR 674.47(d)

Compromise

34 CFR 674.33(e)

Consolidating Defaulted Perkins Loans

A borrower with a defaulted Perkins Loan and an outstanding FFEL should contact his or her current FFEL lender for information about obtaining a Federal Consolidation Loan.

A borrower with a defaulted Perkins Loan and an outstanding Direct Loan can get information about obtaining a Direct Consolidation Loan by contacting the Direct Loan Consolidation Department at 1-800-557-7392 or by visiting the Direct Loan web site: <http://www.ed.gov/DirectLoan>.

Litigation

34 CFR 674.46

must litigate. The conditions are:

- the total amount owed, including outstanding principal, interest, collection costs, and late charges, on all the borrower's Perkins Loans and NDSLs at the school is more than \$500;
- the borrower can be located and served with process;
- the borrower either has enough assets attachable under state law to cover a major portion of the debt or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time (defining a "reasonable period of time" is left to the school);
- the borrower does not have a defense that will bar judgment for the school; and
- the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

Even if all the above conditions are not met, your school may still choose to sue a defaulted borrower. If the borrower has a partial defense that may bar judgment for the school, you must weigh the costs of litigation against the costs of recovery based on the amount of the enforceable portion of the debt. No federal or state statute of limitation can apply to enforcement actions to collect Perkins Loans or NDSLs.

Your school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. You are also required to try to recover all costs previously incurred in the collection of overdue payments if the borrower has not paid these collection costs; a percentage of these unrecovered costs may be charged to the Fund as explained later in this chapter under "Billing and Collection Costs."

When a school has filed suit to collect a defaulted Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. A defaulted loan that is being repaid under court order remains in default status until paid and is not eligible for consolidation. After a judgment is satisfied on the defaulted loan, the student is again eligible for future awards under these programs if all other eligibility criteria are met.

Your school may assign the account to the Department for collection if the amount outstanding is \$25 or more (including principal, interest, collection costs, and late charges) and your school cannot collect a payment after following all collection procedures (including litigation, if required).

BILLING AND COLLECTION COSTS

Your school must charge the borrower for reasonable **billing** costs associated with past-due payments, if your school opts to charge them (not routine billing costs, which are included in the administrative cost allowance [ACA]), and **collection** costs for address searches, use of contractors for collection of the loan, litigation, and/or bankruptcy proceedings.

If your school cannot recover billing and collection costs from the borrower, you may charge the costs to the Fund, provided the costs fall within the specifications described in the following paragraphs. (Collection costs are included in the ACA, but if collection costs exceed the ACA, you must report the additional costs in the separate collection costs category on the FISAP.)

The only **billing** costs a school may charge the Fund are the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower. Even if the amount recovered from the borrower does not suffice to pay the amount of the past-due payments and the penalty or late charges, the school may charge the Fund only for the unpaid portion of the actual cost of the calls.

The following **collection** costs may be charged to the Perkins Loan Fund if the costs are **waived** or **not paid by the borrower**:

Collection costs waived. If your school waives collection costs as incentive for repayment, the amount waived may be charged to the Fund.

Cost of a successful address search. You may charge to the Fund a reasonable amount for the cost of a successful address search if you used a commercial skip-tracing service or employed your school's personnel to locate the borrower using comparable methods. (Defining a reasonable amount is left to the school.)

Cost of reporting defaulted loans to credit bureaus. You may charge to the Fund the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account, and responding to any inquiry from a credit bureau about the status of a loan.

Costs of first and second collection efforts. You may charge to the Fund collection costs not paid by the borrower if they do not exceed—for first collection efforts—30% of the total principal, interest, and late charges collected and—for second collection efforts—40% of the principal, interest, and late charges collected. The school must reimburse the Fund for collection costs initially charged to the Fund but subsequently paid by the borrower.

Charging costs to the fund

34 CFR 674.47

Collection costs for loans made from 1981 through 1986

For loans made from 1981 through 1986, many promissory notes contain a limitation on the amount of costs that can be recovered from the borrower (25% of the outstanding principal and interest due on the loan). As this provision has not been applicable since the beginning of the 1987-1988 award year, if these borrowers ask for new advances, the Department strongly encourages schools to issue new promissory notes without this provision and to require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for all collection costs on all of his or her outstanding loans borrowed under this program. (However, the advances made prior to the signing of the new note do not qualify for new deferment and cancellation benefits.)

Collection costs resulting from rehabilitation. Collection costs charged to the borrower on a rehabilitated loan may not exceed 24% of the unpaid principal and accrued interest as of the date following application of the twelfth payment. Until July 1, 2002, if the actual collection costs exceed 24% of the unpaid principal and accrued interest, the school may charge the Fund the remaining costs. Collection costs are not restricted to 24% in the event that the borrower defaults on the rehabilitated loan.

Collection costs resulting from litigation, including attorney's fees. Collection costs resulting from litigation, including attorney's fees, may be charged to the Fund if not paid by the borrower, but must not exceed the sum of:

- court costs specified in 28 U.S.C. 1920;
- other costs incurred in bankruptcy proceedings in taking actions required or authorized under 34 CFR 674.49;
- costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- 40% of the total amount recovered from the borrower in any other proceeding.

Costs of firm performing both collection and litigation services. If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the Fund may not exceed the sum of **40%** of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.

Due diligence activities involving **fixed costs** (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the Fund whether or not the actions are successful. Other activities, such as address searches, collection, and litigation (other than bankruptcy), are typically performed on a **contingent-fee** basis. If these activities are *unsuccessful*, there are no costs charged to the school and therefore no costs may be charged to the Fund. If these activities are *successful*, you may charge the associated allowable costs to the Fund.

Assessing and Documenting Costs

You may charge either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency.

Your school must assess all reasonable collection costs against the borrower despite any provisions of state law that would conflict with the above provisions.

You must document the basis for the costs assessed. For audit purposes, a school must keep documentation supporting costs, including telephone bills and receipts from collection firms.

You should provide a notice explaining to the borrower how your school calculates collection costs.

Assessing costs

34 CFR 674.45(e)

USING BILLING AND COLLECTION FIRMS

Your school may use a contractor for billing or collection, but it is still responsible for complying with due diligence regulations regarding those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about canceling, or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

If you use a billing service, you may not use a collection firm that owns or controls the billing service or is owned or controlled by the billing service. In addition, you may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Billing and collection firms

34 CFR 674.48

Account Protection

A school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service.

If you **don't** authorize your collection firm to deduct its fees from borrowers' payments, the firm must be bonded or insured for at least the amount that you expect to be repaid over a two-month period on the assigned accounts.

If you **do** authorize your collection firm to deduct its fees from borrowers' payments, you must ensure that:

- if the amount you expect to be repaid over a two-month period is **less than \$100,000**—the collection firm is bonded or insured for the lesser of (a) 10 times the amount the school expects to be repaid over a two-month period on assigned accounts; or (b) the amount the firm expects to collect in a two-month period on **all** accounts it has in its portfolio (not just the school's account).
- if the amount you expect to be repaid in a two-month period is **\$100,000 or more**—the collection firm has a fidelity bond or comparable insurance **that names your school as the beneficiary** and is bonded or insured for an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period.

At least once a year, the school must review the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

A school using a law firm to collect must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

DEFAULT STATUS AND PERKINS ELIGIBILITY

Satisfactory repayment arrangements

A borrower who is in default on a Perkins Loan may regain eligibility for further federal student aid by making satisfactory repayment arrangements. (See *Volume 1 - Student Eligibility*.) If the borrower has made satisfactory repayment arrangements, the school must appropriately update the loan status code in the National Student Loan Data System.

Loans with judgments

When a school has filed suit to collect a defaulted Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. If the judgment is for less than the outstanding balance on the loan, the school may write off the portion of the loan not covered by the judgment. After a judgment is satisfied on the defaulted loan, the student is again eligible for aid from FSA programs if all other eligibility criteria are met. However, if a borrower has previously satisfied a defaulted student loan **involuntarily** (for instance, through wage garnishment), you should consider this as evidence of unwillingness to repay and should not approve further loan assistance to the borrower.

Previously Defaulted Loans Discharged for School Closure

A Perkins Loan made on or after January 1, 1986, may be discharged if the borrower is unable to complete his or her program of study due to the closure of the school that made the loan. A defaulted borrower whose loan is discharged under this closed school provision is eligible for additional federal student aid, provided that he or she meets all other eligibility criteria. (Schools that close must assign all Perkins Loans to FSA Collections. FSA Collections, or the school, if the school still holds the loan, must report to credit bureaus that the loan has been discharged.)

Closed school discharge

34 CFR 674.33(g)

Perkins Loan Rehabilitation

A borrower may rehabilitate a defaulted Perkins Loan by making 12 consecutive on-time payments. Your school must establish a rehabilitation program and notify all borrowers with defaulted loans of the option to rehabilitate and the advantages of rehabilitation.

Borrowers may not rehabilitate loans on which the holder has obtained a judgment. (If, prior to November 1, 2002, you offered rehabilitation to a borrower for loans with judgments, you should honor the rehabilitation agreement. You do not need to offer rehabilitation again if the borrower misses any of the required payments.) However, your school may enter into an agreement with the borrower that provides the borrower with some of the benefits of rehabilitation. For example, your school could promise to vacate the current judgment and request the removal of the default from the borrower's credit after the borrower makes 12 consecutive payments and signs a new promissory note.

The rehabilitation payments should be sufficient to satisfy the outstanding balance on the loan within a 10-year repayment period. A school may not establish a loan rehabilitation policy that requires defaulted Perkins Loan borrowers to pay the full outstanding balance of the loan within the 12-month rehabilitation period, if such payments would create a hardship for the borrower. In most cases, such a policy would require a borrower to make excessively high monthly payments, and would, in effect, deny the borrower access to a statutorily mandated benefit of the Perkins Loan Program.

Within 30 days of receiving the borrower's last on-time consecutive monthly payment, you must:

- return the borrower to regular repayment status;
- treat the first of the 12 consecutive payments as the first payment in a new 10-year repayment schedule; and
- instruct any credit bureau to which the default was reported to remove the default from the borrower's credit history.

After rehabilitating a defaulted loan and returning to regular repayment status, a borrower regains the benefits and privileges of the promissory note, including deferment and cancellation.

If a borrower chooses to rehabilitate a defaulted loan and then fails to make 12 consecutive on-time payments, the rehabilitation is unsuccessful, but the borrower may still make further attempts to rehabilitate the defaulted loan. Also, if a borrower successfully rehabilitates a defaulted loan and maintains good standing on the loan, the borrower may continue to attempt to rehabilitate other defaulted Perkins loans. However, if the borrower successfully rehabilitates a defaulted loan, but the loan later returns to default, the borrower may not attempt to rehabilitate that loan again or any other defaulted Perkins loan.

Rehabilitation

34 CFR 674.39

PERKINS ASSIGNMENT

You may assign a defaulted Perkins Loan or NDSL to FSA Collections if:

- the school has not been able to collect despite having followed due diligence procedures (including at least a first level of collection and litigation, if required by the regulations in effect on the date the loan entered default);
- the total amount of the borrower's account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is \$25 or more; and
- the loan has been accelerated.

You may not assign a loan to FSA Collections if:

- the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the student loan obligation is nondischargeable and has entered a judgment against the borrower or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;
- your school has sued the borrower (unless the judgment has been entered and assigned to the United States); or
- the loan has been discharged because the borrower has died.

See chapter 1 for assignment of non-defaulted loans (for example if your school is closing or is withdrawing from the Perkins program).

Required Documentation

A school *may be required* to submit the following documents to FSA Collections for any loan it proposes to assign:

- one original and one photocopy of the assignment form—ED Form 553, provided by the Department and completed by the school (the form must include the borrower's Social Security number);
- the original promissory note or a certified copy of the original note;
- a copy of the repayment schedule and a complete statement of the payment history;
- copies of all approved requests for deferment and cancellation;
- a copy of the notice to the borrower of the effective date of acceleration and the total amount due on the loan;
- documentation that the school has withdrawn the loan from any firm that it employed for address search, billing, collection, or litigation services and has notified that firm to cease collection activity on the loans;

Revised Assignment Form and Procedures

34 CFR 674.50

Dear Colleague Letter CB-06-12

Assignment address

A school should mail assignments to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, TX 75403-4136

- copies of all pleadings filed or received by the school on behalf of a borrower who has filed a petition in bankruptcy and whose loan obligation is determined to be nondischargeable;
- a certified copy of any judgment order entered on the loan; and
- documentation that the school has complied with all of the due diligence requirements if the school has a cohort default rate that is equal to or greater than 20% as of June 30 of the second year preceding the submission period.⁰

Assignment under e-signed or Perkins MPN

If you assign loans that were made under an electronically signed promissory note, you must annually submit a description of your school's official electronic signature authentication process. Your school's most recent audit must assess how well your school's e-sign authentication process meets the Department's "Standards for Electronic Signatures in Electronic Student Loan Transactions" (as specified in DCL GEN-01-06)

If you assign loans made under the Perkins MPN, you must maintain disbursement records that document the principal amount loaned until the loan is paid off or otherwise satisfied. You may include disbursement records with the assignment submission. For more details, see Dear Colleague Letter CB-06-12.

Reporting "Date(s) of First Disbursement" on loan manifest

You must report the date each assigned loan was disbursed (attached to the Institutional Certification page of the Perkins Assignment form). The dates listed must match the date of first disbursement initially reported by your school to NSLDS. If multiple loans were combined into one loan, you list the date of first disbursement for the first loan in the combination. If a student received multiple loans reported separately, you list the date of first disbursement for each loan. For more details, see Dear Colleague Letter CB-06-12.

Terms of Assignment

If FSA Collections accepts the assignment of a loan, it will give the school written notice to that effect. **By accepting the assignment, the Department acquires all rights, title, and interest in the loan.** You must endorse and forward to the Department any subsequent payment(s) the borrower may make.

If FSA Collections later determines an assigned loan to be unenforceable because of an act or omission on the part of your school or its agent, your school may have to compensate the Perkins Loan Fund in the amount of the unenforceable portion of the outstanding balance. Once the fund is reimbursed, the Department transfers all rights to the loan back to the school.

A borrower whose loan has been assigned to the United States for collection continues to be in default on the loan and is ineligible for FSA funds until the borrower provides confirmation from FSA Collections that he or she has made satisfactory arrangements to repay the loan.

DEFAULT REDUCTION ASSISTANCE PROGRAM

To assist schools in bringing defaulted borrowers into repayment, the Department has established the Default Reduction Assistance Program (DRAP). Under DRAP, a school can request that the Department send a borrower a letter designed to warn the student of the seriousness of default. The Department provides these services at no cost to the school. Participation in DRAP is voluntary.

To participate in DRAP, you no longer need to use special DRAP software, nor the Student Aid Internet Gateway (SAIG). The new DRAP process will be an entirely web-based process conducted at the new eCampus-Based website (www.cbfisap.ed.gov). Select the “DRAP” link on the top navigation bar to begin.

As DRAP is intended to get the borrower back into repayment **before** the account goes to a collection firm, this service should **not** be requested once a collection agency is involved. DRAP service is usually provided during the 30-day period during which a school is awaiting response to the final demand letter.

Default Reduction Assistance Program

Dear Colleague Letter CB-05-11

General questions about DRAP should be directed to the Campus-Based Call Center at 1-877-801-7168 Monday through Friday, 8 AM to 8 PM EST.

Loans included in the cohort default rate

34 CFR 674.5(c)

Loans not included in CDR

34 CFR 674.5(c)(3)

The term “voluntarily” excludes payments obtained by income tax offset, garnishment, income asset execution, or pursuant to a judgment.

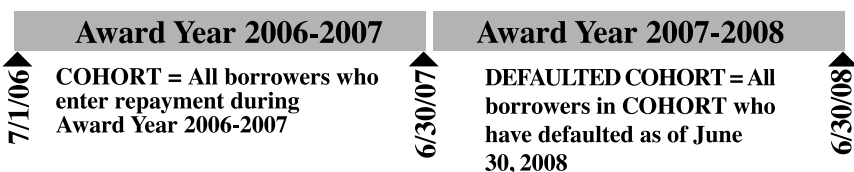
Perkins cohort default rate Booklet

<http://ifap.ed.gov/cbpmaterials/0405PerkinsDCROrngBk.html>

Calculating cohort default rate

34 CFR 674.5(b)

Perkins Default Cohort Periods



PERKINS COHORT DEFAULT RATES

Defining and Calculating the Cohort Default Rate

Your school’s cohort default rate is calculated for a particular year based on information you report in Part 3, Sections D and E of the FISAP.

For any award year in which 30 or more borrowers enter repayment, the **cohort default rate** is the percentage of those current and former students who enter repayment in that award year on loans received for attendance at that school and who default before the end of the following award year.

For any award year in which **fewer** than 30 current and former students at the school enter repayment on a loan received at the school, the **cohort default rate** is the percentage of those current and former students who entered repayment on loans received for attendance at that school in any of the **three** most recent award years and who defaulted on those loans before the end of the award year immediately following the year in which they entered repayment.

Borrowers Entering Repayment

For purposes of the cohort default rate, a loan enters repayment only once in its life. This repayment begins the day after the end of the initial grace period or the day that the borrower waives his or her initial grace period.

Borrowers in Default

A borrower must be included in determining the school's cohort default rate if the borrower's default has persisted for at least 240 consecutive days for a loan repayable monthly or 270 consecutive days for a loan repayable quarterly.

A loan is still considered in default if the school, its owner, agency, contractor, employee, or any other entity or individual affiliated with the school makes a payment to prevent the borrower from defaulting.

In the case of a student who has attended and borrowed at more than one school, the student and his or her subsequent repayment or default are attributed to the school where the student received the respective loan.

A defaulted loan that has been assigned to the Department is counted in determining a school's cohort default rate if the loan entered repayment during the appropriate time period. Assignments of loans to the Department no longer lower a school's default rate. In addition, the status of a loan that has been assigned to the Department is still considered in default until the loan is paid in full, *even if the borrower has made satisfactory arrangements to repay the defaulted loan in order to qualify for additional aid from FSA programs.*

Loan not Included in Cohort Default Rate

The following loans are not treated as defaults in calculating schools' Federal Perkins Loan Program cohort default rates:

- loans on which borrowers have made six consecutive monthly payments;
- loans on which borrowers have "voluntarily" made all payments currently due;
- loans that borrowers have repaid in full;
- loans for which borrowers have received deferments or forbearance based on conditions that began prior to loans becoming 240/270 days past due;

Calculating cohort default rate example

During the 2005-2006 award year, more than 30 borrowers entered repayment at Justinian University. For the Fiscal Operations Report for 20067-2007 and Application to Participate for 2007-2008 (FISAP), Justinian University calculates its cohort default rate in Section D of the FISAP.

DENOMINATOR: Justinian University determines that **500** students entered repayment in the 2006-2007 award year.

NUMERATOR: Justinian University determines that, of the 500 students who entered repayment in the 2005-2006 award year, **10** defaulted by the end of the 2006-2007 award year (June 30, 2007).

Justinian University divides the numerator by the denominator and multiplies by 100:

$$\begin{array}{r} \text{Cohort default rate} = \frac{10}{500} \times 100 \\ = 2\% \end{array}$$

240/270-day delinquency example

If a borrower's loan is in default for at least 240/270 consecutive days and an authorized period of deferment begins after the 239th day past due, the loan would be counted as a default in the school's cohort default rate even if the loan is in a deferred status on June 30.

Penalty for High CDR

34 CFR 674.5(a)

Regaining Eligibility and Perkins Default

HEA 464(b)

A borrower who is in default on an FSA loan is not eligible for any other further FSA loan unless they have regained eligibility. (See Volume 1, Student Eligibility for guidance on how a student may regain eligibility). However, a borrower who satisfies any of the conditions that remove a Perkins loan from his or her school's cohort default rate calculation (see below) becomes eligible for additional Perkins loans only.

Applying payment to oldest dollars first example

Johnny's monthly payment amount is \$50. He has made no payments for five months, making the loan 150 days past due. Johnny then makes one \$50 payment. Caravello College applies the payment to cover the first month's payment that was overdue, reducing the loan's past-due status from 150 days to 120 days because the earliest past-due payment is now four months old. The calculation of the number of days overdue begins with the oldest dollar past due.

Occasional payment/never becoming current example

Kelly's oldest dollar is 120 days past due. She does not make any additional payments for 90 days, making the oldest dollar 210 days past due. Kelly then makes a \$50 payment, reducing the past-due status to 180 days. Another 60 days elapse without Kelly making a payment, bringing the oldest dollar to 240 days past due. At that point, the loan would be counted in the school's cohort default rate even if subsequent payments reduce the past-due status to less than 240 days.

Adjusting past-due status example

Marty's oldest dollar is 240 days past due. He files a request for a deferment based on the fact that he is attending school and the enrollment period began on the date that the loan became 90 days past due. The past-due status of the loan is reduced to 90 days, and the loan is given a deferment status. This loan is treated as if the 240-day threshold had never been reached. Therefore, it would not be counted in the school's cohort default rate.

- loans that have been rehabilitated;
- loans repaid in full under a compromise repayment agreement in accordance with 674.33(e);
- loans that have been discharged due to death or permanent disability, bankruptcy, or a school closing; and
- loans that have been assigned to the Department for determination of eligibility for total and permanent disability discharge.

Rules for Calculating the Number of Days in Default

The following rules are used in calculating the number of days a loan has been in default:

- The 240/270 consecutive days in default is determined by calculating the "age" of the account (that is, the number of consecutive days the oldest dollar is past due).
- A payment that a borrower makes on a past-due loan is applied to the oldest dollars first, effectively reducing the past-due status.
- A loan on which a borrower is past due and on which the borrower makes an occasional payment but never becomes current could be counted as a defaulted loan for the cohort default rate calculation despite the occasional payments. Because the delinquency is not being cured, the oldest past-due dollar could eventually become 240 days past due, making the loan count in the cohort default rate calculation. However, if the borrower makes enough occasional payments to prevent the oldest past-due dollar from becoming 240 days old, the loan would not be included in the cohort default rate calculation.
- An exception to the 240/270-day threshold will be granted in a case where a borrower (1) would have qualified for a deferment for a period beginning prior to the loan hitting the 240/270-day threshold and (2) failed to file a request for the deferment in a timely manner.

For such a borrower, the loan's past-due status would be adjusted to reflect the deferment period beginning date. However, the borrower would need to pay any past-due amounts that were due prior to the beginning of the authorized deferment periods, if the deferment period beginning date does not eliminate the loan's entire delinquency.

PENALTIES FOR HIGH COHORT DEFAULT RATES

If the school's cohort default rate is 25% or higher, the school's FCC will be reduced to zero.

Beginning with the 2000-2001 award year, a school with a cohort default rate of 50% or more for the three most recent years is ineligible to participate in the Federal Perkins Loan Program and must liquidate its loan portfolio.

A school may appeal a determination of ineligibility if the appeal is based on an inaccurate calculation of its cohort default rate or a low number of borrowers entering repayment. A school appeals a determination of ineligibility based on an inaccurate calculation by adjusting the cohort default rate data on the FISAP.

Cohort Default Rate for Multiple Locations or Change of Ownership

If a school has a branch or branches or has an additional location or locations, the school's cohort default rate applies to all branches and locations of the school as they exist on the first day of the award year for which the rate is calculated. The cohort default rate applies to all branches/locations of the school from the date the Department notifies the school of the rate until the Department notifies the school that the rate no longer applies.

If a school changes status from a branch of one school to a freestanding or independent school, the Department determines the cohort default rate based on the school's status as of July 1 of the award year for which the rate is being calculated.

If an independent school becomes a branch of another school or merges with another independent school, the Department determines the cohort default rate based on the combined number of students from both schools who enter repayment during the applicable award year and the combined number of students from both schools who default during the applicable award years. The new rate applies to the new consolidated school and all of its current locations.

If a school changes status from a branch of one school to a branch of another school, the Department determines the cohort default rate based on the combined number of students from both schools who enter repayment during the applicable award year and the combined number of students from both schools who default during the applicable award years from both schools in their entirety.

If a school has a change in ownership that results in a change in control, the Department determines the cohort default rate based on the combined number of students who enter repayment during the applicable award year and the combined number of students who default during the applicable award years at the school under both the old and new control.

Cite: 34 CFR 674.5(d)

Index to the 2007–2008 Federal Student Aid Handbook

*Page numbers are given in the following format: Volume number - Page number.
AVG in place of a volume number refers to the “Application and Verification Guide.”
In general, concepts with established acronyms are found under the acronym (e.g., FAFSA,
FSEOG). Entries with multiple page numbers are in blue italics.*

A

- A-133. See Circular A-133
- A-numbers
- FAFSA collection, *1-21*
- Ability-to-benefit test, *1-7*, 1-9, 2-5
- Absences, 4-47. See also Attendance; Leave of absence
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