

# 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.

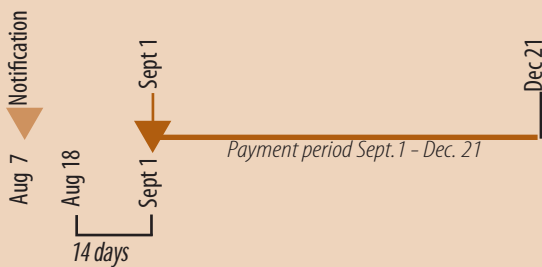
**Self-Assessment Tool For Disbursement Procedures:**

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>

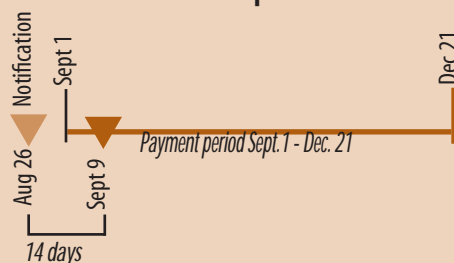
**14-day cancellation period examples**

**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

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### 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>

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### 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**

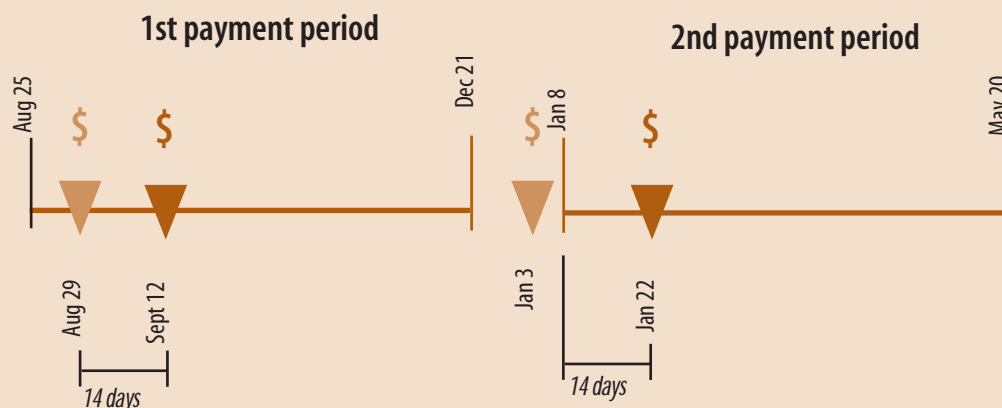
An FSA credit balance occurs whenever your school credits FSA program funds to a student's account and the total amount of those FSA funds exceeds the student's allowable charges.

**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.)<sup>1</sup>
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.

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#### **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.

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#### **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)

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#### **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)




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#### **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.

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#### **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.

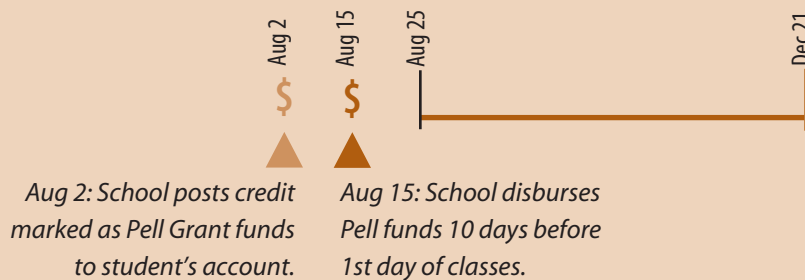
### Federal Pell Grant Program disbursements cite

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).

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**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)

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**Recalculating Pell eligibility when a student fails to begin attendance in all classes**

34 CFR 690.80(b)(ii)

**Reminder**

***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 return<sup>1</sup> 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.

**Important**

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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, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the payment period or period of enrollment as applicable.

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).

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.

### ***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 funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by ED.

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.)

However, 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.

## 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	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))*		
Program		
Pell Grant	School received a valid SAR/ISIR by the date established by ED.	
FSEOG	No additional limitations.	
FFEL	<ol style="list-style-type: none"> <li>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>.)</li> <li>For a second disbursement, student graduated or completed the period for which the loan was intended.</li> </ol>	
Direct Loans		
Perkins Loans	No additional limitations.	

\* 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.

## 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?

