Chapter 4

Requesting, Managing, and Returning Title IV Funds

Summary

This chapter contains guidelines that schools must follow to ensure sound cash management practices. Much of the information in this chapter is based on the cash management regulations contained in 34 CFR 668, Subpart K. These regulations establish uniform rules and procedures that a school must follow to request, maintain, disburse, return, and otherwise manage Title IV program funds.

Key Terms*

Actual Disbursement Roster (ADR)
advance payment method
allowable charges
Anticipated Disbursement Listing (ADL)
Automated Clearinghouse (ACH)
award period
cash monitoring
cash on hand (COH)
closeout period
credit balance
current value of funds rate
delayed disbursement
delivery
disbursement
Education Central Automated Processing System (EDCAPS)
electronic funds transfer (EFT)
Electronic Statement of Account (ESOA)
enrolled
excess cash
excess funds
Federal Reserve Bank (FRB)
FEDWIRE
generally accepted accounting principles (GAAP)
Grant Administration and Payment System (GAPS)
idle cash
immediate need
issuing checks
just-in-time payment
liquidation period
master check
multiple disbursement
Office of the Chief Financial Officer (OCFO)
payment period
peak enrollment period
performance period
period of enrollment
Recipient and Financial Management System (RFMS)
reimbursement payment
return of Title IV funds
suspension period
UCC-1 statement

***Key terms are in boldface type when they first appear in the text.**

Reference:

- 34 CFR 668.161-167
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- *SFA Audit Guide 2000*

4.1 Overview of Cash Management

Schools that participate in Title IV programs are responsible for establishing and maintaining an internal financial management system that effectively:

- promotes sound cash management of Title IV funds,
- minimizes the financing cost to the federal government for making Title IV funds available to schools and students, *and*
- minimizes costs that accrue for students and parents who receive Title IV loans.

To ensure adequate cash management practices, a school must have in place a cash management system that adheres to federal regulations and other standards. A school's cash management practices are governed by:

- **generally accepted accounting principles (GAAP)**,
- standards prescribed by the federal Office of Management and Budget (OMB),
- U.S. Department of Treasury regulations, *and*
- U.S. Department of Education (ED) regulations.

At a minimum, a school should establish internal cash management standards and practices to ensure that:

- the school official who authorizes requests for Title IV funds knows the school's available Title IV funds balance when making requests;
- the cash balance maintained for all Title IV programs is no more than the minimum needed to cover immediate disbursements (referred to as "immediate need");
- the school's cash management system tracks drawdowns and disbursements of funds, showing that for every drawdown there is an equal **disbursement** (however, this is not necessarily the case for upward or downward adjustments); *and*
- the school's cash management system contains adequate controls so the school does not spend more funds than it has authority to spend (except in limited circumstances, a school may not request or hold **excess funds** for future disbursements).

Adhering to cash management guidelines assures ED a school is financially responsible with federal funds.

4.2 Projecting Cash Needs

A school on the **advance payment method** must determine the amount of funds it needs before it transmits a request to the **Grant Administration and Payment System (GAPS)**. The amount requested must be limited to the minimum amount needed to make disbursements, so excess funds do not exist after disbursements are made. The amount must be enough to meet:

- Federal Pell Grant disbursements to students,
- the federal share of Federal Supplemental Educational Opportunity Grant (FSEOG) disbursements to students and, if it applies, an administrative cost allowance (ACA),
- the federal share of Federal Work-Study (FWS) payroll disbursements and ACA,
- the federal share of Federal Perkins Loan disbursements and ACA, *and*
- Federal Direct Loan disbursements.*

***Direct Loan funding requests must be made separately; they cannot be combined with cash requests for other Title IV funds. In addition, not all Direct Loan schools may request Direct Loan funds directly from GAPS. Standard Origination and Origination Option 1 schools must request funds through the Loan Origination Center (LOC). The LOC then initiates a GAPS payment request for those schools.**

The following equation may be used to calculate projected immediate needs:

	Anticipated Disbursements
minus	Balance of **Cash on Hand**
minus	Anticipated Recoveries
minus	ACH/EFT Cash in Transit
equals	Projected, Immediate Need

In general, a school's request for funds should not exceed its **immediate need**.

Immediate Need

Immediate need is defined as the amount of Title IV program funds a school needs to make disbursements within three business days following the date the school receives the funds. This definition of immediate need applies to all Title IV program funds, regardless of whether the school draws down funds by **electronic funds transfer (EFT)** through **Automated Clearinghouse (ACH)** or through **FEDWIRE**. Receiving amounts beyond immediate need may result in excess cash, and there are penalties for holding excess cash. Because of this, schools may want to carefully review the excess cash tolerances regulation.

Reference:

- 34 CFR 668.166(b)
- See section 4-32 of this book for information on excess cash tolerances.

Immediate need is determined by the amount of cash a school needs to make disbursements to students within a specified period of time. The specified time period is determined by the type of funds received and the method of disbursement. As long as the school makes disbursements within that time period, including disbursements made by properly **issuing checks**, it has satisfied the immediate need standard.

Special Program Considerations

To accurately determine the total amount of Title IV program funds needed to make disbursements, a school must consider certain program-specific student eligibility requirements for each Title IV program.*

*Students must meet other eligibility requirements as well. See Chapter 1 of this book for more information about eligible students.

Reference:

- 34 CFR 668, Subpart C

Federal Pell Grant Program

A school must pay Federal Pell Grants to students who have a valid Institutional Student Information Record (ISIR) or Student Aid Report (SAR) on file at the school or, if a student has withdrawn, the school received either document before the student withdrew.* A school must establish a system for tracking the status of these documents and determining when a student's Federal Pell Grant award is ready to be paid.

For schools that use the advance payment method, the maximum amount of Federal Pell Grant funds a school may draw down is based on the school's Federal Pell Grant authorization, as reported to the school in its **Electronic Statement of Account (ESOA)**. The first ESOA (the initial authorization) received by a school for an award year contains ED's estimate of the amount of funds the school will need to make first disbursements to students. As the award year progresses, the school receives adjusted Pell Grant drawdown authorizations on the basis of student payment information it reports.

Campus-Based Programs

Each campus-based program—Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), and Federal Perkins Loan—requires that awards made to students be a combination of both federal and nonfederal funds.

To accurately determine its immediate cash need for campus-based programs, a school must calculate the portion of disbursements from each program that may be made up of federal funds. *The amount of funds drawn down represents the federal share only.*

- For the Perkins Loan Program, if a school deposits its federal funds in its Perkins Loan fund, this eliminates any excess cash condition. However, if a school draws down those funds, it must expend them within three business days. The school is reminded to deposit the school ICC match at the time the federal draw is deposited.

The maximum amount of federal funds a school may draw down from each campus-based program is based on the school's initial allocation and supplemental allocation (for which some schools may be eligible) for that program, as reported to the school in its Final Funding Authorization from ED.

For the FSEOG Program, a school must time its drawdowns to coincide with the date it expects to disburse FSEOG funds to students. FSEOG disbursements

Reference:

- See Chapter 3 of this book for more about campus-based allocations.

must be made within three business days following the date the funds are drawn down and deposited.

For the FWS Program, a school must time its drawdowns to coincide with its payroll dates. A school must estimate the amount of federal funds needed to meet payroll for a given pay period and draw down only the appropriate federal share of wages to be paid. Student wages, in accordance with FWS rules and other wage labor laws (the combined federal and nonfederal share, if it applies), must be paid within three business days following the date funds are drawn down and deposited.

For the Federal Perkins Loan Program, a school must determine whether the cash available in its Federal Perkins Loan fund is sufficient to make loan advances to students. A school may draw down a portion of the Federal Capital Contribution (FCC) it needs to cover disbursements. A school must determine its available funds and draw down only the amount of FCC needed to cover disbursements within three days. A school must time its drawdown of FCC to coincide with the dates it expects to advance (disburse) loans to students.

William D. Ford Federal Direct Loan Program (Direct Loan Program)

Reference:

- http://e-Grants.ed.gov/gapsweb

Direct Loan funding requests are initiated directly to GAPS only by schools that participate in the William D. Ford Federal Direct Loan Program (Direct Loan Program) under Origination Option 2. The Loan Origination Center (LOC) initiates funding requests for schools that participate under Origination Option 1 and Standard Origination.

Reference:

- *Direct Loan School Guide*
- DLB 98-18
- DLB 98-38

Unlike the Federal Pell Grant Program and the campus-based programs, there is no set school allocation or authorization level for the Direct Loan Program. Schools participating in the Federal Direct Loan Program determine drawdown amounts on the basis of the amount of funds needed to make loans to eligible borrowers. The school or the LOC draws down only the net amount of the loan funds. Before ED does their drawdown, loan fees are subtracted from the gross amount.

An Option 2 school estimates the amount of funds it needs to make anticipated disbursements on an ongoing basis. A school can use the Direct Loan Program software or its own school computer software to calculate the amount of funds needed. Loan records flagged in the system as “eligible for payment” will be included in the computer-generated estimate of funds needed. The school may need to adjust this figure to account for Direct Loan funds on hand and anticipated recoveries. For each borrower eligible for a loan payment, the Direct Loan Program software deducts a loan fee of up to 4 percent for Direct Subsidized and Direct Unsubsidized Loans; it deducts a loan fee of 4 percent for Direct PLUS Loans.

A school is not required to collect a signed, completed promissory note from a borrower before *drawing down funds* for that borrower. However, a school may not *disburse funds* to any borrower until it or the LOC (whichever entity is collecting promissory notes) has received the borrower's signed, legally enforceable promissory note.

Timing Issues

When a school initiates a drawdown from GAPS, a school should consider that processing requests within GAPS typically takes one to three business days and whether the school is using ACH/EFT or FEDWIRE. Schools should also be aware of system downtime, federal holidays, and other delays in processing cash requests when determining immediate need.

4.3 Grant Administration and Payment System (GAPS)

EDCAPS

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- GAPS *Payee Guide – August 2000*

ED has a centralized financial management system called the **Education Central Automated Processing System (EDCAPS)**. EDCAPS is designed to integrate ED's separate financial processes, including financial management, contracts and purchasing, grants administration, and payment management.

EDCAPS was put in place to improve ED's financial management performance by integrating three formerly separate system modules into a single system:

- Financial Management Systems Software (FMSS)
- Contracts and Purchasing Support System (CPSS)
- Grant Administration and Payment System (GAPS)

The EDCAPS module that directly affects schools is GAPS.

GAPS Overview

Reference:

- http://e-Grants.ed.gov/

GAPS provides full financial management support services in a single system. Functions supported by GAPS include everything from award authorizations to disbursing funds to final grant close out.

GAPS uses funds-delivery systems and financial management technologies, such as relational databases, Internet technology, and a Windows environment. Using these technologies allows for such customer-service improvements as easy system access to request funds and report expenditures, user-friendly retrieval of award and payment histories, and immediate update and notification of changes in awards, such as authorization changes.

*GAPS controls funds for both Title IV and non-Title-IV programs.

In addition, GAPS is the central repository for payment transactions of schools that receive funds* from ED through the **Office of the Chief Financial Officer (OCFO)**. GAPS is a system; OCFO is the office within ED that administers the system. A school uses GAPS to request funds for:

- the Federal Pell Grant Program
- the Federal Supplemental Educational Opportunity Grant (FSEOG) Program
- the Federal Work-Study (FWS) Program
- the Federal Perkins Loan Program
- the Federal Direct Loan Program (Option 2 schools only; Option 1 and Standard Origination schools do not request [drawdown] funds from GAPS, the LOC does it on their behalf.)

When ED implemented GAPS, it changed its procedures for schools that receive and manage ED funds. These procedural changes include how schools request funds.

Accessing GAPS

New

Schools request federal funds electronically using GAPS. To request funds, a school must access the GAPS External Access System through the World Wide Web.

Schools access GAPS on the World Wide Web through e-Payments (formerly GAPSWeb), ED's new portal page for grant administration. E-Payments is part of e-Grants, ED's portal site for electronic grant access.

Reference:
- http://e-Grants.ed.gov/
- GAPS Payee Hotline: 1-888-336-8930

- To log on to GAPS, the user must enter an ID and password.
- To obtain its user ID and password, a school completes the External Security Access form. This form can be accessed through the e-Payments Web site or the GAPS Payee Hotline at 1-888-336-8930. The form can be faxed to 202-401-0006.

The school then requests funds by program (Federal Pell Grant, FSEOG, Federal Perkins Loan, FWS, or Direct Loan). The applicable screen contains the amount of Title IV funds the school has available to draw down.

Alternatively, schools can also call the GAPS Payee Hotline between 8 a.m. and 8 p.m. Eastern Time (ET) to request funds. Requests made after 2 p.m. are not processed by GAPS until the next business day.

- A school may also call the GAPS Payee Hotline if it has problems receiving its payment.

To practice using GAPS, access the e-Payments Web site and click on "GAPS Training." Then enter "gapsuser" as the ID and "training" as the password. The user will be able to enter data for a fictional school, while becoming familiar with the screens.

4.4 Requesting Funds

Reference:
- GAPS *Payee Guide – August 2000*

Reference:
- 34 CFR 668.162

Before discussing how funds are requested, two terms need to be defined – grantee and payee.

Under GAPS, a *grantee* is an entity (not a person) that applies for and receives a grant award from ED; a *payee* is an entity (not a person) identified by the grantee to request and manage federal funds on behalf of the grantee. The grantee and payee may be the same entity or different entities. For Title IV financial aid purposes, the grantee is the financial aid office and the payee is the business office.

Schools request funds for all Title IV program expenditures directly from the federal government, with the exception of the Federal Family Education Loan (FFEL) Program. FFEL Program funds are obtained by schools from banks, savings and loan organizations, credit unions, and other financial institutions that serve as FFEL Program lenders.

Award Periods

Reference:
- GAPS *Payee Guide – August 2000*

***Schools having problems with their program authorizations should contact the appropriate program office. See Appendix D for a list of program offices.**

Before a school requests funds, it should understand the **award periods** for GAPS program authorizations.* The length of the award periods vary by program and authorizing statute. The award period dictates when the payee can request funds. There are four award periods:

1. performance period
2. liquidation period
3. suspension period
4. closeout period

Performance Period

****Generally, schools may draw down funds no later than June 30 of the award year of their authorization, unless a post-withdrawal disbursement is due after June 30 for the applicable year. See 34 CFR 668.22 and 668.164(g) for details.**

The **performance period** is the period between the grant award (this includes loan funds and FWS) *begin date* and the grant award *end date*. During this period, schools can draw down funds.** However, to do so, schools have to obligate funds to students (such as submitting to ED disbursement records for students eligible for the Federal Pell Grant Program).

The performance period is six years and three months from the grant award begin date. During this period:

- payees may request payments,*
- payees may modify payment requests,
- payees may adjust drawdowns, *and*
- changes may be made to the Student Financial Assistance (SFA) Program's grant awards authorizations.

*The length of this period is program specific.

Once the performance period ends, the closeout process begins, which includes liquidation, suspension, and closeout.

Liquidation Period

The **liquidation period*** is one month, and it immediately follows the performance period. During this period:

- no new authorizations may be processed against a grant award,
- payees may request payments for expenditures incurred during the performance period, *and*
- payees may adjust drawdowns for expenditures incurred during the performance period.

The last date a school can draw down funds from ED is the end of this period.

Suspension Period

**The length of this period is program specific.

The **suspension period**** is one month and follows liquidation. During the suspension period, no payment actions can take place without the approval of the program office. ED program offices use this period to prepare for final closeout.

Closeout Period

The **closeout period** immediately follows the suspension period. The grant award is closed and any remaining funds are deobligated.

For the 2000-01 award year, a grant's:

- performance period lasts from July 1, 2000 to September 30, 2006;
- liquidation period lasts from October 1, 2006 to October 31, 2006;

- suspension period lasts from November 1, 2006 to November 30, 2006; *and*
- closeout begins on December 1, 2006.

Methods of Receiving Funds

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- GAPS *Payee Guide – August 2000*

***Because drawdowns are done online, schools will receive immediate notification if their fund requests are not approved in GAPS.**

Schools can receive funds from ED using electronic funds transfer through Automated Clearinghouse (ACH) or FEDWIRE.

Automated Clearinghouse (ACH)

One way ED sends funds to schools is using ACH. Once schools request funds and these requests are approved,* the next business day GAPS electronically transfers the school's payment through the **Federal Reserve Bank (FRB)** network to the school's depositor bank account.

ACH requests made by 3 p.m. ET will be deposited the next business day. Requests made after 3 p.m. will be deposited within two business days.

Before a school begins disbursing funds, it should always check its bank account for an ACH deposit from ED to make sure a payment has been received. A school should keep records of all payments it has requested. These records provide an audit trail of requested funds and help the school reconcile its accounts with GAPS.

FEDWIRE

Reference:

- GAPS *Payee Guide – August 2000*

The other method by which schools can receive funds is using FEDWIRE. After a school's GAPS request is accepted, the funds are then transferred directly from ED through the FRB network to the school's depositor account.

Schools are allowed to make same-day payment requests. To receive a same-day payment, the transaction must be completed no later than 2 p.m. ET. Any requests made after 2 p.m. will have funds deposited the next business day.

Before a school begins disbursing funds, it should always check its bank account to make sure a FEDWIRE payment has been deposited. A school should also keep records of all payments it requests to help reconcile its accounts with GAPS.

A school may also request FEDWIRE or ACH payments by calling the GAPS Payee Hotline directly. This method should only used be when GAPS is malfunctioning or the school is having difficulty accessing it. The GAPS Payee Hotline (1-888-336-8930) accepts phone questions and requests by phone between 8 a.m. and 8 p.m. ET.

Payment Methods

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

Reference:
- 34 CFR 668.162(a) to (e)

Institutions are paid using one of the following four payment methods:

- advance (*before* Title IV program funds are disbursed to students and/or parents)
- just-in-time (*near* or *on the date* Title IV funds are disbursed to students and/or parents)
- reimbursement (*after* institutional funds have been disbursed to students and/or parents)
- cash monitoring (*only after* institutional funds have been disbursed to students and/or parents)

ED determines the payment method each school uses.

Advance Payment Method

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.162(b)
- GAPS *Payee Guide – August 2000*

***Under the Recipient Financial Management System (RFMS), advance payment schools will continue to receive their initial authorization.**

Most schools are paid in advance. Under the advance payment method, GAPS accepts a school's request for cash and electronically transfers the amount requested to the school's bank account using ACH or FEDWIRE.*

A school's advance request for cash may not exceed the amount of funds the school needs within three business days to make disbursements to students. A school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school receives the funds.

Alternatively, schools can pay their students with their own funds before receiving funds from ED.

If the payee is paid in advance, the school requests funds by using the GAPS External Access System Web site or by calling the GAPS Payee Hotline at 1-888-336-8930 between 8 a.m. and 8 p.m. (ET).

Just-in-Time Payment Method

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

Reference:
- 34 CFR 668.162(c)
- DCL P-98-5

The **just-in-time payment** method is available for the Federal Pell Grant Program only under a pilot project. A small group of schools, chosen by ED from schools that volunteered, are currently using this payment method.

A school can find out more information about the just-in-time pilot program by contacting the Federal Pell Grant Program's Customer Service staff at 1-800-4PGRANT or 1-800-474-7268.

Under this payment method, a school electronically submits a disbursement record for the Federal Pell Grant Program no earlier than five calendar days before the actual date of disbursement. The request includes the date and amount of the disbursement the school will make or has made to each student.

Reference:
- DCL P-00-1
- DCL P-99-4
- DCL P-99-3
- DCL P-98-4
- See Section 6.1 of this book for more information about RFMS.

Reference:
- Federal Pell Grant Desk Reference for 2001-02

Reference:
- 34 CFR 668.166(a)(2)

***The excess cash exemption only applies to Title IV funds received under the just-in-time payment method. Title IV funds received by other payment methods are still subject to excess cash rules.**

For each request the **Recipient Financial Management System (RFMS)** accepts for a student, RFMS automatically sends a transaction to GAPS requesting that funds be directly deposited into the school's bank account through EFT. This whole process takes generally between 24 and 48 hours. In effect, the disbursement record drives placing funds into the school's bank account. No initial authorization is necessary, and the school does not need to interact directly with GAPS.

If, at the time of disbursement, a student is not eligible for the original Federal Pell Grant amount requested, the school must request the amount of funds for which the student is eligible within 30 days of the date the school becomes aware of the change. In this case, a school is permitted to disburse funds to a student before submitting a record of the modified disbursement to ED. However, if the student's eligibility for those funds changes again by the actual date of the modified disbursement, any additional adjustment must be reported.

A school can disburse funds intended for one student to another student if the original student is not eligible for the entire grant or a portion of the grant. If the school does so, it must ensure that all the required student transactions are sent to RFMS within the 30-day reporting period. The school must also do a "negative" disbursement for the ineligible student and do an off-setting "positive" disbursement for the student who actually received the funds.

Schools using the just-in-time payment method are exempt from several cash management requirements. These exemptions include:

- ♦ not having to meet the three-day-use rule required for the advance payment method;
- ♦ not having to reverify student eligibility for a Federal Pell Grant award at the time of disbursement;
- ♦ not having to maintain Federal Pell Grant funds in an interest-bearing account; *and*
- ♦ not having to follow the normally applicable rules governing excess cash.*

Using this payment method, schools will have only nominal amounts of excess cash created by minor adjustments. Because ED will modify new requests for funds after deducting any adjustments reported by the school, large amounts of excess cash should not occur.

The just-in-time-payment method will enable the delivery system to provide the most current payment information to students and other system users, thereby reducing burden related to reconciling payment data. This method will improve reconciliation between a school's financial aid office and business office. Moreover, it should simplify the close-out process because adjustments are made throughout the year and all records should be in agreement.

Reimbursement Payment Method

A school may be placed on the **reimbursement payment** method if ED determines that there is a need to monitor the school's use of federal funds or if a school has monetary liabilities that need to be recovered by administrative offset (for example, owing funds to ED as a result of an audit or program review determination).

Reference:

- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*
- GAPS *Payee Guide – August 2000*

Reference:

- 34 CFR 668.162(d)

The reimbursement procedure begins with the school filling out a Request for Advance or Reimbursement Form (SF-270) and sending it to the appropriate ED regional office for approval. If the request is approved, the regional office processes a payment request in GAPS.

Under the reimbursement payment method, a school must make credit or cash disbursements to eligible students before it may submit a request to the ED regional office for cash for Federal Pell Grant, campus-based, and Direct Loan funds. The amount of the request may not exceed the amount of actual disbursements the school made to students included in the request.

A school must submit documentation that each student included in a reimbursement request was eligible to receive and did receive payment for the Title IV program funds that the school is requesting.

The ED regional office approves the request for reimbursement and electronically transfers the requested amount to the school's bank account if:

- the school properly determined each student's eligibility for Title IV program funds;
- the school made payments to students for the correct amounts of Title IV program funds;
- the school submitted any required documentation that shows each student included in that request was eligible to receive and was disbursed Title IV program funds; *and*
- sufficient program-specific funds are available to the school in the school's GAPS account.

Cash Monitoring Payment Method

Reference:

- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*

Reference:

- 34 CFR 668.162(e)(1)

When ED places a school on the **cash monitoring** payment method, the school requests funds after the school makes disbursements to students and parents. The school will then be paid using either the advance payment method or the reimbursement payment method.

If a school is paid using the advance payment method and ED approves the request for funds, ED processes the request in GAPS and electronically transfers the amount requested to the school's bank account using ACH or FEDWIRE.

A school's advance request for cash may not exceed the amount of the actual disbursements the school made to students and parents in the request.

If a school is paid using the reimbursement payment method, the school must first make disbursements to eligible students and parents before ED processes a request for payment in GAPS. The amount of the request may not exceed the amount of actual disbursements the school made to students and parents in the request.

***The documentation requirements may be modified or changed by the appropriate ED regional office.**

A school may be required to submit documentation* that each student included in a request was eligible to receive and did receive payment for Title IV program funds for which the school is requesting reimbursement.

ED approves the request for reimbursement, and GAPS electronically transfers the requested amount to the school's bank account, if:

Reference:
- 34 CFR 668.162(e)(2)

- the school accurately determined each student's eligibility for Title IV program funds,
- the school accurately determined the amounts of Title IV program funds paid to students and parents,
- the school submitted any required documentation to support its request for reimbursement, *and*
- sufficient funds are available to the school in the school's GAPS account.

William D. Ford Federal Direct Loan Program (Direct Loan Program)

Reference:
- *Direct Loan School Guide*
- Direct Loan Desk Reference

Procedures used to draw down funds for the William D. Ford Federal Direct Loan Program (Direct Loan Program) differ from those used to draw down other Title IV funds. In addition, requests for Direct Loan funds may not be combined with requests for other Title IV funds.

There are two methods by which a school may handle funding requests. These methods depend on whether a school participates under Origination Option 2 *or* Origination Option 1 or Standard Origination.

Schools Participating Under Origination Option 2

Reference:
- http://e-Grants.ed.gov/

Origination Option 2 Direct Loan schools initiate their own funding requests. These requests are made separately from those requests made for Federal Pell Grant, campus-based, and other ED program funds because Direct Loan funds come from a different congressional appropriation.

Once a school has determined its immediate need, a drawdown request is made to GAPS. The school can either make a drawdown request on the GAPS Web site or by calling the GAPS Payee Hotline at 1-888-336-8930. GAPS requests cannot be made using EDExpress.

To resolve payment problems with GAPS and to maintain a written record of funds distributed, Option 2 schools should retain copies of Direct Loan drawdown requests.

GAPS edits a school's drawdown request and creates an ACH payment file for transmittal to the Federal Reserve Bank (FRB). Any problems with requests are transferred to a holding file so ED personnel can either approve the transaction or contact the school to resolve the problem.

The FRB receives the ACH file and transfers funds directly to the school's bank account. A school's bank should receive funds within 48 to 72 hours after the school transmits the drawdown request. The FRB notifies ED if there is a problem with an ACH transmission or if a school's transaction is rejected. ED then contacts the school to resolve the problem.

Schools Participating Under Origination Option 1 or Standard Origination

Reference:

- *Direct Loan School Guide*
- Direct Loan Desk Reference

Schools participating in the Direct Loan Program under Origination Option 1 or Standard Origination do not initiate funding requests. Rather, their funding requests are handled by the Loan Origination Center (LOC).

The LOC requests funds for Option 1 and Standard schools based on anticipated disbursement dates and amounts provided by the school in loan origination records and promissory notes. Standard Origination schools do not prepare promissory notes. Funds are requested for those anticipated disbursements for which the LOC has an accepted loan origination record and signed promissory note.

Approximately 30 to 45 days before the anticipated disbursement dates listed in the loan origination records, the LOC sends an **Anticipated Disbursement Listing (ADL)** to the school that shows anticipated disbursements by borrower and loan type. The school reviews the list and, if necessary, updates or adjusts the information with the LOC through the change record process.

The LOC requests a school's funds from GAPS five days before the anticipated disbursement date. The same day the request is made, the LOC creates and sends an electronic **Actual Disbursement Roster (ADR)** to the school that lists individual borrowers, their loan types, and their disbursement amounts (minus loan fees), as well as the total amount of funds included in the request. A school should retain copies of all ADRs.

The funds received from a drawdown are deposited directly into a school's bank account through FEDWIRE.

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.163(a)(1)

Reference:

- 34 CFR 668.163(a)(2)
- 34 CFR 668.163(a)(2)(ii)(B)

Timing Issues

From time to time, the Loan Origination Center (LOC) shuts down to update existing files and prepare the Direct Loan System for the upcoming year's processing cycle. When this happens, ED notifies schools in advance in a Direct Loan Bulletin.

To ensure that they have adequate funds to disburse during this shutdown period, Option 2 schools should project their cash needs for the length of the shutdown period and request the funds *before* the shutdown begins.

4.5 Maintaining Funds

The cash management regulations in 34 CFR 668, Subpart K contain guidelines schools must follow to adequately manage federal funds.

Bank Account

All schools must maintain a bank account into which ED transfers (or a school deposits) Title IV program funds. This account also must meet certain federal requirements. (Funds received from the Federal Family Education Loan [FFEL] Program are excluded from the requirements.) The bank account must be federally insured or secured by collateral of value reasonably equivalent to the amount of Title IV program funds in the account.

Regardless of the type of account or number of accounts in which a school maintains Title IV funds, the school must properly indicate that the account(s) contain federal funds. A school may meet this requirement by:

- ensuring that the name of the account clearly includes the phrase "federal funds" *or*
- notifying its bank of the accounts that contain federal funds and (except for a public school) filing a **UCC-1 statement** with the appropriate state or local government entity disclosing that the account contains federal funds and retaining copies of the bank notice and proof of submitting the UCC-1 statement in its records.
  - The format and content of the forms used for UCC-1 statements vary from state to state. UCC-1 statements and information about filing them are available from the state corporation council or secretary of state in your state. Blank UCC-1 statements are available from local legal office supply stores.

A school is not required to maintain a separate bank account for Title IV program funds. However, in certain circumstances, a school may be required to maintain all Title IV program funds in a bank account that contains no other type of funds. This is the case if ED determines that:

- the school's accounting and internal control systems do not identify:
    - cash balances of Title IV program funds maintained in the school's bank account as readily as if those funds were maintained for each program in a separate account, *or*
    - the interest or investment revenue adequately earned on Title IV program funds maintained in the school's bank account; *or*
- the school's financial records are:
    - not maintained on a current basis,
    - not accurately reflective of all Title IV program transactions, *or*
    - not reconciled at least monthly; *or*
- the school has otherwise failed to comply with recordkeeping and reporting requirements required by applicable federal regulations.

Interest-Bearing Account

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*

Reference:
- 34 CFR 668.163(c)(3) and (4)

A school must remit to ED, at least annually, the interest or investment revenue earned on Title IV program funds maintained in an interest-bearing or investment account.

A school may retain up to $250 a year of the interest or investment revenue earned on Title IV program funds (except for Federal Perkins Loan funds) during an award year. By June 30 of that award year, the school must send ED any interest or investment revenue earned on Title IV programs funds over $250, except for interest or investment revenue earned on Federal Perkins Loan funds. The school must leave all interest and investment revenue earned for Federal Perkins Loans in its revolving Federal Perkins Loan fund.

For any award year, a school that participates in the Federal Perkins Loan Program must maintain its Federal Perkins Loan funds in:

- an interest-bearing account that is federally insured or secured by collateral of value equivalent to the amount of Title IV program funds in the account *or*
- an investment account that consists predominantly of low-risk income-producing securities, such as obligations issued or guaranteed by the U.S. government. If a school maintains federal funds in an investment account, the account must remain sufficiently liquid to make required disbursements to students.

A school that does not participate in the Federal Perkins Loan Program must maintain other Title IV program funds in an interest-bearing account if the

Reference:
- 34 CFR 668.163(c)(1) and (2)

Reference:
- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*

Reference:
- 34 CFR 668.163(d)

Reference:
- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*

school does not meet the criteria listed in the next paragraph. If applicable, the account must meet the same, just-cited, interest-bearing or investment-account requirements.

A school is not required to maintain an interest-bearing account if:

- the school drew down less than $3 million from Title IV programs in the previous award year and anticipates it will draw down less than $3 million in the current award year;
- the school demonstrates by its cash management practices it would not earn more than $250 in interest by maintaining in an interest-bearing account the total amount of Title IV program funds it will draw down during the current award year; *or*
- the school requests those funds using the just-in-time payment method.

If a school is not required to maintain separate accounts, it must maintain accounting and internal control systems that:

- identify the cash balance of the funds of each Title IV program that is included in the institution's interest-bearing or investment account *and*
- identify the earnings on Title IV funds maintained in the school's interest-bearing or investment account.

In addition, a school must maintain its accounting financial records accordingly.

Schools that request funds using the just-in-time payment method are exempt from having an interest-bearing account for those funds because the payment method is designed to ensure expeditious fund disbursement.

4.6 Obtaining Federal Family Education Loan (FFEL) Program Funds

The Federal Family Education Loan (FFEL) Program includes Federal Stafford Loans (subsidized and unsubsidized), Federal PLUS Loans (for parents), and Federal Consolidation Loans.

FFEL Program loans are made to students and parents by banks, savings and loans, credit unions, and other financial institutions. A school obtains a borrower's funds directly from the lending institution or servicer.

Federal statute requires that proceeds from Stafford Loans and PLUS Loans be disbursed directly to schools for **delivery** to borrowers.

Electronic Funds Transfer (EFT) and Master Checks

A school may receive a borrower's FFEL funds from a lender by EFT. To do so, a school must enroll in EFT with the lender or the lender's disbursing agent to enable FFEL funds to be deposited directly into the school's designated bank account.

A school may also receive a borrower's loan proceeds by **master check** if the school and lender or the lender's disbursing agent have entered into an agreement to use master checks. A master check is a single check, written by a lender, that contains all the lender's FFEL Program funds for the school's borrowers for a given disbursement date.

Funds provided by EFT or master check must be accompanied by a list of names, Social Security numbers, and loan amounts of borrowers whose payments are considered a part of those funds. The list enables a school to identify eligible borrowers to whom loan proceeds are to be delivered.

Reference:
- 34 CFR 668.167(a)(1)

A school may request loan proceeds by EFT or master check no earlier than 13 days before the first day of a student's enrollment period. If a Stafford Loan borrower is subject to **delayed disbursement**, disbursement by EFT or master check may not be requested until the 27th day of the student's enrollment period.

Reference:
- 34 CFR 682.604(c)(3)

A school must obtain a borrower's written authorization to receive his or her loan funds by EFT or master check. Authorization may be given in the borrower's loan application (master promissory note [MPN] or PLUS Loan application and promissory note), or it may be obtained separately. If written authorization is not given in the borrower's loan application, it must be obtained not more than 30 days before the beginning of the enrollment period for which the loan is intended.

- The EFT approval is for the school to accept loan funds from the lender. It is not for direct payment to the student's bank account.

Individual Checks

Reference:
- 34 CFR 668.167(a)(2)

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. A school must deliver loan funds to a student borrower within 30 days of the date it receives the check.

Co-payable PLUS Loan checks must be sent directly to a school by a lender. A school must deliver 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.

In no case may a school request loan funds by individual check earlier than 30 days before the first day of the student's enrollment period. If a Stafford Loan borrower is subject to delayed disbursement, a school may not request Stafford Loan funds earlier than the first day of classes of the student's first **payment period**.

4.7 Disbursing Title IV Program Funds

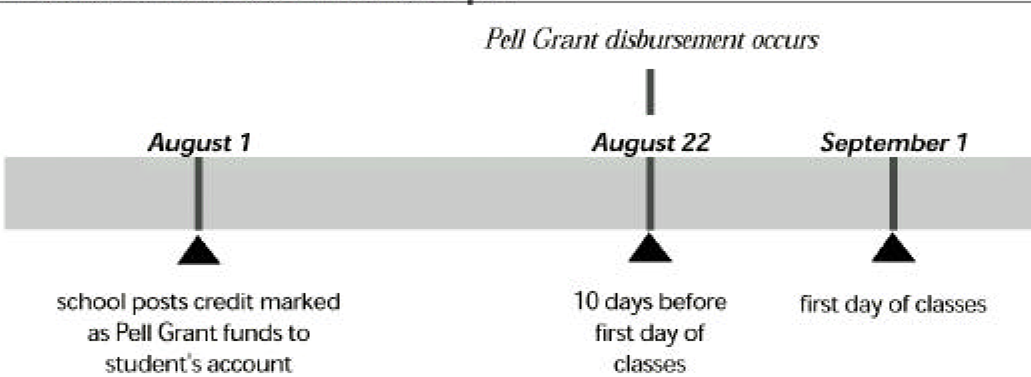
Reference:
- *Student Financial Aid Handbook*, *Volume 2*: *Institutional Eligibility*
- 34 CFR 668.164(a)(1)
- 34 CFR 674.16
- 34 CFR 675.16
- 34 CFR 676.16
- 34 CFR 682.207
- 34 CFR 682.604
- 34 CFR 685.303
- 34 CFR 690.78

Cash management regulations contain a specific definition of the term "disburse." Title IV program funds are disbursed when a school credits a student's account with funds or pays a student or parent directly with:

- ♦ Title IV funds received from ED,
- ♦ Federal Family Education Loan (FFEL) Program funds received from a lender, *or*
- ♦ institutional funds used before receiving Title IV program funds.

Before a school disburses Title IV program funds, the school must notify the student of the amounts of Title IV funds expected to be received and how and when those funds will be paid.

Advance Credit to Account Example



Reference:
- 34 CFR 668.164(a)(2)

However, there are three exceptions that *do not result immediately in a Title IV disbursement* when crediting institutional funds labeled as Title IV funds to a student's account before receiving the actual Title IV program funds:

- ♦ If a school credits a student's account with the institutional funds before receiving Title IV funds *earlier than ten days before the first day of class of a*

*However, a school can make a credit disbursement with institutional funds earlier than ten days before the first day of classes of a payment period, but it is not a Title IV aid disbursement.**

Reference:
- 34 CFR 668.167

payment period, the Title IV disbursement occurs on the tenth day before the first day of class*; *or*

- For a student whose loan funds are subject to 30-day delayed disbursement, if a school credits the student's account with institutional funds before receiving Title IV program funds *earlier than 30 days after the first day of the payment period*, the Title IV loan disbursement occurs on the 30th day after the beginning of the payment period; *or*

- If a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as a Title IV credit (for example, an "estimated Federal Pell Grant"), the disbursement does not occur until the posting is subsequently converted to an actual credit.

To disburse Title IV program funds to a student or parent a school may:

- release the FFEL check to the student or parent directly *by*

  - issuing a check** (or other instrument) payable to the student and requiring the student's endorsement or certification (or, in the case of a parent borrowing under the Direct Loan Program or FFEL Program, requiring the endorsement or certification of the student's parent);

  - initiating an EFT to a bank account designated by the student (or, in the case of a parent borrower, designated by the parent); *or*

  - dispensing cash to the student for which the school obtains a signed receipt from the student; *or*

- credit a student's account at the school. In the case of Direct Loan funds, a school must credit the student's school account.

A school may endorse a lender's co-payable FFEL check or FFEL PLUS check and issue that check to the borrower as payment of the loan proceeds.

Reference:
- 34 CFR 668.165(a)(1)

Federal regulations require schools to notify a student or a parent borrower of the amount of Title IV program funds the student can expect to receive and how and when those funds will be paid. In the case of Direct Loan or FFEL Program funds, the notice must indicate which funds are subsidized loans and which are unsubsidized loans.

Paying Students or Parents Directly

Reference:
- 34 CFR 668.164(c)
- 34 CFR 675.16

If a school does not credit a student's school account with payments of Title IV program funds for **allowable charges**, it must pay the student or parent directly.

A school may use more than one payment method. For example, a school might credit a student's account for tuition and fees, then pay remaining Title IV funds directly to the student.

Issuing Checks

Reference:
- 34 CFR 668.164(c)(1) and (2)

A school may pay a student or parent by issuing a check. A Direct Loan school, however, must first credit the student's school account; then it may issue a check for any remaining funds.

For loans made under the FFEL Program, the check issued by the lender may be the check delivered to the student. A school may endorse a lender's co-payable Federal Stafford Loan or Federal PLUS Loan check and issue that same check to the student borrower or parent borrower. Or the school can have the borrower sign the check, the school endorses the check and deposits it, and then the school credits the student's school account. The funds credited are used either to pay allowable charges or, with the borrower's permission, are held as funds in excess of allowable charges.

For all Title IV program funds, a school may issue checks drawn from the bank account in which the school maintains federal funds or from the school's own general account.

To properly issue a check for Title IV funds, including FFEL funds, a school must release, distribute, or otherwise make the check available by:

- mailing the check to the student or parent (for PLUS Loan borrowers only) *or*
- notifying the student or parent that the check is available, on request, for immediate pickup.

EFT

Reference:
- 34 CFR 668.164(c)(3)
- 34 CFR 668.165(b)(1)(i)

A school may pay a student or parent by electronically transmitting Title IV program funds directly to the student's or parent's (for PLUS Loan borrowers only) designated bank account. The school must obtain written authorization from the student or parent to pay Title IV funds through EFT.

Crediting a Student's Account

Reference:
- 34 CFR 668.164(d)

Crediting a student's account (at a school) is defined as posting a payment of funds to a student's account. In the context of federal regulations governing Title IV programs, a student's school account may be any recordkeeping system that a school uses to post institutional charges and payments of Title IV program funds. The system may be manual or automated.

Reference:
- 34 CFR 668.164(d)(2)(i) and (ii)

If a school credits a student's school account with Title IV program funds, it may apply those funds only to allowable charges. Allowable charges include:

- tuition and fees,
- board, if the student contracts with the school for board, *and*

- ♦ room, if the student contracts with the school for room.

If a school obtains a student's or parent's written authorization to use Title IV program funds to pay other costs, these costs may include:

- ♦ institutional charges that were incurred by the student for educationally related activities *and*

- ♦ minor prior-year charges if these charges are less than $100 or if the payment of these charges does not, or will not, prevent the student from paying his or her current educational costs.

However, in general, Title IV program funds are only used to pay for educational expenses a student incurs in the period for which the funds are provided. When students request that Title IV funds be used for prior-year charges, schools should handle such requests in a very judicious manner.

Reference:
- 34 CFR 668.165(b)(2)

A school may not require or coerce a student or parent to authorize the use of Title IV funds to pay for other costs. Furthermore, if a student or parent elects to give such authorization to a school, the school must allow the student or parent to modify or rescind the authorization at any time. The school must also clearly explain how it will honor the authorization received from the student or parent.

Reference:
- HEA, Section 445(c)
- 34 CFR 675.16(a)(3)(iii)

An institution may, at a student's request, make Federal Work-Study payments directly to the student's bank account or may credit a student's account at the institution for tuition and fees, room and board, and other institutionally provided goods and services.

Title IV Loan Programs

Reference:
- 34 CFR 668.164(d)(3)

When a school disburses Direct Loan funds by crediting a student's account at the school, the school must first use those funds to pay outstanding current charges and authorized charges.

Reference:
- 34 CFR 668.165(a)(3) (i) and (ii)
- DCL CB-96-8

When a school credits a student's account with Federal Perkins Loan funds, Direct Loan funds, or Federal Family Education Loan (FFEL) Program funds received by EFT or master check, it must notify the student or parent (for PLUS Loan borrowers), in writing or electronically, no earlier than 30 days before and no later than 30 days after crediting the student's account of:

Reference:
- 34 CFR 682.207
- 34 CFR 682.604
- 34 CFR 685.301
- 34 CFR 685.303

- ♦ the date and amount of the disbursement,

- ♦ the borrower's right to cancel all or a portion of the loan, *and*

- ♦ the procedures and time by which the borrower must notify the school that he or she wishes to cancel all or a portion of the loan.

Reference:
- 34 CFR 668.16(c)(2)

In addition, if the school sends the notice electronically, it must require the recipient of the notice to confirm receipt of the notice and the school must maintain a copy of that confirmation.

The school must return the loan proceeds, cancel the loan, or do both, if the school receives a request from the borrower to return and/or cancel the loan within 14 days after the date the school sends the disbursement notice. If the school sends the disbursement notice more than 14 days before the first day of the payment period, it must honor the borrower's request by the first day of the payment period. In addition, a school may return the loan proceeds, cancel the loan, or do both, if the school receives the notice from the borrower after this deadline, but *it is not required to do so*. This is the school's decision.

A school must notify a student or parent, in writing or electronically, about the outcome of any cancellation request.

Reference:
- 34 CFR 668.16(c)(2)

Separation of Functions

At some schools, the business office and financial aid office are located in one shared office. Although this setup might provide good student services, it is essential to remember that federal regulations require a school to divide the functions of authorizing payments and disbursing funds so that no single office or individual has the responsibility for both functions for any student receiving Title IV funds.

- For example, under the Perkins Loan Program, the financial aid office might award Perkins Loan funds. The business office might be responsible for disbursing Perkins Loans, collecting and handling promissory notes, billing borrowers in repayment, collecting payments, authorizing deferments, canceling loans, counseling students, and reporting on Perkins Loans to NSLDS. Or schools might contract with a third-party servicer for some of these activities; some schools have a separate loan office that is part of either the business office or the financial aid office.

Reference:
- 34 CFR 668.164(e)

Reference:
- 34 CFR 668.165(a)(4)

Reference:
- 34 CFR 668.165(a)(5)

Title IV Credit Balances

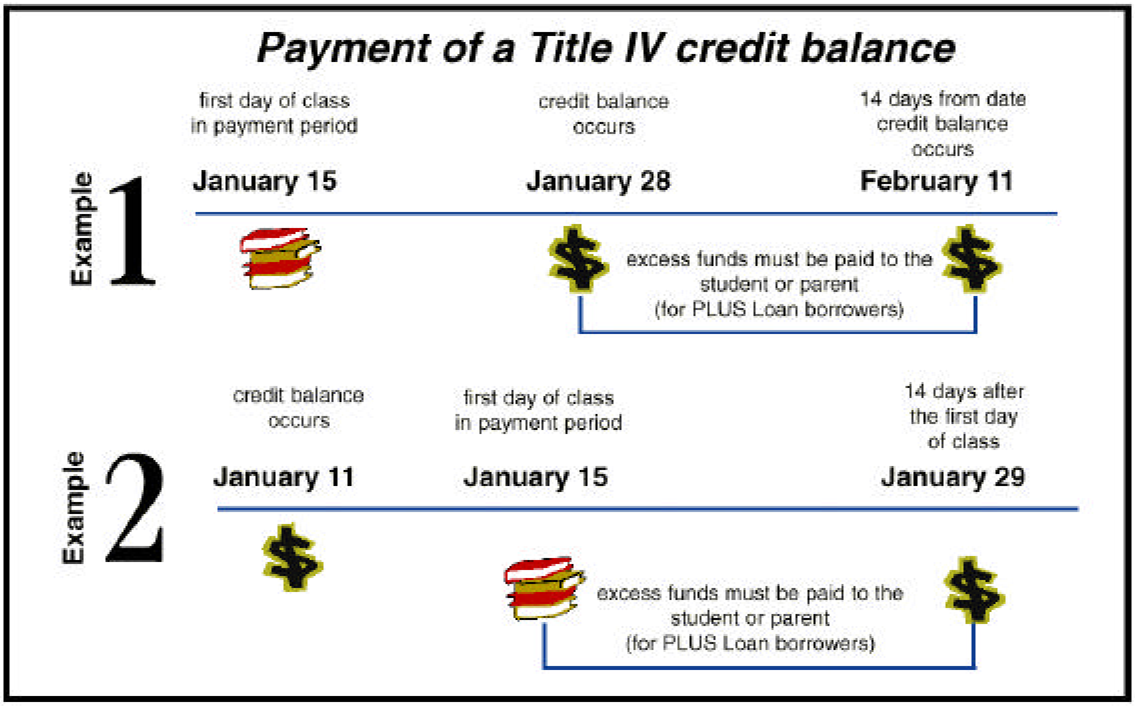
When a school applies Title IV funds to a student's school account and determines that the amount of the funds exceeds allowable charges the school assessed the student, the school must pay the **credit balance** directly to the student or parent borrower as soon as possible, but no later than the 14-day deadline described below. The only exception is when the school has the student's permission to hold a credit balance.

A school must pay a credit balance directly to a student borrower or parent borrower within 14 days of:

- the date the balance occurs, if it occurs after the first day of class of a payment period; *or*

- the first day of class of a payment period, if the balance occurs on or before the first day of class of that payment period; *or*
- the date the school receives the student's or parent's cancellation of the school's authorization to hold a Title IV credit balance.

The two examples below illustrate how schools can pay a Title IV credit balance.



Reference:
- 34 CFR 668.2(b)

Early Disbursements

A school may not make a payment to a student or credit a student's account until the student is enrolled for classes for the applicable payment period or enrollment period. Federal regulations define "**enrolled**" as the status of a student who:

- has completed registration requirements (except for paying tuition and fees) at the school the student is attending *or*
- has been admitted into an educational program offered predominantly by correspondence and, after being accepted for enrollment, has submitted one lesson completed by the student without the help of a representative of the school.

Reference:
- 34 CFR 668.164(f)(1) and (2)

Except for students subject to the 30-day delayed disbursement, the earliest a school may pay a student directly or credit a student's account with Title IV

***Schools may incur liabilities if they disburse Title IV funds earlier than allowed by the ten-day rule.**

References:

- 34 CFR 682.604(c)(9)
- 34 CFR 685.301(b)(7)

Reference:

- 34 CFR 682.604(c)(7) and (8)
- 34 CFR 685.301(b)(5) and (6)

****Terms in a loan period are substantially equal in length if no term is no more than any other term in that loan period.**

Reference:

- 34 CFR 682.604(c)(6)(i) and (ii)
- 34 CFR 685.301(b)(3)(i) and (ii)

Reference:

- 34 CFR 682.207(d)
- 34 CFR 685.301(b)(4)(i) and (ii)

Reference:

- 34 CFR 682.604(c)(10)
- 34 CFR 685.301(b)(8)

funds is ten days before the first day of an enrollment period for which that disbursement is intended.*

Multiple Disbursements

A school generally disburses Direct Loan funds or delivers FFEL proceeds in multiple installments. If the school is required to do so, the disbursements must be in substantially equal installments and no installment may exceed one-half of the loan.

For clock-hour programs, nonterm credit-hour programs, and nonstandard term programs that do not use terms substantially equal in length** for a loan period, the second disbursement of Direct Loan Program or FFEL Program funds cannot be made until the later of:

- ♦ the calendar midpoint between the first and last scheduled days of the loan period,
- ♦ the date determined by the school that the student has completed half of the academic course work in the loan period for nonterm credit-hour programs or nonstandard term programs, *or*
- ♦ the date determined by the school that the student has completed half of the clock hours in the loan period for clock-hour programs.

For credit-hour programs with standard terms, if the loan period is more than one payment period, loan funds must be delivered at least once in each payment period. If the loan period is one payment period (for example, one semester), the second disbursement of Direct Loan Program funds or the second delivery of FFEL Program funds cannot be made until the calendar midpoint between the first and last scheduled days of class of the loan period.

There are, however, some situations in which a school is allowed to make a single disbursement:

- ♦ If one or more payment periods have elapsed before the school makes a disbursement, the school may include loan proceeds for completed payment periods in the disbursement.
- ♦ If the loan period is equal to one payment period and more than one-half of it has elapsed, the school may include loan proceeds for the entire payment period in the disbursement.
- ♦ If a school has a cohort default rate of less than 10 percent for each of the three most recent fiscal years for which data are available, the school may disburse a loan in a single installment if the loan period is not more than one semester, one trimester, one quarter, or, for nonterm-based schools or schools with nonstandard terms, four months.

Reference:
- 34 CFR 682.604(c)(10)
- 34 CFR 685.301(b)(8)

♦ If a school is an eligible home institution that has a cohort default rate of less than 5 percent for the single, most recent fiscal year for which data are available and is certifying or originating loans for students in study-abroad programs, if those programs are approved by the home institution, it may disburse the loan in a single installment.

♦ If a school is not located in a state, it is not required to make more than one disbursement.

Reference:
- 34 CFR 668.164(f)(3)
- 34 CFR 682.604(c)(5)
- 34 CFR 685.303(b)(4)

Delayed Disbursements

A student borrowing under the Direct Loan Program or FFEL Program is subject to delayed disbursement if the student:

♦ is enrolled in the first year of an undergraduate program of study *and*

♦ has not previously received a Direct Loan Program or an FFEL Program loan.

Reference:
- 34 CFR 668.164(g)(2) (i) and (ii)

A school may not release the first disbursement of a Direct Loan Program or FFEL Program loan to a first-year, first-time, undergraduate student borrower until 30 calendar days after the first day of the student's program of study for which the loan is intended. The reason: The student might change his or her program of study, drop out, or take a leave of absence within the first 30 calendar days of the enrollment period; delayed disbursement means that in these circumstances the student won't have received funds that then will need to be repaid. Because of this, the student may not receive loan proceeds until after he or she has been enrolled and attending the new program of study for 30 calendar days.

Reference:
- HEA, Section 428G (b)(1)
- 34 CFR 682.604(c)(5)
- 34 CFR 685.303(b)

This requirement does not apply to:

♦ a school that has a cohort default rate or a weighted average cohort rate of less than 10 percent for each of the three most recent fiscal years for which data are available for FFEL Program loans and Direct Loan Program loans;

♦ an eligible home institution that has a cohort default rate or a weighted average cohort rate of less than 5 percent for the single, most recent fiscal year for which data are available and is certifying or originating loans for students in study-abroad programs, if those programs are approved by the home institution; *or*

♦ a school that is not located in a state.

A school is not required to delay disbursement of Direct PLUS Loan or Federal PLUS Loan proceeds borrowed by a parent on behalf of a dependent student for 30 days, even if the student is a first-year, first-time undergraduate student.

Late Disbursements

Reference:
- 34 CFR 668.164(g)(1) (i) and (ii)

Reference:
- 34 CFR 668.164(g) (i) and (ii)
- 34 CFR 668.22

***See Chapter 2 of this book for more information about return of Title IV funds.**

A formerly eligible student may be eligible to receive a late disbursement. An institution may make a late disbursement if:

- for the Pell Grant, FSEOG, and Perkins Loan Programs, the student is no longer enrolled at the school for the award year *and*
- for the Direct Loan and FFEL Programs, the student is no longer enrolled at the school as at least a half-time student for the loan period.

A school may also make a late disbursement if it has determined through a **return of Title IV funds** calculation that the student has earned aid that was not disbursed before the student's withdrawal. This type of disbursement is considered to be a post-withdrawal disbursement and is subject to certain return of Title IV funds restrictions.*

Late Disbursements

Program	*A late disbursement may be made if, before the date the student becomes ineligible...*		
*Direct Loans **	SAR or ISIR with official EFC is received (all programs)	electronic origination record is created	For a first-year, first-time borrower, student completed first 30 calendar days of program
*FFEL Loans **		loan application is certified	
Pell		Valid SAR or ISIR is received	
SEOG		Student is awarded grant	
Perkins		Student is awarded loan	

* *A school may not make a late second or subsequent disbursement of a Direct Subsidized Loan, Direct Unsubsidized Loan, or a FFEL Stafford Loan, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.*

Depending on the Title IV program, there are conditions a school must meet before disbursing funds to a formerly eligible student. To be eligible for a late disbursement, the student must have educational costs incurred while enrolled at the school. A school may pay a formerly eligible student if, before the date the student became ineligible, the school:

Reference:
- 34 CFR 668.164(g)(2) (i) and (ii)

- received a SAR or ISIR with an official, calculated expected family contribution (EFC);

- has a valid SAR or ISIR, for a Pell Grant;
- has awarded the student a grant or loan, for the FSEOG Program award or the Perkins Loan Program;
- has created an electronic origination record, for a Direct Loan Program loan;
- has certified a loan application, for a FFEL Program loan; *and*
- has checked that a first-year, first-time undergraduate borrower completed the first 30 calendar days of enrollment of his or her program of study, for a Direct Loan or a FFEL Program loan.

Reference:
- 34 CFR 668.164(g)(2) (ii)(A) and (B)

A school may *not* make a late second or subsequent disbursement of a Federal Direct Subsidized Loan, Federal Direct Unsubsidized Loan, or a FFEL Stafford Loan unless the student has graduated or successfully completed the period of enrollment for which the loan was intended. This applies even if the student qualifies for a post-withdrawal disbursement under a return of Title IV funds calculation.

Reference:
- 34 CFR 668.164(g)(3) (i) and (ii)

If a student or parent borrower qualifies for a late disbursement, a school may make a late disbursement if the funds are used to pay for educational costs that the school determined were incurred for the period in which the student was enrolled and eligible.

- The school must make the disbursement to the student no later than 90 days after the student becomes ineligible.

Holding Title IV Credit Balances

Reference:
- 34 CFR 668.165(b) (1)(iii)
- 34 CFR 682.604 (d)(1)(ii)(B)
- 34 CFR 668.165(b)(5) (i) and (ii)

***ED may prohibit schools under the reimbursement payment method from holding student credit balances.**

A school, as fiduciary for the benefit of a student, may hold amounts of Title IV funds that exceed allowable charges *if* the student or parent borrower authorizes the school to retain the credit balances to assist the student or parent borrower in managing those funds.

If a student authorizes a school to hold a credit balance,* and if the school chooses to hold the credit balance, the school:

- must identify the student and the amount of the credit balance the school holds for that student in a subsidiary ledger account designated for the purpose of holding funds;
- must maintain, at all times, an amount of cash in its bank account that is at least equal to the amount of the credit balance the school holds for the student; *and*
- may retain any interest earned on the student credit balances.

Reference:
- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.163 (c)

Reference:
- 34 CFR 668.165(b)(5)(iii)

However, notwithstanding any authorization the school obtains from the student or parent, the school must pay to the student or parent any remaining balance on the loan funds by the end of the loan period and any other remaining Title IV aid funds by the end of the last payment period in the award year for which they were awarded and were intended to be disbursed.

If ED determines that a school's reimbursement method has failed to meet these standards of financial responsibility, the school may not be allowed to hold credit balances for any purpose.

Student/Parent Authorizations

Reference:
- 34 CFR 668.165(b)(5)(iii)

A school must obtain written authorization from a student or parent to:

- disburse Title IV program funds to a bank account designated by the student or parent,
- use Title IV program funds to pay for other allowable charges under the HEA, *or*
- hold a Title IV credit balance.

Reference:
- 34 CFR 668.165(b)(1)

Reference:
- 34 CFR 668.165(b)(2)

A school may not require or coerce a student or parent to provide an authorization for any of these activities. If a student or parent opts to authorize a school to perform any of these activities, the school must allow the student or parent to rescind the authorization at any time. The school must also clearly explain to a student or parent how it will carry out these functions.

An authorization is good for the period during which the student is enrolled at the school. An initial authorization will continue to be valid for subsequent award years or enrollment periods as long as the student or parent does not rescind it.

- A break in enrollment does not invalidate the authorization.
- The written authorization must give the student or parent the opportunity to cancel or modify the provisions of the original authorization.

Alternative Methods of Disbursing Title IV Funds

Title IV funds can be disbursed or delivered to a student by EFT to the student's bank account, if the student authorizes it.

Schools must obtain written authorization from the student to hold funds in the student's account.

Another method of distributing funds to students is issuing debit cards. At some schools, debit cards are issued by the school and allow students to have access to their Title IV funds by automatically "debiting" the student's school account each time the card is used. Proper electronic security measures must be in place.

Reference:

- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*
- 34 CFR 668.166(a) (1) and (2)

***FFEL Program funds that cannot be delivered to the intended student cannot be reallocated to other Title IV programs and must be returned to the lender.**

Reference:

- DCL CB-00-14

****GAPS does not report expenditures for closed awards.**

4.8 Excess Cash

Excess cash is any amount of Title IV program funds (other than Federal Perkins Loan Program funds) that a school does not disburse to students by the end of the third business day following the date the school received the funds. Except as described in the next section on tolerances, a school must reallocate funds to other programs or promptly return to ED* any amount of excess cash in its bank account.

- ♦ Schools receiving funds under the just-in-time payment method are exempt from this requirement (for those funds), as they don't ever have excess funds.

A school may have excess cash in its account if:

- ♦ the funds result from a reduction to reported expenditures on a closed award**;
- ♦ the school has unused funds and expects no more funding from ED, or no more student expenses;
- ♦ the school earned interest or investment income on federal funds in excess of $250 (with the exception of the Federal Perkins Loan Program);
- ♦ funds were drawn down and not used according to immediate need rules;
- ♦ the school owes ED for disallowed program expenditures found during an audit or program review; *or*
- ♦ the school reports large Federal Perkins Loan cash on hand (COH) balances on the FISAP.

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- 34 CFR 668.166(b)(1)(i)(A) and (B)

Reference:

- 34 CFR 668.166(b)(1)(ii)

Reference:

- 34 CFR 668.166(b)(2)(i) to (iv)

Reference:

- 34 CFR 668.166(b)(3)

Tolerances

If a school draws down Title IV program funds in excess of its immediate cash needs, the school may maintain the excess cash balance in its bank account only if:

- ♦ the amount of the excess cash balance is less than three percent of the school's total prior-year drawdowns for a **peak enrollment period** during which the drawdown occurs *or*

- ♦ the amount of excess cash balance is less than one percent of its total prior-year drawdowns for any other period.

If the school qualifies for either of these criteria, the school must eliminate its excess cash balance within the next seven days by disbursing Title IV funds to students for at least the amount of the balance.

A peak enrollment period occurs when at least 25 percent of a school's students start classes during a given 30-day period. For any award year, a school calculates the percentage of students who started classes during a given 30-day period by:

1. determining the number of students who started classes during that period for the prior award year in which the 30-day period began;

2. determining the total number of students who started classes during the entire prior award year in which the 30-day period began;

3. dividing the number of students in step 1 by the number of students in step 2; *and*

4. multiplying the result obtained in step 3 by 100.

Calculating Peak Enrollment

$$\frac{\text{Number of students who started classes in the comparable 30-day period in the prior award year}}{\text{Total number of students who started classes during the entire prior award year}} \times 100 = \text{Percentage of students who started classes during the 30-day period.}$$

To determine total prior-year drawdowns, a school participating in the Direct Loan Program may include the total amount of loans guaranteed under the FFEL Program for students attending the school during that year.

Liabilities

Reference:

- *Student Financial Aid Handbook*, *Volume 2: Institutional Eligibility*
- 34 CFR 668.166(c)(1)(i) and (ii)

If ED finds that a school maintains excess cash balances in its bank account that are greater than those allowed, ED may:

- require the school to reimburse the federal government for costs incurred in making those excess funds available to the school *and*
- initiate proceedings to fine, limit, suspend, or terminate the school's participation in one or more Title IV programs.

Reference:

- 34 CFR 668.166 (c)(2)(i)

If ED finds that a school *has* excess cash, ED considers a school to have issued a check to a student on the date the check cleared the bank, unless the school can demonstrate it issued the check shortly after writing it.

Reference:

- 34 CFR 668.166(c)(2)(ii)

If ED finds that a school has maintained excess cash, ED calculates (or requires the school to calculate) a liability for maintaining excess cash according to ED-established procedures. Under those procedures, ED assesses a liability equal to the difference between the earnings that the excess cash balance would have yielded if it had been invested under the applicable **current value of funds rate** and the actual interest earned on the balance.

Reference:

- http://www.fms.treas.gov/tfm/

The current value of funds rate is an annual percentage rate, published in a Treasury Financial Manual (TFM) bulletin, that reflects the current value of funds to the U.S. Department of Treasury (Treasury) on the basis of certain investment rates. The current value of funds rate is computed each year by averaging investment rates for the 12-month period ending every September. The TFM bulletin is published annually by Treasury. Each annual bulletin identifies the current value of funds rate and the date that rate becomes effective.

Disallowed Program Expenditures

If disallowed program expenditures are discovered during an audit or program review, a school is considered to have excess cash if:

- The school draws down funds, credits the student's account, and then the student no longer attends the school and is ineligible for the funds.
  - The school must cancel the disbursement and return funds to its federal cash account. This might cause the school to have excess cash, depending on its cash needs.
- The school draws down more money than it spends.

- Because the unused funds were drawn down and deposited in the school's cash account, the school must return the money as excess cash or adjust its next drawdown if it is within the timelines allowed by regulations.

♦ The school draws down funds and disburses them improperly.

- This is considered a liability. Because the school had use of the improperly disbursed funds, the school is charged interest on the use of those funds.
- This situation occurs when the school credits the student's account with Title IV financial aid and fails to cancel the award(s) when the student doesn't attend or when the school fails to provide matching (nonfederal) funds for the campus-based programs.

4.9 Methods for Returning Funds

Procedures for returning funds vary, depending on the circumstances under which a school is returning funds. If ED notifies a school that it must return funds, the notification usually contains specific instructions the school must follow.

Excess Cash for the Federal Pell Grant and Campus-Based Programs

Reference:
- GAPS *Payee Guide – August 2000*
- Federal Pell Grant Desk Reference 2000-01

Excess cash exists when any grant award in GAPS has a positive cash balance. This occurs when the school, as a payee, has net draws that exceed expenditures for one or more of the payee's grant awards three business days after the funds have been deposited into its bank account.

Payees should reconcile their grant awards on a regular basis and are required to resolve any excess cash balances throughout the year. A payee can resolve an excess cash balance by:

- returning excess cash to ED *or*
- reallocating drawn funds among grant awards in GAPS to comply with immediate cash needs.

Reference:
- See Section 4.2 of this book for more information about immediate need.

Reference:
- http://e-Grants.ed.gov/gapsweb

If a school must return funds to ED, the school must follow appropriate procedures for returning funds. Schools with fewer than 25 open awards have the option of using the GAPS online refund function. To use the online refund function, schools should access the e-Payments Web site, log on to the site, select "refunds," select "excess cash," select "initiate a refund," and click on "continue." This brings up the school's open awards from which the school can choose the document and bank account desired. GAPS will then take the money from the selected bank account and credit the appropriate document. The transaction will be posted in GAPS within two business days.

To help payees reconcile their internal accounting records with ED's information in GAPS, payees can access GAPS Activity Reports through the e-Payments Web site.

If a school fails to resolve cash balances, the school, as a payee, may be subject to penalties.

Closed Award

If a school needs to return funds as a result of reducing expenditures on a closed award, the school simply sends a check to the lockbox at:

U.S. Department of Education
P. O. Box 952023
St. Louis, MO 63195-2023

The remittance should include the school's DUNS number and Document Award Number; it also should indicate that the remittance is for a closed award.

***FARS is a general ledger of the Financial Management System Software (FMSS) under EDCAPS.**

The collections for closed awards are posted in FARS* (Receivable) as unbilled collections under the school's DUNS number. No receivables are established, nor is the school's account adjusted in GAPS. The funds are posted to Miscellaneous Receipts and ultimately returned to the U.S. Department of Treasury.

Federal Pell Grant

For any award year that is more than five years old (the 1995-96 award year as of September 30, 2001 and the 1996-97 award year as of September 30, 2002), decrease adjustments are both canceled and closed in PGRFMS. PGRFMS does not process these adjustments, and GAPS does not post the adjustments to the school's account or adjust expenditures. Schools should no longer submit Decrease Award Reports previously described in the various post-deadline adjustment letters.

Schools should return closed Federal Pell Grant award funds to the St. Louis lockbox address (given above) used for returning unbilled and voluntary refunds described earlier.

Funds from an Audit or Program Review

Reference:

- GAPS *Payee Guide – August 2000*

If a school owes payments to ED, a copy of its Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) letter is sent to ED's Receivables and Cash Receipts Team (RCRT) where an account receivable is established for the school. A school is billed for the disallowed amount of funds, accrued interest, and penalties through ED's billing agent. Payment instructions are included with the bill.

- If a school owes ED $100,000 or more, it must remit payment through its financial institution by FEDWIRE.
- If a school owes ED less than $100,000 it must remit payment by check to ED's billing agent.

A school may not reduce amounts reported as net drawdowns on its GAPS Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any Title IV funds returned for this purpose will not be credited to a school's GAPS account.

Unless otherwise directed by the FADL or FPRD letter, a school may not attempt to adjust its prior-year FISAPs or Federal Pell Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review, nor may it make repayments directly to any FFEL Program lender or to the Direct Loan Servicing Center. Sometimes ED requires schools to:

- buy loans,
- make a required refund to a lender,
- send in a separate check for Direct Loan liabilities, or
- return other federal funds to the applicable programs.

Reference:
- GAPS *Payee Guide – August 2000*
- 34 CFR 668.163(c)(4)

Interest Earned

If a school receives funds through advance payment and retains those funds in an interest-bearing or investment account, the school is required to return to ED, at least annually, the amount of interest or investment earnings that exceeds $250. The exception: For Perkins Loan funds, a school must retain and use all interest or investment income earned for authorized purposes of the program.

Schools must return excess interest income to ED by check, indicating on the check that it represents interest earnings. The check should be sent to:

U.S. Department of Education
P.O. Box 952023
St. Louis, MO 63195-2023

The remittance should include the school's DUNS and Document Award Number; it should also indicate that the remittance is for interest earned.

Reference:
- *Student Financial Aid Handbook*, *Volume 4: Campus-Based Common Provisions*
- DPL CB-00-11
- DPL CB-99-11
- Dear FAA Letter CB 98-7 (LD)

Technical Assistance

Schools needing technical assistance with returning Title IV funds should contact their ED regional office for help.

4.10 Releasing Campus-Based Funds

If a school does not use its total allocation of funds for Title IV campus-based programs (Federal Perkins Loan, Federal Supplemental Educational Opportunity Grant, and Federal Work-Study), the school is required to release unexpended amounts to ED.

In July or August each year, ED electronically sends schools a letter and a Campus-Based Reallocation Form (E40-4P).* The letter advises them that they must release funds not spent by June 30 of that year. In addition, schools are asked to determine the amount of FSEOG and FWS funds they have spent by that date and the amount of Federal Capital Contribution they have not yet requested from GAPS by the same date. Later, a school also must determine the actual amounts spent as of the end of the award year, and during the GAPS liquidation period it must adjust drawdowns for expenditures incurred during the GAPS performance period.

***The Campus-Based Reallocation Form is distributed to schools as an attachment to the FISAP software.**

Reference:

- See Chapter 3 of this book for more information about releasing campus-based funds and supplemental allocations.

A school's funds are reduced by the amounts released for the campus-based programs authorization in GAPS for that award year. ED will reallocate these "released" funds by September 30 of the subsequent award year as supplemental allocations for other schools that qualify to receive them for that award year. Deadlines for submitting the Campus-Based Reallocation Form to ED are issued each year in a "Dear Partner" letter.

4.11 Returning Federal Family Education Loan (FFEL) Program Funds

Reference:

- *Student Financial Aid Handbook, Volume 8: Direct Loan and FFEL Programs*

Reference:

- See Chapter 2 of this book for more information about return of Title IV funds.

It is sometimes necessary for a school to return all or a portion of a loan made under the Federal Family Education Loan (FFEL) Program to the lender that made the loan. FFEL Program funds must be returned if:

- ♦ a student fails to enroll for an enrollment period for which the loan is intended;
- ♦ a student fails to meet satisfactory academic progress or other eligibility requirements (for example, completing entrance loan counseling) at the time the loan is due to be delivered;
- ♦ the student withdraws or drops out during an enrollment period for which the loan is intended before funds are delivered to a student, *and* the student is not eligible for a post-withdrawal disbursement;
- ♦ a return of funds is due to a lender as a result of a return of Title IV funds calculation; *or*
- ♦ a student or parent requests a school to return FFEL Program funds to reduce the borrower's principal loan balance.

Reference:

- 34 CFR 668.167

Regulations provide for three periods for disbursing and returning FFEL Program funds:

1. initial period

2. conditional period
3. return period

Schools are required to “return funds no later than ten business days” after the school determines the student to be ineligible for FFEL Program funds. This means a school must return a check or initiate an EFT of FFEL funds to the lender by the close of business of the last day of the return period.

Initial Period

Reference:
- *Student Financial Aid Handbook, Volume 8: Direct Loan and FFEL Programs*
- 34 CFR 668.167(b)(1)(ii) and (iii)

Funds that a school receives from a lender in the form of a check made payable to the borrower or co-payable to the borrower and school must be disbursed to the borrower no later than 30 calendar days after the school receives the funds.

Funds received by the school through EFT or master check must be disbursed to the borrower no later than three business days after the school receives the funds.

Conditional Period

Reference:
- *Student Financial Aid Handbook, Volume 8: Direct Loan and FFEL Programs*
- 34 CFR 668.167(b)(2) and (3)

A school has ten business days after the last day of the initial period to deliver FFEL funds received by EFT or master check only if:

1. the school determines that the student has not completed but will complete, the required number of clock hours or credit hours in the preceding payment period within those ten-business days, *or*

2. the student has not met all of the FFEL eligibility requirements (such as registering for the required number of hours, completing entrance loan counseling, or making satisfactory academic progress), but the school expects the student to meet those requirements during this ten-business-day period.

Reference:
- 34 CFR 668.167(c)(2)

A school on the reimbursement payment method may delay returning funds to the lender for an additional 30 calendar days from the date the school receives the funds by EFT or master check.

Return Period

Reference:
- *Student Financial Aid Handbook, Volume 8: Direct Loan and FFEL Programs*
- 34 CFR 668.167(b)(2) and (3)

For FFEL Program funds that a school does not disburse by the end of the initial period or conditional period, as applicable, the school must return the funds to the lender promptly but no later than ten business days from the last day of the initial period or conditional period. However, if a student becomes eligible to receive FFEL Program funds during the return period, the school may deliver those funds to the student provided the delivery of funds is made on or before the last day of the return period, which most often is 30 calendar days.

- If a student fails to enroll or fails to meet other loan eligibility requirements and the school has disbursed the funds, a school must

Reference:

- 34 CFR 682.607(c)
- 34 CFR 668.22(j)
- See Chapter 2 of this book for more information on determining withdrawal dates.

Reference:

- 34 CFR 682.607(a)
- 34 CFR 668.22

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- *Direct Loan School Guide*
- DLB 00-40
- DLB 00-22
- DLB 00-19
- DLB 99-40

return loan proceeds to a lender within 30 calendar days of the school determining that the student is not eligible for the loan.

- If a student withdraws from school and is subject to a return of Title IV calculation, a school must return loan proceeds according to the time frame established by the return of Title IV funds regulations. The school must return the funds as soon as possible, but no later than 30 calendar days after the date the school determined the student withdrew.

When a school returns a student's FFEL Program loan proceeds within the 30-calendar-day requirement, it must return them to the original lender or the subsequent holder (if the loan has been transferred and the school knows the new holder's identity). The school must also notify the student or parent borrower, in writing, that the funds have been returned.

4.12 Returning Direct Loan Funds

Schools must return Direct Loan funds in the event of excess cash, **idle cash**, or return of Title IV funds calculations.

Direct Loan Excess Cash

Like other Title IV funds, Direct Loan excess cash is any amount of Direct Loan funds a school does not disburse to borrowers by the end of the third business day following the date the school receives the funds. This includes excess funds that result from a downward adjustment of an actual disbursement.

There are three methods by which schools may return excess Direct Loan cash to ED:

- *Check*—A check may be used if the amount of excess cash is less than $100,000. The check should include all excess funds that need to be returned at a given time, not just those for an individual borrower or type of loan. The check and/or accompanying correspondence should include the school's Direct Loan school code and the academic year the funds should be applied against. The school should also indicate that the funds are excess Direct Loan cash. The check should be mailed to:

  Loan Origination Center
  Attn: Excess Cash
  P.O. Box 2011
  Montgomery, AL 36102-2011

- *FEDWIRE*—An electronic-transfer method should be used if the amount of excess cash is $100,000 or more. A school must instruct its bank that the reason for the remittance is Direct Loan excess cash. In the beneficiary section of the wire, include the Direct loan school code, program year, and the words “Excess Cash.” The funds are transferred to:

Wachovia Bank, NA, Atlanta GA
Routing Number 061000010
Account Number 13028525

- *GAPS Online Refund Function*—Schools with fewer than 25 open awards have the option of using the GAPS online refund function. To use the online refund function, schools should access the e-Payments Web site, log-on to the site, select “refunds,” select “excess cash,” select “initiate a refund,” and click on “continue.” This brings up the school’s open awards from which the school can choose the document and bank account desired. GAPS will then take the money from the selected bank account and credit the appropriate document. The transaction will be posted in GAPS within two business days.

Reference:

- http://e-Grants.ed.gov/gapsweb

Idle Cash

For the Direct Loan Program, cash that has been disbursed becomes idle cash* if and when it is returned to the school’s Title IV account(s). The return must be reflected in the school’s general ledger or subsidiary ledger. This return may be because of a refund, or it may be because other circumstances exist.

- For example, a student might receive a Direct Loan disbursement but later returns all or a portion of the loan to the school. Or a student might receive a disbursement and later withdraw or change his or her enrollment status so that all or a portion of the loan proceeds must be returned to the school’s Title IV account(s).

A school may maintain idle cash in its federal bank account for up to seven calendar days in order to disburse to, or on behalf of, the student or other students.

***The provision in 34 CFR 668.166(b) concerning the amount of an excess cash balance does not apply to idle cash.**

Reference:

- *Road to Reconciliation Participant’s Workbook (2000)*

Return of Direct Loan Funds

If a school determines that a student has become ineligible for a portion or all of his or her Direct Loan disbursement, the school must return those funds to the Direct Loan Program. The school must adjust the actual disbursement downward (downward adjustment) and initiate a return of funds. If the school returns the funds to its federal bank account, excess cash tolerances and rules apply.

If a school is returning loan funds at the borrower’s request within 120 days of disbursement because the borrower has decided that all or a portion of the funds aren’t needed, the school makes the appropriate downward adjustment to the loan record and returns the funds. The borrower is not charged loan fees or interest on the portion of the loan that was returned. If the funds being returned at the borrower’s request is more than 120 days after disbursement, then the

Reference:

- *Student Financial Aid Handbook, Volume 2: Institutional Eligibility*
- *Direct Loan School Guide*
- DLB 99-74

school must send a check to the Direct Loan payment center to be credited to the borrower's account. No downward adjustment or adjustment to the borrower's loan records are needed. In this case, the borrower will be charged loan fees and interest on the entire loan amount. (See 120-Day Rule chart on page 4-42.)

- *Adjusting actual disbursements (downward adjustment)* — If a Direct Loan return is made within 120 days of a loan's disbursement date, a school may process the return by adjusting an actual disbursement.

    - When an Option 2 school makes a downward adjustment, it returns the net adjustment amount (the amount the borrower returns) to the school's "federal" bank account. An Option 1 or Standard Origination school returns the net adjustment amount to the LOC. When loan funds are returned, the borrower is not responsible for interest or loan fees if the school returns funds to comply with statutory or regulatory requirements.

      With this method, for Option 2 schools, the amount that is canceled or adjusted is returned to the school's federal bank account where it immediately must be disbursed to other eligible borrowers (within three business days) or returned to ED as excess cash.

- *Sending a check* — A school can handle a Direct Loan return much as it handles an FFEL Program loan return, that is, by sending a check to be applied as a payment to a borrower's account. When loan funds are returned, the borrower is not responsible for interest or loan fees if the school returns funds to comply with statutory or regulatory requirements.

    - If a school uses the check method, the school must also supply the information needed to apply the funds to the borrower's account. If a school is returning funds for more than one student, it should send only one check and attach a list of borrowers' names, loan ID numbers, and refund amounts. The school must indicate on the check, list, or other accompanying correspondence that the funds are to be applied to borrowers' accounts as payments. The check and other information should be mailed to:

      Direct Loan Servicing Center
Attn: Payment Center
P.O. Box 746000
Atlanta, GA 30374-6000

If the student withdraws or drops below half-time enrollment *or* the school identifies an overaward 120 days after the date of disbursement, the funds cannot be returned by canceling or adjusting actual disbursements. In these cases, the funds must be returned to the Direct Loan Servicing Center as a payment to the borrower's account. The borrower may or may not be eligible to receive a credit for the loan fee (see the chart below). Schools should not make an electronic adjustment to the borrower's account.

A borrower may also return his or her Direct Loan funds. A credit for the loan fee and interest is given only if the borrower sends the return within 120 calendar days of disbursement. This rule is commonly referred to as the "120-Day Rule."

CREDIT OF LOAN FEE AND INTEREST: THE 120-DAY RULE

Credit of loan fee and interest is given if—

School returns proceeds	Within 120 calendar days of disbursement	***Always***	
	More than 120 calendar days after disbursement	***Only if complying with regulations/HEA***	
Borrower returns proceeds	Within 120 calendar days of disbursement	Not in repayment	***Always, unless written instructions otherwise***
		In repayment	***Only if written instructions***
	More than 120 calendar days after disbursement	***No credit allowed***	