

# Archived Information

## action 3

### Cash Management



The cash management requirements govern a school's management of most SFA Program funds. These requirements establish rules and procedures that a school must follow in requesting, maintaining, disbursing, and otherwise managing funds under the Pell Grant, FSEOG, Perkins Loan, FWS, Direct Loan, and FFEL programs.

Final regulations published November 29, 1996 made significant changes to the cash management requirements. Those changes are discussed here.

***New regulations***

#### ***GENERAL REQUIREMENTS***

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The cash management requirements are intended to

- ◇ promote sound cash management of SFA Program funds by schools,
- ◇ minimize the costs to the government of making SFA Program funds available to students and schools, and
- ◇ minimize the costs that accrue to students who receive SFA loans.

***Purpose of cash management requirements***

The SFA Program funds received by a school are intended solely for the use of student beneficiaries, except for funds received as an administrative cost allowance, which are intended as a payment to the school, and funds used for the Job Location and Development Program under the FWS Program. (See the Administrative Cost Allowance discussion on page 3-77.) All other funds are held in trust by the school for students, the Department, and also, in the case of FFEL Program funds, for lenders and guaranty agencies. SFA Program funds cannot be used as collateral or for any other purpose.

**Third-party servicers**

These rules and procedures also apply to a third-party servicer. For more information about third-party servicers, see the discussion on page 3-50.

**Definition of "parent"**

Note that for purposes of these cash management requirements, a "parent" means a parent borrower under the PLUS Program.

**CLARIFICATION**

**REQUESTING FUNDS**

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**CLARIFICATION**

Currently, the Department provides Pell Grant, Direct Loan, and campus based program funds to a school either by the "advance payment method" or the "reimbursement payment method." The November 29, 1996 final regulations introduced a third method for requesting funds from the Department: the just-in-time payment method. The final regulations also emphasize that the Department has the sole discretion to determine the method under which SFA Program funds are provided to a school (although at this time, participation in the just-in-time payment method is voluntary).

**Advance payment method**

Under the **advance payment method**, a school may submit a request for Pell Grant, Direct Loan, and campus-based program funds to the Department prior to disbursing aid to eligible students and parents. If the Department accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school. A school may not request more funds than the school needs immediately for disbursements the school has made or will make to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school received those funds.

**CLARIFICATION**

The November 29, 1996 final regulations clarify that the Department does not automatically accept a request for funds from a school under the advance payment method. For example, the Department may reject a request if the amount of the request exceeds the amount of funds the school is authorized to draw down.

**Reimbursement payment method**

Under the **reimbursement method**, a school must disburse Pell Grant, Direct Loan, and campus-based program funds to eligible students and parents before requesting funds from the Department. Generally, the Department places a school on the reimbursement payment method if it determines that there is a need to monitor strictly the school's participation in the SFA Programs. The school cannot request more cash than the amount that it actually disbursed to those eligible students and parents. As part of the school's request the school must

- ◇ identify the students and parents for whom it is seeking reimbursement, and

- ◇ submit documentation demonstrating that each student and parent included in the request was eligible to receive and has received the SFA Program funds for which reimbursement is requested.

Before approving a school's request for funds, the Department determines that the school has

- ◇ accurately determined the SFA eligibility of each student,
- ◇ accurately determined the SFA payment to each student and parent included in its request, and
- ◇ submitted the required documentation.

The November 29, 1996 final regulations specify comparable limitations on the use of FFEL funds. These limitations apply to any school on reimbursement on or after July 1, 1997. If a school is placed on reimbursement, or a school that participates only in the FFEL Program has most of the limitations of reimbursement placed on it, the school

- ◇ may not disburse FFEL Program funds to a borrower until the Department approves the school's request to disburse funds to that borrower, and
- ◇ if prohibited by the Department, may not certify a loan application for a borrower until the Department approves the school's request to make the certification for that borrower.

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for that purpose (for example, a certified public accountant, financial aid consultant, or guaranty agency).

Until the Department approves a request, the school may be

- ◇ prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender,
- ◇ required to maintain loan funds that it receives from a lender via EFT in a separate bank account, and
- ◇ prohibited from certifying a borrower's loan application.



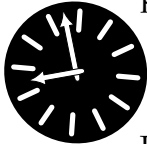
***Limitations  
on use of  
FFEL funds***

Because the school's submission and the Department's review of documentation to support a borrower's eligibility takes time, the school may delay returning FFEL Program funds provided by EFT or master check to a lender for a specified period of time (see Chapter 10).



***Just-in-time  
payment  
method***

The **just-in-time payment method**, introduced in the November 29, 1996 final regulations, will be part of the student-centered integrated delivery system under development by Project EASI. (For more information on Project EASI, see Section 2). At this time, the Department expects to use the just-in-time payment method only at schools that volunteer for participation. Moreover, a school will be able to choose the SFA Programs for which it would use the just-in-time method. For example, a school may volunteer to participate in the just-in-time payment method for the Pell Grant Program only, and continue to request and receive funds under the advance payment method for the Direct Loan and campus-based programs. More information on the implementation of the just-in-time payment method will be provided to schools by the Department in the future.



Under the just-in-time payment method, a school will submit electronically a request for funds on or near the actual date of disbursement. The request will include the date and amount of the disbursement it will make or has made to each student or parent. For each request the Department accepts for a student or parent, the funds will be provided to the school through EFT on or before the disbursement date reported by the school.

If for some reason a student is not eligible to receive the amount requested at the time the funds are actually disbursed, the school must report the adjustment in the funds for which the student is eligible within 30 days of the date that the school becomes aware of the change. A school will be permitted to make a disbursement of funds to a student or parent prior to submitting a record of that disbursement to the Department. However, if the student's eligibility for those funds has changed by the actual date of disbursement, any adjustment must be reported.

***Exemption  
from excess  
cash  
requirements***

Schools using the just-in-time payment method will be exempt from the requirements for returning excess cash (see page 3-75). Using this payment method, schools will have only a nominal amount of excess cash created by minor period adjustments. Since the Department 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 the reconciliation of payment data. This payment information will form the core of the individual student account that is the basis for the Project EASI integrated

delivery system. By providing funds based on current student-level data, this payment method will strengthen the Department's ability to monitor the integrity of the SFA Programs by reducing the potential for the misuse of funds.

By December 1997, the Department plans to implement a new automated fund processing system, the Grants and Payment System (GAPS), a part of the Education Department's Central Automated Processing System (EDCAPS). This new system will meet new federal financial system standards, provide schools both grant and payment information, and simplify expenditure reporting. A school receiving Pell Grant or campus-based program funds will use this system to request funds regardless of the method used to request payment. One of the primary features of this new system is the identification of funds by SFA Program as they are requested. To facilitate implementation of this new system, the November 29, 1996 final regulations require that each time a school requests funds from the Department, the school must identify the amount of funds requested by the program and fiscal year designation that the Department has assigned to the authorization for those funds. More information on GAPS will be provided to schools at a later date.



**GAPS**

### ***MAINTAINING AND ACCOUNTING FOR FUNDS***

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All schools must maintain a bank account into which the Department transfers, or the school deposits, SFA Program funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of SFA Program funds in the account. A school is not required to maintain a separate account for SFA Program funds unless the Department specifies otherwise.

The November 29, 1996 final regulations eliminate the requirement that a school must maintain a separate bank account for FFEL Program funds that the school receives from a lender by EFT. The Department believes that this provision is no longer necessary provided that a school maintains and accounts for FFEL Program funds in the same manner required for other SFA Program funds. The regulations make clear that for FFEL Program funds, a school must comply with the bank account notification requirements, and the accounting and financial requirements (discussed below).

For each account that contains SFA Program funds, a school must identify that SFA Program funds are maintained in the account by

- ◇ including the phrase "federal funds" in the name of the account, or



***Bank account  
notification  
requirements***

- ◇ notifying the bank or investment company of the accounts that contain SFA Program funds and keeping a copy of this notice in its records *and*, except for public institutions, filing a UCC-1 statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

**Public schools exempt from UCC-1 requirement**

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase "federal funds" was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they have been exempted from the requirement.

The Department may require a school to maintain SFA Program funds in a separate account that contains only SFA Program funds if the Department determines that the school failed to comply with cash management requirements, recordkeeping and reporting requirements, or other applicable program regulations.

**Interest-bearing or investment account**

Except in the instances discussed below, the account that Direct Loan, Pell Grant, FSEOG, and FWS program funds are deposited in must be an interest-bearing account or an investment account. An investment account must consist predominately of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

**Interest must be remitted to the Department**

Any interest earned on Direct Loan, Pell Grant, FSEOG, and FWS program funds maintained in an interest-bearing account or an investment account that exceeds \$250 per year, must be remitted to the Department at least once a year. A school may keep up to \$250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining an interest-bearing account. A school must keep any interest earned on Perkins Loan funds for transfer to the Perkins Loan Fund.

**Exceptions to interest-bearing account or investment account**

A school is not required to maintain Direct Loan, Pell Grant, FSEOG, and FWS program funds in a interest-bearing account or an investment account for an award year if

- ◇ the school drew down less than \$3 million from these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year,

- ◇ the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year, or
- ◇ the school requests these funds under the just-in-time payment method.

The November 29, 1996 final regulations added the exemption for schools that request funds under the just-in-time payment method because this method would ensure the expeditious accounting and disbursement of program funds. Therefore, little or no interest would be earned on funds provided to the school.

The November 29, 1996 final regulations eliminate the exemption for a school that earned less than \$250 in interest on the total amount of SFA Program funds drawn down in the prior award year. However, a school in this situation may qualify for an exemption by indicating that it did not earn \$250 in interest in the prior award year and by demonstrating that it will disburse the funds it receives in the current award year in the same manner as it disbursed funds in the prior award year.

A school that participates in the Perkins Loan Program must *always* maintain an interest-bearing account or an investment account for Perkins Loan funds. If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. If the school chooses to maintain one account, it must determine the exact amount of any interest earned on the Perkins Loan funds for transfer to the Perkins Loan Fund.

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

- ◇ identify the balance of the funds of each SFA Program that are included in the school's bank or investment account as readily as if those funds were in a separate account, and
- ◇ identify earnings on SFA Program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the recordkeeping requirements of 34 CFR 668.24 (see Section 7).

### ***DISBURSING FUNDS***

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These disbursement requirements apply to all the SFA Programs specified at the beginning of this section, except for the FWS Program. A school



***Federal  
Perkins Loan  
Program  
participants***

***Accounting  
and financial  
requirements***



**Changes  
made by  
final  
regulations**

must follow the disbursement procedures in 34 CFR 675.16 for paying a student his or her wages under the FWS Program (see Chapter 7).

The November 29, 1996 final regulations made several changes to the requirements for disbursing SFA Program funds. These include

- ◇ modifying the definition of an SFA Program disbursement,
- ◇ adding a requirement that SFA Program funds be disbursed on a payment period basis,
- ◇ consolidating the late disbursement requirements previously found in the individual program regulations, and
- ◇ clarifying some existing requirements (e.g., early payment of SFA Program funds).



**Definition of  
“disbursed”**

The November 29, 1996 regulations specify that SFA Program funds are **disbursed** when a school credits a student’s account with the funds or pays a student or parent directly with

- ◇ SFA Program funds received from the Department,
- ◇ FFEL funds received from a lender, or
- ◇ institutional funds labeled as SFA Program funds in advance of receiving actual SFA Program funds.

**Knowing  
when an SFA  
disbursement  
occurs**

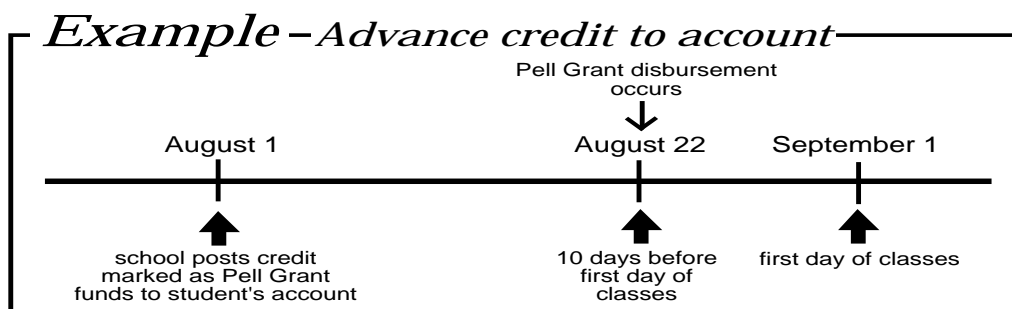
It is important to distinguish when SFA Program funds have been disbursed for a number of reasons. To begin with, once SFA Program funds have been disbursed, a student becomes an SFA recipient and the rights and responsibilities of an SFA recipient are in effect. For example, as an SFA recipient, a student has the right to the protection of the refund and repayment requirements and the responsibility to meet the satisfactory academic progress requirements. If the student is an SFA loan recipient, he or she assumes responsibility for the loan (and all interest accruing on the loan if it is unsubsidized), and has the right to cancel the loan. In addition, knowing when an SFA disbursement occurs will allow a school to determine when it must comply with regulatory requirements related to disbursements and other cash management issues.

Previously, for SFA Programs other than the Direct Loan Program, a disbursement of SFA Program funds did not occur when a school credited a student’s account with institutional funds labeled as SFA Program funds in advance of receiving actual SFA Program funds. The new definition of “disbursed” makes clear that any funds labeled as SFA Program funds *are* SFA Program funds.



However, because of other SFA Program requirements, there are two instances when crediting institutional funds labeled as SFA Program funds to a student's account in advance of receiving the actual SFA Program funds will not result immediately in an SFA disbursement:

- ◇ If a school credits a student's account with the institutional funds in advance of receiving SFA Program funds earlier than 10 days before the first day of classes of a payment period, the SFA disbursement occurs on the tenth day before the first day of classes. See the example below. (This provision corresponds to the early disbursement requirements. See page 3-68.)
- ◇ For a student whose loan funds are subject to the 30-day disbursement delay, if a school credits the student's account with institutional funds in advance of receiving SFA Program funds earlier than 30 days after the first day of the payment period, the SFA loan disbursement occurs on the 30th day after the beginning of the payment period.



In addition, if a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an SFA credit (for example, an "estimated Federal Pell Grant") the disbursement does not occur until the posting is subsequently converted to an actual credit. If the posting is never converted to an actual credit, it never becomes an SFA Program disbursement.

To allow schools to make administrative or system changes to comply with this new definition of a disbursement, the Department will not take adverse action against schools that fail to satisfy the new disbursement requirements during the 1997-98 award year if the Department determines that the school did not have sufficient time to make the necessary changes.

The November 29, 1996 final regulations clarify the charges for which a school may credit a student's account. When a school disburses SFA Program funds to a student by **crediting a student's account**, it may only do so for **allowable charges**. Funds in excess of the allowable charges must be paid directly to the student, unless otherwise authorized by the student. (An exception for the payment of prior year charges is discussed on page 3-71.)

## Exceptions

## Implementation

### CLARIFICATION

**Disbursement by crediting a student's account**

**Allowable charges**

**CLARIFICATION**

**Allowable charges are**

- ◇ current charges for tuition and fees (as defined in section 472 of the Higher Education Act of 1965, as amended [HEA]), room and board (if the student contracts with the school), and
- ◇ other current charges that a student incurs for educationally related activities, if the school obtains the student's or parent's authorization to have such charges credited with SFA Program funds.

If a charge does not meet the definition of tuition and fees in Section 472 of the HEA (with the exception of contracted room and board charges), the school must obtain the student's permission (or parent's, if applicable) to credit the student's account with SFA Program funds for the charges.

**Current charges:** Charges assessed the student by the school for the current award year or the loan period for which the school certified or originated a FFEL or Direct Loan.

**CLARIFICATION**

**Disbursing SFA funds directly**

In addition to crediting a student's account, SFA Program funds may be disbursed directly to a student. The November 29, 1996 final regulations clarify the requirements for disbursing SFA Program funds directly to a student or parent. A school may disburse funds "directly" by one of four methods:

- ◇ releasing a check provided to the school by a FFEL Program lender to the student or parent;
- ◇ issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent. (A check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup.);
- ◇ initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent; and
- ◇ paying the student in cash, provided that the school obtains a signed receipt from the student or parent.

A parent borrower of PLUS Loan funds may authorize the school to transfer PLUS Loan funds to a bank account in the student's name.

**CLARIFICATION**

Note that the law requires a school that disburses Direct Loans to student accounts to first use Direct Loan funds to pay for outstanding allowable charges. This does not mean that Direct Loan funds must be credited to a student's account prior to other funds. The law simply requires that if

there is any outstanding balance for current or authorized charges on the student's account when Direct Loan funds are disbursed, the Direct Loan funds must be applied to those outstanding charges before any Direct Loan funds may be disbursed directly to the borrower.

### ***DISBURSEMENT BY PAYMENT PERIOD***

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The November 29, 1996 final regulations include a new definition of a payment period that is applicable to all SFA Programs, except FWS (for more information, see Section 1). The November 29, 1996 final regulations also require schools to disburse all SFA Program funds (except FWS) on a payment period basis. However, disbursement requirements vary by program. For information on the specific effects of the payment period disbursement requirement on disbursement of funds under a particular SFA Program, please see the applicable Handbook chapter.

Unless a student is eligible to receive a late disbursement of SFA Program funds, a school may disburse SFA Program funds to a student or parent for a payment period only if the student is enrolled for classes for that payment period and is eligible to receive those funds.

The November 29, 1996 final regulations include requirements for determining when an excused absence (an absence that does not have to be made up) may be counted as a completed clock hour. For a student enrolled in a program measured in clock hours, the school may include clock hours for which the student has an excused absence in determining whether the student completes the clock hours in the payment period if

- ◇ the school has a written policy that permits excused absences, and
- ◇ for SFA purposes, the number of excused absences under the policy does not exceed the lesser of
  - the policy on excused absences of the school's designated accrediting agency,
  - the policy on excused absences of any state agency that legally authorizes the school to operate, or
  - 10% of the clock hours in the payment period.

An excused absence may only be counted if the student is excused from hours that were actually scheduled, missed, and not to be made up.



***Excused  
absences***

## EARLY AND LATE DISBURSEMENTS

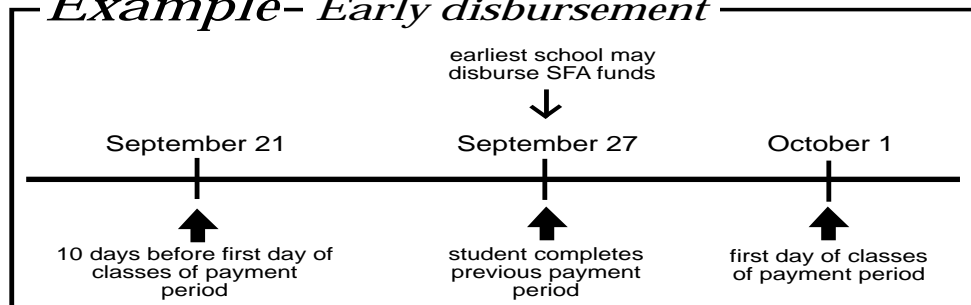
### CLARIFICATION

The November 29, 1996 final regulations clarify the requirements for making early disbursements of SFA Program funds. The earliest a school may disburse SFA Program funds is

### Early disbursements

- ◇ for a student enrolled in a credit-hour program offered in semester, trimester, or quarter academic terms, 10 days before the first day of classes for a payment period.
- ◇ for a student enrolled in a clock hour program or a credit-hour program that is not offered in semester, trimester, or quarter academic terms, *the later of* 10 days before the first day of classes for the payment period, or the date the student completed the previous payment period for which he or she received SFA Program funds (see the example below).

### *Example- Early disbursement*



Note that if a student is in the first year of an undergraduate program and is a first-time borrower under the FFEL or Direct Loan program, a school may not disburse the first installment of his or her loan until 30 days after the student's first day of classes.

### Late disbursements



The November 29, 1996 final regulations consolidated the requirements for late disbursements of SFA Program funds. A student who withdraws or otherwise ceases attendance has lost SFA eligibility and generally may not be paid further funds for the enrollment period. However, a late disbursement of SFA Program funds may be made to an ineligible student if the student became ineligible only because

- ◇ for purposes of 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, and
- ◇ for purposes of the Pell Grant, FSEOG, and Perkins Loan programs, the student is no longer enrolled at the school for the award year.

In addition, other conditions must be met depending on the SFA Program from which the late disbursement is to be made. The following chart lists these conditions:

<b>Late Disbursements</b>			
<b>Program</b>	<b>A late disbursement may be made if, before the date the student becomes ineligible...</b>		
<b>Direct Loans*</b>	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 days of program
<b>FFEL Loans*</b>		loan application is certified	
<b>Pell</b>		Valid SAR or ISIR is received	
<b>SEOG</b>		Student is awarded grant	
<b>Perkins</b>		Student is awarded loan	

\*A school may not make a late second or subsequent disbursement of a Direct Subsidized or 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.

A school may make the late disbursement only if the funds are used to pay for unpaid educational costs that the school determines the student incurred for the period in which the student was enrolled and eligible. A school is not required to obtain detailed expenditure documentation from the student. Instead, the school may develop a policy that it applies in all cases. For example, a school may adopt a policy that all expenses for books and supplies are considered to have been incurred by a student who withdraws after the first two weeks of the term (provided that this policy does not conflict with any applicable refund requirements).

The school must make the late disbursement to the student no later than 90 days after the date that the student becomes ineligible. For a FFEL, this means that the funds would have to be disbursed to the school by the lender to provide sufficient time for the school to disburse the funds to the student within 90 days.

***Institutional late disbursement policy***

***Deadline for payment***

## CREDIT BALANCES AND PRIOR-YEAR CHARGES

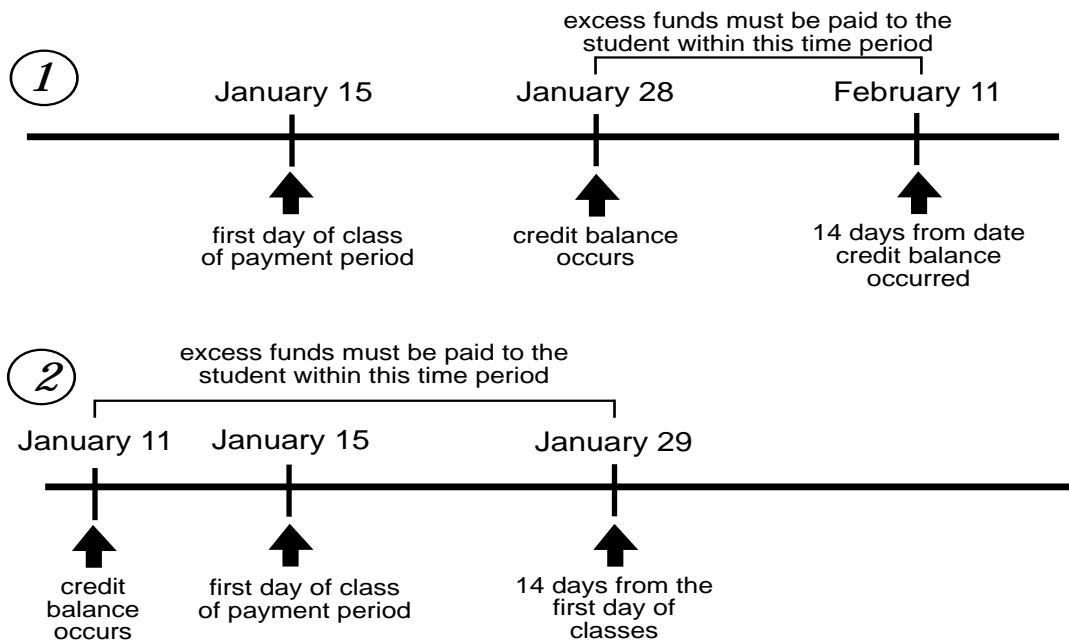
### CLARIFICATION

#### **SFA credit balance**

The November 29, 1996 final regulations clarify the requirements for handling SFA credit balances. Whenever a school credits SFA Program funds to a student's account, and those funds exceed the student's allowable charges, an SFA **credit balance** occurs. A school must pay the excess SFA Program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after the later of

- ◇ the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period (see Example 1 below), or
- ◇ the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period (see Example 2 below).

### *Example— Payment of a credit balance*



Note that the law requires that any excess PLUS Loan funds be returned to the *parent*. Therefore, if a school determines that PLUS Loan funds created a credit balance, the credit balance would have to be given to the parent. At this time, the Department does not specify how a school must determine which SFA Program funds create a credit balance. For information on the treatment of a credit balance when a student withdraws, see Section 4.

A school is permitted to hold excess funds (credit balances) if it obtains a voluntary authorization from the student or parent. If a school receives authorization to hold excess funds, the school must identify the student or parent and the amount of funds the school holds for the student or parent in a subsidiary ledger account designated for that purpose. The school must maintain, at all times, cash in its bank account at least equal to the amount the school holds for students. Because SFA Program funds are awarded to students to pay current year charges, notwithstanding any authorization obtained by a school from a student or parent, the school must pay

- ◇ any remaining balance on loan funds by the end of the loan period, and
- ◇ any other remaining SFA Program funds by the end of the last payment period in the award year for which they were awarded.

The school is permitted to retain any interest earned on the student's credit balance funds. The November 29, 1996 final regulations specify that the Department may prohibit a school that has been placed on reimbursement from holding excess funds. Although the November 29, 1996 final regulations eliminate the across-the-board rule that a school may not hold excess funds for any student if the Department determines that the school has failed to meet the financial responsibility standards, this limitation still may be imposed by the Department under certain circumstances.

In general, SFA Program funds are allowed to be used to pay only for educational expenses a student incurs in the period for which those funds are provided. However, a school is permitted to use a student's SFA Program funds to pay minor prior-year institutional charges if the student has or will have an SFA credit balance, and the school obtains the student's or parent's authorization to pay the prior-year charges.

A school may obtain authorization from a student in advance to use SFA Program funds to cover prior-year charges that are less than \$100. To pay prior-year charges for amounts equal to or greater than \$100, in addition to obtaining an authorization, a school must determine that payment would not prevent the student from paying for his or her current educational expenses.

## ***Holding excess funds***

**CLARIFICATION**



## ***Payment of prior year charges***

## REQUIRED SCHOOL NOTIFICATIONS

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The November 29, 1996 final regulations modify the requirement that a school provide notification of expected SFA Program funds. Before a school disburses SFA Program funds for any award year, the school must notify a student of the amount of SFA Program funds the student *and his or her parent* can expect to receive from each SFA Program, and how and when those funds will be disbursed. Previously, notification had to be made to the student for all SFA Program funds expected to be received by the student, and to the parent for any expected PLUS Loan funds. The final regulations also specify that, if those funds include Direct Loan or FFEL Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans.

A school must provide the best information it has regarding the amount of SFA Program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), a school may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

### **Opportunity for loan cancellation**

Because incurring a loan obligation is a serious responsibility, a borrower must be given the opportunity to cancel the loan at or close to the time the funds are actually disbursed and the debt incurred. Notification of when a loan disbursement occurs is required to remind borrowers of their loan obligation and to give students the opportunity to replace credited loan proceeds with other funds. Therefore, the school must notify a student or parent in writing or electronically whenever the school credits the student's account with Direct Loan, FFEL, or Perkins Loan program funds. The notification must include

- ◇ the date and amount of the disbursement;
- ◇ the right of the student or parent borrower to cancel all or a portion of the loan. (This is applicable to FFEL Program funds only if the school received the loan funds from a lender through EFT payment or master check.); and
- ◇ the procedures and the time by which the student or parent borrower must notify the school that he or she wishes to cancel the loan or a portion of the loan.

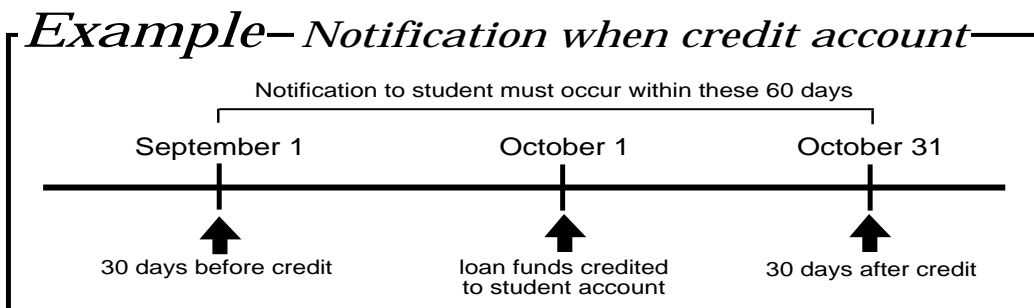
A school is not required to provide notification of cancellation rights if the school disburses a FFEL directly to the student or parent by check. This is because a student or parent who receives a FFEL disbursement via check has the opportunity to refuse the funds by not endorsing the check or by returning the check.



This notification of crediting a student's account with loan funds must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account (see example below). If a school notifies a borrower electronically, it must request that the borrower confirm the receipt of the notice and the school must maintain a copy of that confirmation. For example, if a school notifies a borrower through electronic mail, the school must request a "return receipt" message and keep a copy of the receipt on file.



**60 day window for notification**



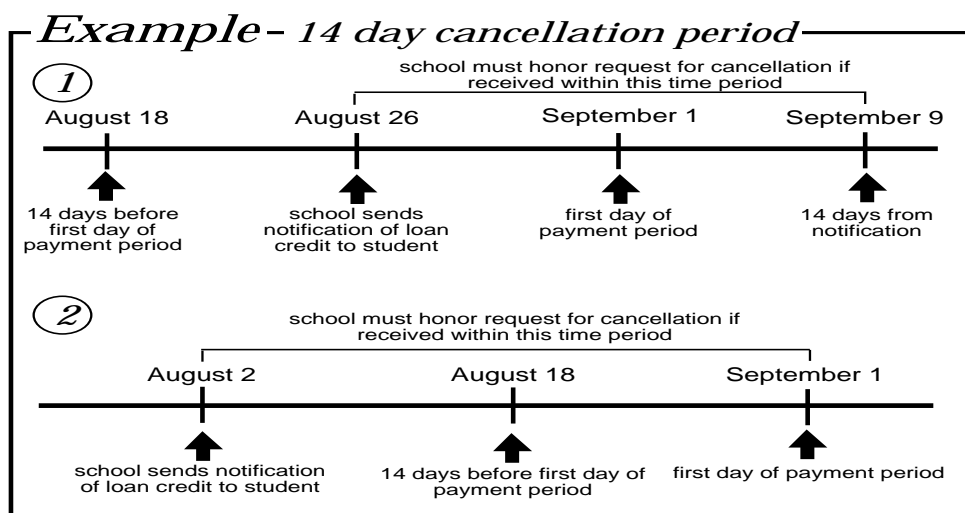
A school *may not* use an in-person or telephonic conversation as the sole means of notification. In-person and telephonic conversations are not adequate and verifiable methods of providing notice. However, notification to borrowers in-person and by telephone may be done in addition to providing written or electronic notice.

Once the school has provided notification, if the student or parent wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor the request if the request is received no later than

- ◇ 14 days after the date the school sends the notice (see example 1 below), or
- ◇ the first day of the payment period, if the school sends the notice more than 14 days before the first day of the payment period (see example 2 below).



**14 day cancellation window**



**Response to request is required**

If a student's or parent's request for cancellation is received within the specified time period, the school must return the loan proceeds and/or cancel the loan as appropriate. If a student's or parent's request for cancellation is received *after* the specified time period, the school may, but is not required to, honor the request. Regardless of when the request is received, the school must inform the student or parent, in writing or electronically, of the outcome of the request.

**A school is not responsible for returning a portion of a loan that was disbursed to a student or parent directly before the request for cancellation was received. However, a school is encouraged to take an active role in advising the borrower to return the portion of funds already received.**

### **REQUIRED STUDENT AUTHORIZATIONS**

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A school must obtain authorization from a student (or parent borrower) before

- ◇ disbursing SFA Program funds by EFT to a bank account designated by the student or parent
- ◇ using SFA Program funds to pay for allowable charges other than tuition, fees and room and board (if the student contracts with the school)
- ◇ holding excess SFA Program funds (credit balances)
- ◇ applying SFA Program funds to prior-year charges.

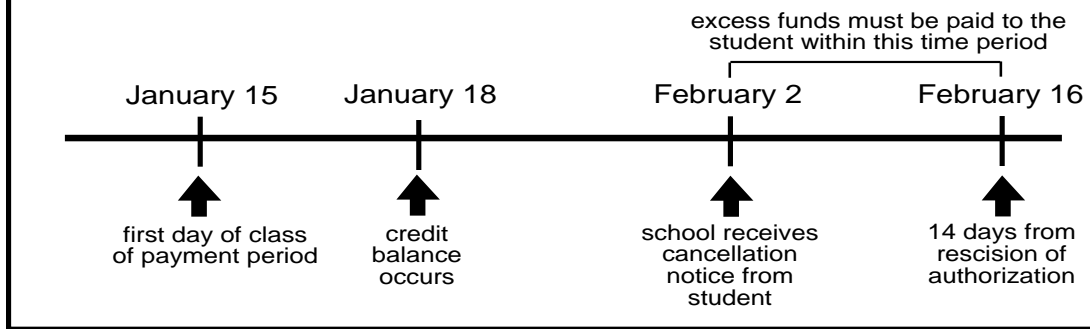
In obtaining an authorization from a student or parent, a school *may not require or coerce the authorization* and must notify the student or parent that he or she may cancel or modify the authorization at any time. Once a student or parent cancels or modifies his or her authorization, the school may not perform the function, or must perform the function as modified, from that date forward.

**Effective date of cancellation**

**CLARIFICATION**

A cancellation or modification is not retroactive. If a student or parent cancels an authorization to use SFA Program funds to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school), or prior-year charges, the school may use SFA Program funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible, but no later than 14 days after the school receives the notice (see example on the next page).

## *Example— Payment after cancel authorization*



A school may include two or more of the items that require authorization on one statement. However, a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

Any authorization must clearly explain how the school will carry out an activity. It does not need to detail every aspect pertaining to the activity; however, a blanket authorization that only identifies the activities to be performed is not acceptable. For example, an authorization permitting a school to use excess SFA Program funds must provide detail that is sufficient to give the student (or parent) a general idea of what the excess funds would be used to pay. A blanket statement that excess funds would cover *any* charges is not acceptable.

The November 29, 1996 final regulations eliminate the requirement that a school must notify annually a student or parent of the provisions contained in an authorization previously provided to the school. Beginning with the 1997-98 award year, unless otherwise specified, a student or parent may authorize a school to carry out the activities for which authorization is provided for the entire period during which the student is enrolled at the school. As mentioned above, a student or parent may cancel or modify an authorization at any time.



### ***EXCESS CASH***

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“Excess cash” is any amount of SFA Program funds, other than funds received under the just-in-time payment method (see page 3-60), that a school does not disburse to students by the end of the third business day following the date the school receives those funds. Excess cash must be returned to the Department immediately. However, under certain circumstances, a school may maintain an excess cash balance for up to seven additional days.

**Allowable  
excess cash  
tolerances**

For a period of peak enrollment (see below) at the school during which a drawdown of excess cash occurs, the school can maintain the excess cash balance in its federal account if the excess cash balance is less than 3% of the school's total prior-year drawdowns. The school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that excess cash balance.

A period of peak enrollment at a school occurs when at least 25% of the school's students start classes during a given 30-day period. A school determines this percentage for an award year with the following fraction:

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

For any period other than a period of peak enrollment, the school can maintain the excess cash balance if the excess cash balance is less than 1% of the school's prior-year drawdowns. In this case also, the school is required to eliminate the excess cash balance within the next seven days by disbursing SFA Program funds to students for at least the amount of that balance.

If a school that is participating in the Direct Loan Program does not have prior-year drawdown data for the Direct Loan Program because it did not participate in the Direct Loan Program for that prior award year, the school may include the total amount of loans guaranteed under the FFEL Program for students attending the school during that year in determining total prior-year drawdowns.

The Department reviews schools to determine where excess cash balances have been improperly maintained and to seek recovery from those schools of the resulting losses to the government.

**Consequences  
for  
improperly  
maintaining  
excess cash  
balances**

Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school. In addition, where excess cash balances are disproportionately large to the size of the school or represent a continuing problem with the school's responsibility to administer efficiently the SFA Programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the SFA Programs. (For more on fines and other actions against schools, see Section 9.)

Generally, a check is “issued” when the school releases, distributes, or makes available the check by mailing the check to the student or parent (if applicable), or by notifying the student or parent expeditiously that the check is available for immediate pickup. However, upon a finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school’s bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Finally, the Department will assess a school that maintains excess cash balances a liability that is equal to the difference between the earnings those cash balances would have yielded under a Treasury-derived rate and the actual interest earned on those cash balances.

### ***ADMINISTRATIVE COST ALLOWANCE***

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The Department pays an administrative cost allowance (ACA) to schools to offset some of the administrative costs related to the Pell Grant and campus-based programs. As defined in the regulations, the Pell Grant Program ACA is \$5 for each Pell Grant recipient at the school (calculated by the Department, based on the number of Pell Grant recipients reported by the school). Schools are notified of their Pell Grant ACA by mail three times during the processing year. The Pell Grant allowance is paid directly to the school from the Federal Reserve. (For more information, see Chapter 4.)

A school calculates its own campus-based program ACA in its annual Fiscal Operations Report and Application to Participate (FISAP), based on a percentage of its campus-based expenditures in the previous award year (see Chapter 5). Unlike the Pell Grant ACA procedures, the school must draw down the campus-based ACA from its program allocation using the ED Payment System. (A school may use up to 10% of the FWS-based ACA for expenses incurred for its community service program.)

In the Department’s fiscal year 1996 budget, Congress eliminated the ACA for the Direct Loan Program. The Department made final payments in the winter of 1996-97 for all loans originating on or before April 26, 1996. (See Direct Loan Bulletin 96-11 for more information.)

***Pell Grant  
allowance***

***Campus-  
based  
allowance***

***Direct Loan  
allowance***



