

# Administrative Capability

*To participate in the Federal Student Aid (FSA) programs, a school must demonstrate that it is administratively capable of providing the education it promises and of properly managing the FSA programs. This chapter discusses the requirements a school must meet to demonstrate its administrative capability.*

## REQUIRED ELECTRONIC PROCESSES

The regulations require that a school be able to use the FSA electronic processes in order to be considered administratively capable of participating in the FSA programs.

In order for a school to exchange data with the FSA Systems, it must have Internet access through its network or through an Internet Service Provider. Your school will also need to enroll in the Student Aid Internet Gateway (SAIG) and establish a data mailbox. In the past, most schools have prepared data records in a software package such as EDEXpress and transmitted the records as batch files to the SAIG mailbox. The Department's systems send edited records back to the SAIG mailbox, where the school downloads the records and uses its software to update the records in its own database.

Schools must use COD's common record format (complying with the published schema for the corresponding award year to send and receive origination and disbursement data for Pell Grants, ACG/SMART grants, and Direct Loans. This common record format uses Extensible Markup Language (XML).

To create and edit student records, your school may use the Department's EDEXpress software, or develop its own software, or rely on a third-party software vendor. If you are not using EDEXpress software to prepare your records, it is your responsibility to ensure that the software you use is capable of generating COD records in XML format.

As an alternative, you can now create and edit student records directly on many of our Web sites, such as COD, CPS, and NSLDS. When creating and editing records on the Web, you do not use PC software and you do not have to transmit the changes through your SAIG mailbox.

## CHAPTER 10 HIGHLIGHTS

- Required electronic processes
- Administrative requirements for the financial aid office
  - Coordinating official
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- Reporting to NSLDS, DLSC, & guarantors
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## Administrative capability cite

34 CFR 668.16

## FSA Assessmentst module

To assess your school's compliance with the provisions of this chapter see the FSA Assessment modules on "Automation," "Default Prevention & Management, and "Satisfactory Academic Progress" at: [ifap.ed.gov/qahome/fsaassessment.html](http://ifap.ed.gov/qahome/fsaassessment.html)

## Summary of required electronic processes

To be in compliance with the administrative capability requirements of 34 CFR 668.16(o), a school must—

- use the E-App to submit and update the school’s eligibility information: **[www.eligcert.ed.gov](http://www.eligcert.ed.gov)**
- enroll in the Student Aid Internet Gateway (SAIG): **[www.fsawebenroll.ed.gov](http://www.fsawebenroll.ed.gov)**
- use *FAA Access* or its SAIG mailbox to exchange FAFSA or ISIR data with the Department’s Central Processing System:  
**<http://www.fafsa.ed.gov/FOTWebApp/faa/faa.jsp> or [www.saigportal.ed.gov](http://www.saigportal.ed.gov)**
- use the COD Website or its SAIG mailbox to exchange award and disbursement data for Pell Grants, ACG/SMART grants, and Direct Loans: **[cod.ed.gov](http://cod.ed.gov) or [www.saigportal.ed.gov](http://www.saigportal.ed.gov)**
- use the eCampus-Based (eCB) System to file the FISAP application and report (see Volume 6):  
**[www.cbfisap.ed.gov](http://www.cbfisap.ed.gov)**
- submit to the National Student Loan Data System (NSLDS) the school’s Federal Perkins Loan data, student enrollment records, FSA program overpayments, and NSLDS Transfer Student Monitoring records: **<https://www.nslsdfap.ed.gov/secure/logon.asp>**
- electronically submit the school’s annual compliance and financial statement audits, and any other required audits: **[ezaudit.ed.gov](http://ezaudit.ed.gov)**
- use the Default Management Web site to receive its draft and official cohort default rate data electronically: **[ifap.ed.gov/DefaultManagement](http://ifap.ed.gov/DefaultManagement)**
- use the Information for Financial Aid Professionals (IFAP) Web site to review Dear Colleague Letters, announcements, or Federal Registers: **[ifap.ed.gov](http://ifap.ed.gov)**

### Electronic processes cite

34 CFR 668.16 (o)

DCL GEN-04-08, September 2004

Federal Register, 09-14-2004, 55418-55420

### Systems help

For help with questions about specific systems, such as application processing and software (CPS.SAIG), COD, and NSLDS, see the “Help” link on the Information for Financial Aid Professionals site:  
[ifap.ed.gov](http://ifap.ed.gov)

### *Information for Financial Aid Professionals (IFAP)*

Program information such as Dear Colleague/Partner letters, announcements, and Federal Registers, previously mailed to participating institutions, is now communicated, for the most part, through our IFAP Web site ([ifap.ed.gov](http://ifap.ed.gov)). One of the most useful features of this Web site is its notification service, which sends you daily or weekly e-mails that summarize recent postings to IFAP. (Go to “Member Services” on IFAP and select Subscription Options after you’ve registered.)

Even if you use a third-party servicer to manage your student aid activities, you are responsible for knowing about all new requirements posted on IFAP.

The IFAP site also has links to all major FSA Web sites and services, and a “Help” link that includes contact information for FSA call centers and customer service offices.

## System Configurations

From time to time ED modifies the minimum system requirements schools must meet in order to participate in the Department's electronic processes. This Technical Specifications Table lists the minimum configurations required beginning in the 2005–2006 award year. When reviewing these specifications, a school should be aware that its system requirements (processor speed, RAM, hard-drive storage, etc.) will depend on which FSA functions the school uses, the number of records processed, and school database interfaces.

Although all of the designated electronic processes can be performed using the minimum configuration, we strongly recommend the optimal configuration, particularly in cases where a school sends or receives 4,000 or more records in an XML document (batch). This is because the new XML file formats used by EDExpress and COD (and in the future by CPS) are larger and require greater storage and computing power. For the same reason, we would encourage a school to consider moving away from "Dial-up" and instead use a high-speed Internet connection. Doing so will significantly reduce both transmission time and transmission interruptions.

	Minimum Configuration	Optimal Configuration
IBM or Fully IBM-compatible PC	1.2 GHz Processor	2.8 GHz/333 MHz Processor
	512 MB RAM	1 GB RAM
	60 GB Hard Drive	80 GB Hard Drive
	48x CD-ROM Drive (CD-RW recommended)	48x CD-ROM Drive (CD-RW recommended)
	Windows compatible keyboard and mouse	Windows compatible keyboard and mouse
Monitor and Video Card	Capable of Super Video Graphics Adapter (SVGA) resolution (800x600) or higher	Capable of Super Video Graphics Adapter (SVGA) resolution (800x600) or higher
Internet Connection	56 Kbps Modem (meets or is upgradable to V.90 standard)	High speed Internet connection (e.g., DSL, cable)
Printer	Laser printer capable of printing on standard paper (8.5" x 11")	Laser printer capable of printing on standard paper (8.5" x 11")
Operating System	Windows 2000 or Windows XP Professional recommended	Windows 2000 or Windows XP Professional recommended

### **Coordinating official—definition of capable individual**

An individual is “capable” if he or she is certified by the state in which the school is located, if state certification is required. Other factors affecting capability include the individual’s successful completion of FSA program training provided or approved by the Department, and previous experience and documented success in FSA program administration.

### **Death of a student**

If a student dies during the award year, the school isn’t required to resolve conflicting information.

### **Discrepant tax data**

Because conflicting data often involve tax information, FAAs must have a fundamental understanding of tax issues that can affect need analysis. You should know

- whether an individual is required to file a tax return;
- an individual’s correct filing status; and
- only one person can claim another as an exemption.

Publication 17 of the IRS, *Your Federal Income Tax*, is a useful resource for the aid office. You can view it on the Web at

**[www.irs.gov](http://www.irs.gov)**

or you can order a copy from the IRS at

**800-829-3676**

For additional information on resolving tax issues, please see: the *Application and Verification Guide*.

## **ADMINISTRATIVE REQUIREMENTS FOR THE FINANCIAL AID OFFICE**

### *Coordinating official*

A participating school must designate a capable individual to administer the FSA programs and to coordinate aid from these programs with all other aid received by students attending the school. To properly package and most effectively use the various types of student assistance (federal, school, state, private, etc.), the coordinating official must be aware of all aid received by students attending the school, regardless of the source. When creating a student’s financial aid package, in order to ensure that a student’s aid does not exceed his or her need, an aid administrator must include aid the student is receiving from external sources as well as institutional aid and FSA program assistance. Therefore, *a school’s operations must be administered in a way that ensures all the information the school receives that might affect a student’s FSA eligibility is communicated to the coordinating official and to the financial aid office.*

### *Consistency of information & conflicting information*

A school must have a system of identifying and resolving discrepancies in all FSA-related information received by any school office. *A school must resolve discrepancies for all students, not just those selected for verification.* Resolution includes determining what information is correct, and documenting the school’s findings in the student’s file.

Such a system must include a review of—

- all student aid applications, need analysis documents, MRRs, POPs from COD, Statements of Educational Purpose, Statements of Registration Status, and eligibility notification documents presented by or on behalf of each applicant,
- the Student Aid Report/ISIR for a student—even if a school has previously verified the information on a student’s SAR/ISIR, the school must review all information on subsequent SARs/ISIRs, and resolve discrepancies,
- any documents, including any copies of state and federal income tax returns, that are normally collected by the school to verify information received from the student or other sources, and
- any other information submitted or normally available to the school regarding a student’s citizenship, previous educational experience, documentation of the student’s social security number, or other factors relating to the student’s eligibility for funds under FSA programs.

For instance, if a student receives veterans benefits through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student’s aid application and are counted as a resource for the Campus-Based programs and estimated financial assistance for the Direct Loan and FFEL programs.

Other examples include—

- a school's admissions or registrar's office must provide the aid office with any information it has that might affect a student's eligibility such as the student's enrollment in an ineligible program, or enrollment in summer classes immediately preceding a fall term of enrollment; and
- a school's business office must inform the aid office whenever it receives information about a student receiving an outside scholarship.

There is a distinction between how long you need to be alert for conflicting information and how long you have to actually resolve a conflict. Even if the processing year has ended, you must continue to resolve conflicting information unless—

- all aid for period of enrollment has been disbursed, and
- at the time of disbursement, there was no conflicting information, and
- the student is no longer enrolled at the school (and is not intending to reenroll).

You may not ignore a document in your files unless a student is no longer enrolled. If you have conflicting information in your files, you must resolve it as expeditiously as possible. If you become aware of conflicting information for a student who is no longer enrolled, and there is aid to be disbursed, you must resolve the conflict before making the late or postwithdrawal disbursement.

If aid (that the school was unaware of) is received after the end of a period of enrollment for a student who is intending to reenroll, that aid must be treated as estimated financial assistance for either the period of enrollment just completed, or for the subsequent period of enrollment. (See the discussion of estimated financial assistance and packaging in *Volume 3, Chapter 7*.)

Remember, if any office at your school has information that might affect a student's eligibility for FSA funds, it must provide that information to the school's designated coordinating official. That individual in turn must forward it to the financial aid office where procedures must be in place to ensure that any conflicting information is resolved and documented before the student receives any (or any additional) FSA funds.

### Examples of conflicting information

Conflicting information may include information related to a student's eligibility such as—

- citizenship status,
- accuracy of SSN,
- default or overpayment status,
- changes in student's academic status (including grade level progression),
- COA elements,
- other student financial assistance or resources, and
- inconsistent information used in calculating the student's EFC.

Conflicting information does not include such things as—

- a household size that differs from number of exemptions on a tax return;
- dependency under IRS rules vs. ED definition of dependency;
- a roster of candidates for an outside scholarship, as opposed to a list of recipients;
- privacy protected information, such as information from professional counselors, chaplains, doctors, etc.;
- assumptions made by the CPS;
- a FAFSA filed using estimated income; and
- a student who has an expired INS document, but secondary confirmation match is successful.

### Sources of conflicting information

- unsolicited tax returns or schedules,
- information provided by the student to the financial aid office,
- supplemental financial aid applications,
- other offices within the school,
- offices at other educational institutions (not just aid offices),
- ED,
- scholarships and information from outside sources,
- state agencies such as Voc. Rehab., WIA, State Scholarship Agencies, etc.,
- tips from outside sources,
- transcripts from other postsecondary institutions,
- SARs or ISIRs,
- verification,
- C Flags,
- Reject Codes, and
- Comment Codes.

### Separation of function

For further guidance on the separation of functions, contact the appropriate School Participation Team (see “Contacts” on the Financial Aid Professional portal).

### Family defined

A member of an individual’s family is a parent, sibling, spouse, child, spouse’s parent or sibling’s, or child’s spouse.

Definition of control cite

34 CFR 600.31(b)

Ownership interest cite

34 CFR 668.15(f)

### OIG Referrals

Department regulations (34 CFR 668.16(g)) require a school to refer to the Department’s Office of Inspector General (OIG) any credible information indicating that an applicant for Federal Student aid may have engaged in fraud or other criminal misconduct in connection with his or her application. Commonly falsified items include false claims of independent student status, false claims of citizenship, use of false identities, forgery of signatures of certifications, and false statements of income.

Remember that fraud is the intent to deceive as opposed to a mistake. If you suspect such intent on the part of a student, report it to the OIG by phoning 1-800-MISUSED.

Schools must also refer to the OIG any third-party servicer who may have engaged in fraud, breach of fiduciary responsibility, or other illegal conduct involving the FSA Programs.

It is always appropriate for a financial aid administrator to consult with a school’s legal counsel prior to referring suspected cases of fraud or misconduct to an agency outside of the school. Additional information on IG referrals is available in *Volume 1 — Student Eligibility*.

### Counseling

Schools must provide adequate financial aid counseling to all enrolled and prospective students and their families. In addition, schools must also provide entrance and exit counseling for student borrowers in the Perkins, FFEL, and Direct Loan programs. For a complete discussion of loan counseling requirements, see Chapter 6 in this volume, and *Volume 6—Campus-Based Programs* (for Perkins disclosure requirements).

### Adequate staffing

To manage a school’s aid programs effectively, the aid administrator must be supported by an adequate number of professional and clerical personnel. The number of staff that is adequate depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be insufficient at another. The Department will determine, on a case-by-case basis, whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school’s application for approval to participate in the FSA programs.

### System of checks and balances

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of authorizing payment and disbursing or delivering funds so that no one person or office exercises both functions for any student receiving FSA funds. Small schools are not exempt from this requirement even though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well, but not both authorization and disbursement. These two functions must be performed by individuals who are not members of the same family and who do not together exercise substantial control over the school. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affect both authorization and disbursement.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority (or the ability) to perform both functions. In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar’s office. Finally, your system should only allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes.

## SATISFACTORY ACADEMIC PROGRESS

To be considered administratively capable, a school must have a satisfactory academic progress policy that, for an FSA recipient, is the same as or more strict than the school's standards for a student enrolled in the same educational program who is not receiving assistance under an FSA program

Because satisfactory progress issues are most often raised in specific student eligibility cases, we discuss the details of satisfactory progress standards in *Volume 1* of the FSA Handbook. You should carefully review the discussion in *Volume 1* if your school is developing or amending its satisfactory progress policy.

### *Basic elements of a satisfactory progress policy*

As discussed in *Volume 1*, a school's policy must contain basic elements:

- a **qualitative component** consisting of grades or comparable factors that are measurable against a norm,
- a **quantitative component** that consists of a maximum time frame in which a student must complete his or her educational program, subdivided into **increments**, and
- measurement of progress at the end of each increment.

In addition, your school's policy must explain:

- the effect of ESL courses and remedial courses on progress,
- how progress is measured if a student changes majors or seeks to earn additional degrees,
- how course repetitions are handled,
- the procedures for appealing a satisfactory progress determination, and
- the procedures for reestablishing satisfactory progress.

The policy must include provisions for **consistent application** of the standards to all students within categories (e.g., full-time, part-time, undergraduate, and graduate students), and educational programs established by the school. Generally the quantitative and qualitative standards used to judge academic progress include all periods of the student's enrollment. Even periods in which the student did not receive FSA funds must be counted.

### *"C" average required after 2 years*

In addition to any school-determined standards, federal law requires that a student enrolled in an program of study of more than 2 academic years must, once the student has been enrolled for two academic years, have a "C" average or its equivalent, *or have an academic standing consistent with the school's requirement for graduation*. If your school does not use letter grades, it must define the equivalent of a "C" average.

## Satisfactory progress references

School policy:  
34 CFR 668.16(e),  
Student eligibility:  
34 CFR 668.32(f),  
34 CFR 668.34

For a more detailed discussion of applying satisfactory progress standards, please see *Volume 1, Student Eligibility*.

## Enrollment Reporting Requirements

34 CFR 682.610 FFEL

34 CFR 685.309(b) Direct Loans

“Dear Colleague” letter GEN-96-5

“Dear Colleague” letter GEN-96-17

See “NSLDS Reference Materials” on IFAP for NSLDS Newsletters, Updates, and other information

## Receiving Roster Files

A school (or its servicer) must sign up to

receive Roster Files through

[www.fsawebenroll.ed.gov/PMEnroll/index.jsp](http://www.fsawebenroll.ed.gov/PMEnroll/index.jsp)

## Updating enrollment information on the Web

You can create or update student enrollment

status by using the “Enroll” tab on the NSLDS

Web site for aid professionals:

<https://www.nslsdfap.ed.gov/>

Support: **1-800-999-8219**

## Enrollment Reporting/SSCR Technical References

For more information on reporting enrollment information to NSLDS, including record

layouts, error codes, etc., see the **Enrollment**

**Reporting Guide** (formerly the SSCR User’s

Guide), which is available online on the **ifap.**

**ed.gov** site (see NSLDS Reference Materials >

NSLDS User Documentation)

If you will be using the SSCR software package for Enrollment Reporting, see the **SSCR Desk**

**Reference**, which includes record layouts,

error codes, etc. and is available at:

[www.fsadownload.ed.gov](http://www.fsadownload.ed.gov)

## Enrollment Status Codes

These codes are listed in the Record Layouts in the SSCR Technical Reference. Data submitted to the Student Loan Clearinghouse uses most of these codes.

A = Approved Leave of Absence

D = Deceased

F = Full time

G = Graduated

H = Half time or more, but less than full time

L = Less than half time

W = Withdrawn (voluntary or involuntary)

X = Never attended

Z = Record not found

## SHARING INFORMATION WITH NSLDS, THE DL SERVICING CENTER, AND GUARANTORS

### *Reporting student enrollment data to NSLDS*

All schools participating (or approved to participate) in the FSA programs **must** have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends Roster files electronically to your school (or its designated servicer) through its SAIG mailbox. The file includes all of the school’s students who are identified in NSLDS as Stafford (Direct and FFEL) borrowers (or the beneficiaries of a PLUS loan). The file is not necessarily connected to loans made at your school—you also must report information for students who received some or all of their FSA loans at other schools but are currently attending your school.

Your school (or servicer) must certify the information and return the Roster file within 30 days of receiving it. You may also go to [www.nslsdfap.ed.gov](http://www.nslsdfap.ed.gov) and update information for your students online. You’re required to report changes in the student’s enrollment status, the effective date of the status and an anticipated completion date. Changes in enrollment to less than half time, graduated, or withdrawn must be reported within 30 days. However, if a Roster file is expected within 60 days, you may provide the data on that roster file.

If the Roster file that you are returning contains records that don’t pass the NSLDS Enrollment Reporting edits, you will receive a response file with the records that didn’t pass. Within 10 days, you’ll need to make the necessary corrections to these records and resubmit them. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes.

If your school reports enrollment data to the NSLDS, it does not have to complete SSCRs received directly from guaranty agencies. (Receiving an SSCR report from a guaranty agency may be an indication that your school has not reported to NSLDS within the last six months.) However, you must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. You must continue to provide loan holders and loan servicers with a borrower’s enrollment status and other information needed to locate the borrower for deferment and other repayment purposes.



*Updating borrower information at separation*

Within 60 days after the exit counseling session, your school must provide the Direct Loan Servicing Center or the guaranty agency that was listed in the borrower's student aid records any updated information about: the borrower's name; address; references; future permanent address; Social Security Number; the identity and address of the borrower's expected employer, the address of the borrower's next of kin, and the borrower's driver's license number and state of issuance.

*Sharing information about delinquent/defaulted borrowers*

To promote loan repayment, DL schools are encouraged to notify the Direct Loan Servicing Center if they receive new information about a delinquent borrower's location or employment. The Direct Loan Servicing Center sends participating schools a monthly electronic report of all delinquent and defaulted Direct Loan borrowers who took out loans while attending the school. The report, which contains the borrowers' names, addresses, and phone numbers, is organized by the number of days past due so that schools can contact and counsel borrowers to avoid default. The school may also wish to work with borrowers who have defaulted on their Direct Loans to help these borrowers bring their loans out of default.

An FFEL school may make agreements to provide the holders of delinquent loans with information about the delinquent borrower's location or employment. An FFEL school may also try to contact the borrower and counsel him or her to avoid default.

FFEL schools may ask a guaranty agency to provide information about students who were enrolled at the school who have defaulted on their Stafford loans. The guarantor may not charge for this information. The school may also ask the guarantor to notify the school whenever a lender requests default aversion assistance on a loan made at your school, and provide the borrower's name, address, and Social Security Number. (The guaranty agency may charge a reasonable fee for this service.) Your school may only use the information to remind the borrower to repay his or her loan(s).

If you've requested it, the guaranty agency must also notify your school when loans to its students are sold, transferred, or assigned to another holder. (The notification must include the address and telephone number of the new loan holder.) This notification requirement only applies to loans that are in the grace period or in repayment, and only if your school was the last school the borrower attended before the loan entered repayment. (For instance, if a student received several Stafford loans while earning a bachelor's degree at your school, but pursued a master's degree at another school before those loans entered repayment, the guarantor is not required to notify you if the loan is sold.)

**Privacy: Sharing student records with Lenders**

A student authorizes his or her school to release information to lenders by signing the promissory note as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow as well as locating the borrower. Examples of such information are enrollment status, financial assistance, and employment records.

**Loan information from the guarantor**

Upon request, the guarantor must inform the school of students in default on FFELs.  
34 CFR 682.401(b)(24)

If the lender requests preclaims assistance, the guarantor must inform the school of this request, if the school has requested such notification.

34 CFR 682.404(a)(4)

Sec. 428(c)(2)(H) of the HEA

The guarantor must notify the school when a loan made at that school changes hands, if the school requests such information.

Sec. 428(b)(2)(F) of the HEA

34 CFR 682.401(b)(25)

### Financial aid history cite

34 CFR 668.19

DCL GEN-00-12

DCL GEN-01-09, July 2001 (including July 16, 2001, update)

### Transfer student monitoring process

You must verify the eligibility of transfer students for FSA funds. You may either check the student's financial aid history on the NSLDS Web site for professionals, or wait seven days after you've submitted the student's information for monitoring to receive a response from NSLDS.

To begin using the "inform" feature, you must designate a contact on the "School Transfer Profile" page at:

[www.nslidsfap.ed.gov](http://www.nslidsfap.ed.gov)

### *Financial Aid History & Transfer Monitoring*

A school must consider a student's financial aid history in making FSA program awards. The regulations **require** that schools use NSLDS data to obtain information about a student's financial aid history.

In order to receive students' financial aid history, *your school must register* for the Transfer Student Monitoring Process.

Through the transfer student monitoring process, NSLDS will monitor a transfer student's financial aid history and alert you to any relevant changes—other than the default and overpayment information reported in the postscreening process—that may affect the student's current award(s).

You must send NSLDS identifying information for students transferring to your school so that NSLDS can use transfer monitoring to notify you of changes to the student's financial aid history. You may send information for students who have expressed an interest in attending your school, even if they have not yet formally applied for admission.

You can find a complete discussion of this requirement and the transfer student monitoring process in *Volume 1—Chapter 3*.

## COHORT DEFAULT RATES

Generally speaking, a cohort default rate (CDR) is the percentage of a school's student borrowers who enter repayment on Stafford loans during a particular fiscal year and who default before the end of the next fiscal year. (There are other criteria and exceptions — see the complete definition in the *Cohort Default Rate Guide*.) In addition, separate CDRs are calculated for a school's Perkins loans.

### *Release of draft and official rates for FFEL and DL programs*

The Department releases draft default rates in February to allow schools an opportunity to review and correct the data that will be used to calculate their official cohort default rates. In the early fall of each year, the Department issues the official cohort default rates. The rates that will be issued in September 2008, are based on the cohort of students who entered repayment in fiscal year 2006 (the 2006 federal fiscal year runs from October 1, 2005 – September 30, 2006). These rates will be electronically delivered to schools and posted on the Web. If your school is located in the U.S., it is required to be enrolled in the eCDR process for electronic delivery of the rates (see sidebar note for instructions).

### *Effect of cohort default rates*

A school is **not** administratively capable when—

- the cohort default rate for Perkins loans made to students for attendance at the school exceeds 15% (see *Volume 6—Campus-Based Programs* for details), or
- the cohort default rate for Federal Stafford/SLS loans or for Direct Subsidized/Unsubsidized Loans made to students for attendance at the school equals or exceeds 25% for the three most recent fiscal years, or if the most recent cohort default rate is greater than 40%.

When a high default rate demonstrates a lack of administrative capability, the Department may choose to provisionally certify such a school.

In addition to affecting a school's administrative capability and limiting the school's participation in the FSA programs, a high default rate may make a school ineligible to participate in the FFEL, Direct Loan, Pell Grant, or Perkins programs. For detailed information on default requirements refer to the *Cohort Default Rate Guide* (posted on IFAP—see sidebar).

### *Default prevention & management plan*

New schools are required to implement a default prevention and management plan prior to certification. In addition, a school that undergoes a change in ownership that results in a change in control or a school that changes its status as a main campus, branch campus, or additional location must also implement a default management plan.

## The eCDR Process

The official default rates are sent electronically to all domestic schools in the fall of each year. You must enroll in the eCDR process to receive your rates.

If your school is not enrolled, go to:

**[www.fsaweбенroll.ed.gov](http://www.fsaweбенroll.ed.gov)**

On this Web page, choose "Enroll" and then select the radio button for "Modify Existing Services for a Destination Point."

We will continue to mail default rates to foreign schools until all foreign schools have enrolled in the eCDR Process.

## Default rates on the Web

The official cohort default rates for all schools participating in the FSA programs are posted on the Web at:

**[www.ed.gov/FSA/defaultmanagement](http://www.ed.gov/FSA/defaultmanagement)**

## Default rates and suspension cite

34 CFR 668.16(m)(1)

Consequences of default cite

34 CFR 668.187

Provisional certification

34 CFR 668.16(m)(2)(i)

Exemption from default plan

HEA: Sec. 487(a)(14)(C)

34 CFR 668.14(b)(15)(B)(ii)

## Sample Default Plan

A "Sample Default Prevention and Management Plan." was issued as an attachment to GEN-05-14. The sample plan is also posted in the collection of "Default Rate Materials" on the IFAP Web site.

## Default Rate changes **NEW**

The HEOA made several changes to the cohort default rate calculation, standards, and exceptions, which will be phased in over the next few years: In particular:

Beginning with FY 2009, the default calculation for schools will be based on defaults during a 3-year period (rather than 2-year)

Beginning FY 2012, the school cohort default rate threshold percentage increases

For more information, see DCL 08-12

### **Cohort Default Rate Guide**

For more technical information on default rates, please refer to the **Cohort Default Rate Guide**. The Guide is updated continuously on the IFAP Web site.

[ifap.ed.gov/DefaultManagement/finalcdrg.html](http://ifap.ed.gov/DefaultManagement/finalcdrg.html)

### **Contacting Default Prevention & Management**

Default Prevention & Management responds to questions about FFEL/DL cohort default rates, and reviews FFEL/DL cohort default rate challenges, adjustments, and appeals. It also provides technical assistance and outreach to schools to assist them in lowering their default rates.

Web: [ifap.ed.gov/DefaultManagement](http://ifap.ed.gov/DefaultManagement)

Phone: 202-377-4258

Hotline: 202-377-4259

FAX: 202-275-4511

E-MAIL: [fsa.schools.default.management@ed.gov](mailto:fsa.schools.default.management@ed.gov)

### **“Enrolled” for purposes of withdrawal rates**

A student enrolls when he or she completes the registration requirements (except payment of tuition and fees) at the school.

Correspondence students are enrolled if they have been admitted to the program and have submitted one lesson (that was completed without the assistance of a school representative).

Schools applying to participate are exempt from submitting a default plan if—

- the school, including its main campus and any branch campus, does not have a cohort default rate greater than 10%, and
- the new owner of the school does not own and has not owned any other school that had a cohort default rate greater than 10% during the owner’s tenure.

### **WITHDRAWAL RATES**

New schools (schools that seek to participate in an FSA program for the first time) must have an undergraduate withdrawal rate for regular students of no more than 33% for an award year in order to be considered administratively capable.

When calculating the withdrawal rate, all regular, enrolled students must be included. The definition of enrolled does not require either payment of tuition or class attendance; therefore, the withdrawal rate calculation must include enrolled students who have not yet paid tuition or who did not actually begin attending classes. A student is considered to have withdrawn if he or she officially withdraws, unofficially drops out, is expelled from the school, or receives a refund of 100% of his or her tuition and fees. A student who withdraws from one or more courses or programs but does not withdraw entirely from the school, does not meet the definition of withdrawn. Instead, this action is considered a change in enrollment status (e.g., the student reduced his credit hours from 12 to 6).

## DEBARMENT AND SUSPENSION CERTIFICATION

### *Debarment of school or its principals*

In order to protect the public interest, it is the policy of the federal government to conduct business only with responsible individuals. In order to implement this policy, the government takes debarment and suspension actions against individuals whom it determines constitute a current risk to federal agencies. If a school (or its principals) is debarred or suspended by a federal agency, it is prohibited from participating in any FSA program, so long as the agency's procedures include due process protections that are equivalent to those provided by ED.

The principals of the school include its owners, directors, officers, partners, employees, and any other persons with management or supervisory responsibilities. A principal may also be someone who is not employed by the school but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or Campus-Based funds). For example, a principal may be someone whether or not employed by the school who—

- is in a position to handle Federal funds;
- is in a position to influence or control the use of those funds; or
- occupies a technical or professional position capable of substantially influencing the development or outcome of an activity required to perform the covered transaction.

Before a school may receive FSA funding, it must certify that neither the school nor its employees have been debarred or suspended by a federal agency. (You can find this certification in the Program Participation Agreement and in the Web-based FISAP package available to schools participating in the Campus-Based programs—see Chapter 3.)

Institutions participating in the FSA programs have a fiduciary responsibility to safeguard FSA funds, and ensure those funds are used for the benefit of the students for whom they are intended. We expect participating institutions to thoroughly examine the background of individuals they employ (or are considering employing) in management or supervisory positions. If a school discovers that a person employed in a management or supervisory capacity has been suspended, or debarred by a federal agency, the school must remove that person from such a position or risk losing its FSA eligibility. Moreover, a school may not enter into a relationship (and must terminate an ongoing relationship) with a lender, third-party servicer, or loan servicer the school determines has been debarred or suspended.

### Debarment and suspension cite

Executive Order 12549  
Federal Acquisition Regulations  
(48 CFR Part 9, Subpart 9.4)  
34 CFR Part 85

Similar debarment and suspension limitations apply to lenders, third-party servicers, loan servicers, and any individuals who provides services described in 34 CFR 668.2 or 682.200 to a FSA recipient whether or not they are employed by the school as described in 34 CFR 600.85.995(b)

### Checking debarment/suspension status on-line

The "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" is available for review at a Web site maintained by the General Services Administration.

<http://epls.arnet.gov/>

You should keep a copy of the search results in your records.

### Covered transactions

For purposes of the debarment/suspension rules, covered transactions include:

1. disbursement of FSA funds to a student or borrower;
2. certification by an educational institution of eligibility for an FSA loan,
3. guaranteeing a loan made under an FSA program, and
4. acquisition or exercise of any servicing responsibility for a grant, loan, or work study assistance under an FSA program.

### Lower-tier transactions

Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service or with a loan collection or billing agency.

### Sample certification statement from lower-tier organization

The Department disseminated the following language in April 1989 as a model that schools may use to obtain the required certification statement from a lower-tier organization.

"The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participating in this transaction by any Federal department or agency.

Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal."

Federal Register, May 26, 1988, page 19211, disseminated in Dear Colleague Letter GEN-89-21.

### *Certifying current or prospective employees or contractors*

The certification provided by the school is a material representation of fact relied upon by the Department when it enters into a Participation Agreement with the school. Moreover, a school is expected to have knowledge and information normally possessed by a prudent person in the ordinary course of business dealings. Although the Department doesn't dictate how a school must ensure that its principals/employees have not been debarred or suspended by a federal agency, we do hold the school responsible for any information it could reasonably have been expected to know in the course of ordinary operations. In addition, we expect the school to expend a reasonable amount of effort ensuring that it and its employees are in compliance. If the Department learns that a prospective participant knowingly rendered an erroneous certification, in addition to other remedies available, the Department may terminate the participation of the institution.

A school chooses the method and frequency for making a determination about the eligibility of its principals. This might include asking current and prospective employees and contractors, in person or in writing, about their debarment or suspension histories. In addition, a school might also examine the List of Parties Excluded from Federal Procurement and Nonprocurement Programs to find out if an individual or organization is debarred or suspended. A school should discuss with its attorney the procedures appropriate to its circumstances.

The employees who award FSA funds and those who disburse them should be always be included in those whose backgrounds are examined. In addition, employees who participate in other transactions from which the regulations exclude individuals who have been debarred or suspended should be included. A school should consult with its attorney on the individuals it must certify.

The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's FSA eligibility, so long as that person is not involved in any covered transactions.

### *Lower-tier covered transactions*

A school must not enter into lower-tier covered transactions with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. A school must obtain a certification from any lower-tier organization if the amount of the lower-tier transaction is \$25,000 or more. The lower-tier organization must inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.