

# Disbursing FSA Funds

*These rules apply to the following programs: Pell Grant, FSEOG, Perkins Loan, Direct Loan, FFEL. We have indicated when a rule applies to FWS. While the calculations and the award process vary considerably for each of the FSA programs, there is more uniformity in the rules for disbursing funds. This chapter will discuss the rules for crediting FSA funds to the student's account and making direct disbursements to the student or to the parent (PLUS), with provisions for early disbursements, delayed disbursements, and late disbursements.*

## NOTIFICATION OF DISBURSEMENT

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent *before* the disbursement is made. If the funds include a Stafford Loan (whether DL or FFEL), the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. Because the actual disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), you may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

A school must also notify the student or parent in writing or electronically when Perkins, Stafford, or PLUS loan funds are being credited to a student's account. This notification must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account. The notification must include the date and amount of the disbursement.

If your school received the FFEL loan funds from a lender through EFT payment or master check, the notice to the student or parent must describe the right of the student or parent borrower to cancel all or a portion of the loan. The notice must also explain 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.

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

## CHAPTER 2 HIGHLIGHTS:

### ■ Method of disbursement

- ➔ credit to student's account (school may hold credit balance if authorized)
- ➔ disbursement directly to student or parent

### ■ Disbursement rules

- ➔ most FSA disbursements must be made by payment period or at the beginning and calendar midpoint of loan period
- ➔ FWS students must be paid at least once a month
- ➔ funds may be disbursed up to 10 days before classes begin (in most cases)
- ➔ disbursements to 1st-time, 1st-year, Stafford borrowers must be delayed 30 days (in most cases)
- ➔ students in nonterm programs and certain nonstandard term programs must successfully complete coursework requirements for subsequent Pell and Stafford/PLUS disbursements
- ➔ school may make unequal FSEOG/Perkins disbursements to meet uneven costs
- ➔ school must report Perkins disbursements to at least one credit bureau
- ➔ under certain conditions, late disbursements must be made to students

### ■ Prompt disbursement rules

- ➔ usually 3 day time-frame for school to disburse to student/parent after receiving funds
- ➔ Exception: Stafford/PLUS funds can be held for up to 13 days if student is expected to regain eligibility
- ➔ Exception: may hold Stafford/PLUS 45 days for verification

### Related topics

- ➔ See Volume 5 for information on Post-Withdrawal Disbursements
- ➔ See Volume 5 for discussion of payment periods if student re-enters a program after withdrawing.

**Notifications & authorizations**

34 CFR 668.165

**Borrower’s option to cancel all or a portion of a disbursement**

A borrower in repayment status on any loan must provide written instructions to prevent a payment made within 120 days of disbursement from being applied to the debt under the regular application of payment rules in Sec. 682.209 or Sec. 685.211. A borrower who is not in repayment status on any loan must provide written instructions to prevent a payment made within 120 days of a disbursement from being applied as a cancellation of all or part of the loan.

General Provisions §668.165(a)(4)  
 FFEL §682.202(c)(7)(i); DL, §685.202(c)(4)  
 (Also discussed in preamble to Federal Register of 11/28/97, pages 63429-30)

**Borrower confirmation via e-mail**

If you are notifying the student of the next loan disbursement by electronic mail or other electronic means, this is considered the equivalent of notification by regular mail—you are not required to confirm receipt of the electronic notice. However, you are encouraged to follow up on any electronic notice for which you receive an “undeliverable” message.

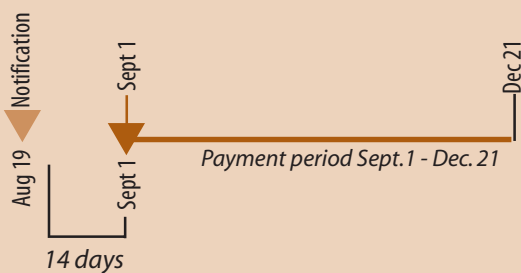
Your school may not use an in-person or telephonic conversation as the sole means of notification, because these are not adequate and verifiable methods of providing notice. However, a school may use in-person and telephone notices *in addition* to those provided in writing.

If the student or parent borrower wishes to cancel all or a portion of a loan, he or she must inform the school. The school must honor a request if it receives the request before the start of the payment period, or if it receives the request within 14 days after it sent the notice to the borrower. If the school receives a student’s or parent’s request for cancellation after these dates, the school may, but is not required to, honor the request. *Regardless of when the request is received, the school must inform the student or parent of the outcome of the request.*

When acting upon a loan cancellation request, your school must return the loan proceeds and/or cancel the loan as appropriate. A school is not responsible for returning any portion of a loan that was disbursed to a student or parent directly before the request for cancellation was received. However, you are encouraged to take an active role in advising the borrower to return the funds already received.

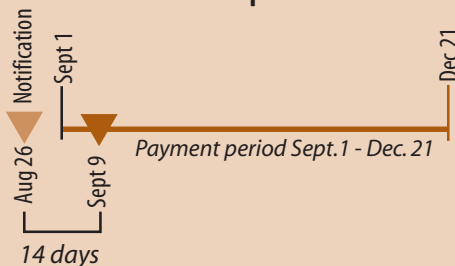
**14-day cancellation period examples**

**Example 1**



In the first example, the school notified the student that the loan was being disbursed a month before the payment period began. The school must accept a loan cancellation request that is received before the payment period begins.

**Example 2**



In the second example, the school did not send the notice until a week before the start of the payment period. Therefore, the school must cancel or reduce the loan if the student makes the request by September 9.

## REQUIRED STUDENT/PARENT AUTHORIZATIONS

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

- disbursing FSA funds (including Federal Work-Study wages) by EFT to a bank account designated by the student or parent, if this method of disbursement is used,
- using FSA funds (including Federal Work-Study) to pay for allowable charges other than tuition, fees, and room and board if the student contracts with the school,
- holding an FSA credit balance, and
- applying FSA funds to minor prior-year charges.

A school may not require or coerce the student or parent to provide the authorization and must clearly explain to the student or parent how to cancel or modify the authorization. The student or parent may cancel or modify the authorization at any time.

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

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

An authorization must clearly explain how the school will carry out an activity, but it does not need to detail every aspect pertaining to the activity. However, a blanket authorization that only identifies the activities to be performed is not acceptable. For instance, an authorization permitting a school to use an FSA credit balance (discussed on the next page) must provide detail that is sufficient to give the student or parent a general idea of what the credit balance would be used to pay. A blanket statement that the credit balance would cover any charges is not acceptable.

Unless otherwise specified, a student or parent may authorize a school to carry out the activities for which authorization is provided for the entire period that the student is enrolled at the school. As mentioned above, a student or parent may cancel or modify an authorization at any time.

## Defining the date of disbursement

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must notify a student of a loan disbursement no sooner than 30 days before the date of disbursement and no later than 30 days after the date of disbursement.

The date of disbursement also determines when the student becomes an FSA recipient and has the rights and responsibilities of a FSA recipient. For example, when FSA loan funds are disbursed to a recipient, the student or parent assumes responsibility for the loan and has the right to cancel the loan.

FSA program funds are disbursed when your school credits a student's account with the funds or pays a student or parent directly with:

- FSA program funds received from the Department or an FFEL lender,
- School funds labeled as FSA program funds in advance of receiving actual FSA program funds (except in the instances noted below).

When using school funds in place of FSA funds, there are two situations where the FSA disbursement is considered to have taken place on *the earliest day that the student could have received FSA funds* rather than the actual disbursement date:

- If a school credits a student's account with its own funds (prior to receiving FSA funds) earlier than 10 days before the first day of classes of a payment period, it is not counted as an FSA disbursement until the 10th day before the first day of classes (the earliest a school may disburse FSA funds).
- If a Stafford borrower is subject to the 30-day disbursement delay and a school credits the student's account with its own funds (prior to receiving FSA funds) before the 30 days have elapsed, this is not counted as an FSA loan disbursement until the 30th day after the beginning of the payment period.

If your school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an FSA credit (for example, an *estimated Federal Pell Grant*), it is not a disbursement. For example, some schools prepare billing statements or invoices showing the estimated amount of FSA funds that students are eligible to receive. These estimated amounts are not FSA disbursements.

## METHOD OF DISBURSEMENT

There are two ways to disburse FSA funds: by crediting the student's account for allowable charges at your school, or by disbursing to the student or parent directly.

### ***Credit to the student's account***

When a school disburses FSA program funds to a student by crediting a student's account, it may do so only for allowable charges.

Allowable charges always include current charges for tuition and fees and room and board (if the student contracts with the school). You may pay other current charges that a student has incurred for educationally-related activities if you obtain the student's *written authorization* to pay those charges, or the parent's written authorization, in the case of PLUS loan funds. If a charge does not meet the definition of tuition and fees as described in *Volume 3, Chapter 2* (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 FSA program funds for the charges.

In general, FSA funds may only be used to pay for the student's costs for the period for which the funds are provided. However, you may credit a student's account to pay minor prior-year school charges if you get the student's or parent's written authorization to pay the prior-year charges. If the prior-year charges are \$100 or more, you must determine that disbursement would not prevent the student from paying for his or her current educational expenses (including both school charges and any other costs of attendance). Note, however, that Direct Loan funds credited to a student's account must first be used to pay for current charges.

FSA funds may *not* be used to repay a student's loan. Loan disbursements are not part of the cost of attendance for the period of enrollment.

### ***Direct disbursement to the student***

You may also disburse FSA funds directly to the student or parent. Most schools choose to first credit FSA funds to the student's account at the school, and then disburse the credit balance to the student or parent.

There are four ways that a school may disburse FSA funds directly to the student or parent:

- *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.

### **Method of disbursement cites**

- ➔ Credit to student's account: 34 CFR 668.164(d)
- ➔ Direct disbursements: 34 CFR 668.164(c)
- ➔ Releasing a Pell check: 34 CFR 690.78(c)
- ➔ Direct Loans credited to student charges before other costs: CFR 34 668.164(d)(3)
- ➔ Cost of attendance: HEA §472 and 20 US Code 1087II
- ➔ Prior-year charges: 34 CFR 668.164(d)

### **A note on terminology ...**

Traditionally, the FFEL regulations have referred to the lender's "disbursement" of funds to the school, and the school's "delivery of the loan proceeds" to the student. More recently, the Cash Management regulations have used the term "disbursement" to refer to the payment of FSA funds to the student or parent, including the payment of loan funds. In this chapter, we will use "disbursement" in the sense of the Cash Management regulations, that is, payment to the borrower.

### **Proration of loan fees for returned FFEL funds**

If a school returns an FFEL disbursement or any portion of an FFEL disbursement to a lender to comply with a statutory or regulatory requirement, the origination fee and insurance premium are reduced in proportion to the amount returned. If the student borrower returns an FFEL disbursement or any portion of an FFEL disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned only if the lender receives the returned amount within 120 days after disbursement.

For information on how returning Direct Loans affects loan fees and accrued interest, see DLB-04-07.

- disbursing to the student in *cash*, provided that your school obtains a signed receipt from the student or parent, or
- *releasing a check* sent by a FFEL lender.

***Delivery of FSA funds must be cost-free***

Schools are prohibited from charging students a fee for delivering FSA funds. If a school delivers FSA funds to students by crediting funds to a school-issued debit or smart card, the school may not charge students a fee for making withdrawals of FSA program funds from that card.

## CREDIT BALANCES

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

### Paying credit balances

If FSA disbursements to the student's account at the school created an FSA credit balance, you must pay the credit balance directly to the student or parent as soon as possible, but no later than 14 days after the 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, 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.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize your school (in writing) to transfer the proceeds of a PLUS Loan to a student directly or to a bank account in the student's name.

You have the latitude to determine which FSA program funds create an FSA credit balance. At this time, the Department does not specify how a school must determine which FSA program funds create an FSA credit balance, except to say that Direct Loan funds must be applied to unpaid institutional charges before they can be applied to other charges or disbursed to the student.

Please see Volume 5 for a discussion of credit balances when a student withdraws.

## Credit balances

Credit balance: 34 CFR 668.164(e)

Note: FSA regulations refer to the amount of aid that exceeds the allowable charges that can be paid as a "credit balance." (School administrators sometimes refer to this as a "refund;" however, it is not the same thing as a refund under the school's refund policy or a Post-Withdrawal Disbursement given to a student under the Return of Title IV Funds rules.)

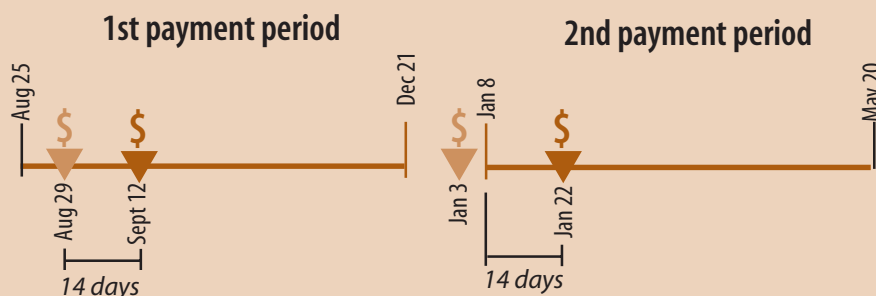
## Credit balances under \$1

A school is not required to disburse a credit balance that is less than \$1.00.

## ED may prohibit holding credit balance

If the Department has placed a school on reimbursement or determines that the school has failed to meet financial responsibility standards, it may choose to prohibit the school from holding a credit balance for any student.

### 14-day time-frame for paying credit balances



In the first payment period above, the school disburses FSA funds to incoming students after the students have started classes, so it has 14 days from that date to pay the credit balance to the student (or parent, in the case of PLUS).

In the second payment period, the school disburses FSA funds before classes start, so the school has 14 days from the beginning of classes to pay the credit balance.

### **FSA credit balance example**

An FSA credit balance occurs only if the total amount of FSA program funds exceeds allowable charges. For example, Ms. Inu Nagar enrolls at Eaglewood Technical Institute as a commuter student, and her total allowable charges for the fall term amount to \$1,500. ETI credits \$2,000 to her account, comprising \$1,000 in FSEOG, \$500 in private scholarship funds, and \$500 in Pell Grant funds.

Although there is an excess of \$500 on the account, this does not constitute an FSA credit balance because the total amount of FSA funds (\$1,500) does not by itself exceed the amount of allowable charges (\$1,500).

If, in this example, ETI credited \$600 of Pell Grant funds, rather than \$500, an FSA credit balance of \$100 would be created because the total FSA funds credited to the account (\$1,600) would exceed the allowable charges (\$1,500). The order in which these funds were credited does not matter.

### **Escheating prohibited—unclaimed funds**

In the case of unclaimed disbursements, your school must ensure that FSA funds do not escheat to the state or revert to the school or any other party. For instance, if a check containing FSA funds is not cashed by the expiration date, the FSA funds must be restored to the applicable FSA program(s).

A school must have a process through which it identifies a credit balance that remains on a student's account beyond the payment deadline or undelivered to the student (or parent, if applicable) and returns those funds to the FSA programs on behalf of the student. The search for the student should end and the refund/return to the Department should be completed prior to the date the funds would otherwise escheat, but no later than a few days after a check to the student would cease to be negotiable (usually 180 days).

### **Power of attorney**

Perkins: 34 CFR 674.16(h)

FFEL: 34 CFR 682.207(b)(1)(v)(C)(2) and (D)(2)

### **Undelivered Perkins funds**

If a portion of the undelivered credit balance consists of Perkins funds, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income on line 24, Part III, Section A of the FISAP. (See Chapter 4 for further discussion.)

### **Holding credit balances**

A school is permitted to hold credit balances if it obtains a voluntary authorization from the student (or parent, in the case of PLUS). If your school has the authorization to hold the credit balance, it must identify the amount of funds that it holds for the student or parent in a subsidiary ledger account designated for that purpose. Your school also must maintain, at all times, cash in its bank account at least equal to the amount that it holds for students.

Because FSA funds are awarded to students to pay current year charges, notwithstanding any authorization from the student or parent, you must pay:

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

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still can't find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. The FSA regulations do not set specific rules for determining which funds created a credit balance. However, we encourage schools to return FSA funds to loan programs first to reduce the likelihood of default.

The school is permitted to retain any interest earned on the student's credit balance funds.

## **POWER OF ATTORNEY**

### **Power of attorney in disbursing FWS and Perkins**

A school may not obtain a student's power of attorney to authorize FWS disbursements unless the Department has granted prior approval (contact your Case Team). Your school must be able to demonstrate that there is no one else (such as a relative, landlord, or member of the clergy, for example) who could act on behalf of the student.

Similarly, a school official may not use a student's power of attorney to endorse any Perkins Loan disbursement check or to sign for any Perkins loan advance unless the Department has granted prior approval. Approval may be granted only if:

- the student is not available to sign the promissory note and there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student,
- the school shows that the funds cannot be directly deposited or electronically transferred,
- the power of attorney is not granted to a school official or any other official who has an interest in the loan, and



- the power of attorney meets all legal requirements under the law of the state in which the school is located and the school retains the original document granting power of attorney in its files.

### **Power of attorney for foreign study (Stafford/PLUS)**

If a student who is enrolled at a foreign school requests it, the lender may disburse Stafford and PLUS funds directly to an eligible foreign school, or to a domestic (home) school in the case of a study-abroad arrangement. The borrower (the student or the parent, in the case of PLUS) must provide power-of-attorney to an individual not affiliated with the school to endorse the check or complete an electronic funds transfer authorization.

## **CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT**

Before disbursing FSA funds, a school must first make sure that the student is eligible to receive them. Note that a student may have been making satisfactory academic progress when award letters were mailed in the spring term, but may no longer be making progress when he or she comes to the business office for to receive the disbursement at the beginning of the fall term. You must make sure the student still meets the eligibility requirements for the FSA funds, and that the appropriate documentation is kept.

In the case of Stafford and PLUS loans, you've already certified that the student is eligible when you sent the loan information to the lender (see Chapter 1). However, you must also ensure that the student has maintained continuous eligibility before you disburse the loan. The most common change that would make a student ineligible for a Stafford or PLUS disbursement is if the student has dropped below half time, so it is important that your office have a system to check the student's enrollment status at the time of disbursement.

If the student has dropped below half time temporarily, you may still make a Stafford or PLUS disbursement after the student resumes at least half-time enrollment. However, you must make sure that the student continues to qualify for the entire amount of the loan—the change in enrollment may have resulted in a significantly lower cost of attendance. The aid administrator must document this review in the student's file.

Also remember that your school cannot retain the loan funds indefinitely, as we'll discuss at the end of this chapter.

## **Interim disbursements for verification**

A school can make an interim disbursement to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). The school doesn't need to have a valid output document to make such a disbursement. See the *Application and Verification Guide*, Chapter 3, for more details.

## **Disbursements to students on leave of absence**

A school may disburse Pell, FSEOG, Perkins funds to a student on a leave of absence. Because FSA credit balance funds are funds that have already been disbursed, a school may also pay an FSA credit balance to a student on a leave of absence.

However, a school must not disburse FFEL/Direct funds to a student on a leave of absence.

## **Liability for incorrect payments**

An individual is liable for any incorrect payments made to the student due to school error. A school official is subject to a \$10,000 fine, a prison sentence, or both if he or she knowingly makes false or misleading statements.

**Disbursement timing citations**

- Disbursement by payment period:  
34 CFR 668.164(b)  
HEA § 428G(a)
- Disbursement by calendar midpoint:  
34 CFR 682.604(c)
- Early disbursements: 34 CFR 668.164(f)
- Returning Pell, Perkins, or FSEOG for a student who doesn't begin attending classes:  
34 CFR 668.21
- Returning Stafford & PLUS for a student who doesn't register:  
FFEL : 34 CFR 682.604(d)(3) and (4)  
DL: 34 CFR 682.303(b)(3)
- 30-day delay for 1st-time Stafford/PLUS borrowers  
FFEL : 34 CFR 682.604(c)(5)  
DL: 34 CFR 685.303(b)(4)

**Foreign study exception to 30-day Stafford delay**

**\*Reminder\*** A loan disbursement can be made to a first-time, first-year borrower within the normal time frame (without waiting 30 days) if the borrower is attending an eligible foreign school, or if the borrower is in a study-abroad program and the home school in the U.S. had a Stafford loan default rate less than 5% (in the most recent fiscal year for which data was available).

The exception to the delayed disbursement requirement for domestic study expired on September 30, 2002. (GEN 02-06.)

For more information, please refer to the **Cohort Default Rate Guide** on the IFAP Web site. <http://ifap.ed.gov/drmaterials/FinalCDRG.html>

**TIMING OF DISBURSEMENTS**

We've already described how disbursements are calculated in Volume 3; now we'll discuss the timing of disbursements. Schools disburse FSA program funds by payment period or at the beginning and calendar mid-point of the loan period. Typically, the amounts that you award to a student for an academic year are divided into lesser amounts among the payment periods or other subdivisions.

The timing of disbursements is especially important for Pell Grant and Stafford/PLUS loan funds, because you must schedule disbursement dates with the Department and/or private lenders. (See Chapters 1 and 2 for information on reporting Pell disbursements to COD and certifying/originating a Stafford/PLUS loan.)

**Basic rules for early & delayed disbursements**

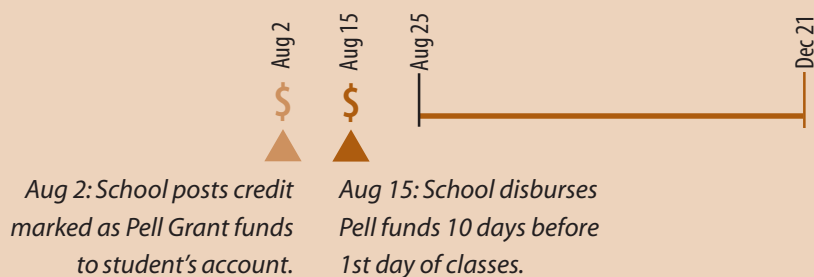
The earliest that a school may disburse FSA funds by crediting the student's account or by disbursing directly to the student or parent is 10 days before the first day of classes for that payment period. For clock hour and credit hour nonterm or nonstandard term programs, the earliest that a school may disburse FSA funds (other than FWS wages) by crediting the student's account or disbursing directly to the student or parent is the later of 10 days before the first day of classes for that payment period or the date the student completed the previous payment period for which he or she received FSA funds. In some cases, as we'll discuss, other restrictions apply.

If your school disburses Pell, Perkins, or FSEOG funds, but the student never actually begins attending any classes, you must return the disbursed amounts to the respective programs. If the student begins attending some but not all of his or her classes, you will have to recalculate the student's Pell Grant award based on the student's actual enrollment status—see *Volume 3, Chapter 3*.

If your school disburses Stafford or PLUS funds but the student does not register for the period of enrollment for which the loan was made, or a registered student withdraws or is expelled prior to the first day of classes of the period of enrollment for which the loan is made, you must return the loan funds to the lender.

If your school disburses Stafford or PLUS funds before the period of enrollment begins but the student doesn't begin attendance or you cannot document that the student ever began attendance, you must return any loan funds that were credited to the student's account, as well as the amount of any payments that the student made to your school. (The total amount to be returned is limited to the original amount of the Stafford and PLUS disbursements.)

## Early disbursement & advance credit to account



The earliest that a school may disburse Pell funds is 10 calendar days before the first day of class in the term or payment period.

Some schools post a credit to the student's account before this date, but the date the Pell is considered to be disbursed for FSA purposes is the actual date Pell funds are applied to the student's charges (August 15 in this example).

If a student is in the first year of an undergraduate program and is a first-time Stafford borrower, your school may not disburse the first installment of the Stafford loan until 30 calendar days after the student's program of study begins.

For example, if the student is enrolled in the first semester (running from September 1, 2004 to December 14, 2004) of a program that is made up of three 5-week modules, but the student is not enrolled in the first two modules of that semester, the school has to wait until 30 days after classes from the third module begins to disburse the funds.

### **Number of Stafford/PLUS disbursements: standard terms and substantially equal nonstandard terms**

If the program uses *standard academic terms* (for example, semester, trimester, or quarter) or it has *nonstandard terms of substantially equal length*, at least one disbursement is made for each term in the loan period. A program is considered to have substantially equal terms if no term in the loan period is more than 2 calendar weeks longer than any other term in the loan period.

- *If there is more than one term in the loan period*, the loan must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three substantially equal disbursements.
- *If there is only one term in the loan period*, the loan must be disbursed in equal amounts at the beginning of the term and at the term's calendar midpoint.

### **Returning funds for students who fail to begin attendance cites**

34 CFR 668.21  
 34 CFR 690.78 (b)(1)&(2)  
 34 CFR 674.16(f)(1)&(2)  
 34 CFR 676.16(d)(1)&(2)  
 34 CFR 682.604(d)(3)&(4)  
 34 CFR 685.303(3)

## Stafford/PLUS multiple disbursements requirement & exceptions

See 34 CFR 682.207(c-e) and 34 CFR 685.301(b)

There are two significant exceptions to this multiple disbursement requirement:

- If any payment period has elapsed before a lender makes a disbursement, a single disbursement may be made for all completed payment periods.
- You may pay a student in an eligible *study-abroad program* in one disbursement, regardless of the length of the loan period, if your school's most recently calculated Stafford loan default rate is less than 5% for the single most recent fiscal year for which data is available.

For more information, please refer to the **Cohort Default Rate Guide** on the IFAP Web site.

<http://ifap.ed.gov/drmaterials/FinalCDRG.html>

The statutory provision that allowed schools with default rates <10% to make single disbursements for a term or 4-month period expired on September 30, 2002. (GEN 02-06)

## Multiple disbursements within a payment period

When scheduling loan payments, you can request multiple disbursements of a loan within a payment period or loan period, as long as the disbursements are substantially equal installments. (see HEA 428G(c))

Schools that use payment periods as the basis for their return of funds calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period. See Volume 5 to see how withdrawal calculations handle multiple disbursements.

## Timing of Pell disbursements

34 CFR 690.76

## Number of Stafford/PLUS disbursements: 1) credit hour programs without terms, 2) credit hour programs with non-standard terms that are not substantially equal in length, and 3) clock hour programs

Loan periods for Stafford/PLUS loans are described in *Volume 3, Chapter 4*. If the program is one academic year or shorter, the loan period is usually the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year. For each loan period in these programs —

- \* The loan must be disbursed in at least two substantially equal amounts, with the first disbursement generally disbursed at or near the beginning of the loan period; and
- \* The second half of the loan proceeds may not be disbursed until the later of:
  - a) the calendar midpoint between the first and last scheduled days of class of the loan period, or
  - b) the date the student successfully completes half the clock hours in the loan period or, for credit hours, completes half the credit hours. In programs where the student cannot earn the credit hours until the end of the loan period, the institution must determine when the student has completed half the coursework for the loan period.

## Timing of Pell Grant disbursement within a payment period

You should use your best judgment in timing the disbursement of Pell funds for a payment period to best meet the needs of students at your school. For instance, some schools credit the student accounts for school charges as soon as is permissible, and then pay the credit balance to students when they begin classes. Other schools wait until the end of the add/drop period to disburse funds, or pay students in monthly installments to help meet living expenses throughout the payment period. (If as opposed to making multiple disbursements within the payment period, your school rations disbursements to students by crediting the entire disbursement for the payment period to the student's account and making periodic disbursements to the student from these funds, it must have the student's written authorization.)

## Disbursing FSEOG & Perkins

A school that is awarding an FSEOG or a Perkins Loan for a full academic year must advance a portion of the grant or loan during each payment period.

In general, to determine the amount of each disbursement, a school will divide this award amount by the number of payment periods the student will attend. For a school that measures progress in credit hours and has academic terms, a payment period is defined as a term (a semester, trimester, quarter, or nonstandard term). The definition of payment period for a school that does not have academic

terms or a school that measures progress in clock hours is discussed in detail in *Volume 3, Chapter 1*.

A school may advance funds within a payment period in whatever installments it determines will best meet the student's needs. However, if the total FSEOG or Perkins award is less than \$501 for an academic year, only one disbursement is necessary.

If the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, your school may advance the additional FSEOG or Perkins amounts to the student in whatever manner best meets the student's needs.

### ***Retroactive disbursements for completed periods***

Your school must pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, if you don't receive a valid SAR/ISIR for a student until the spring term, but the student was also enrolled and eligible for a disbursement in the previous fall term, that student must be paid retroactively for the fall term.

A Pell Grant disbursement for any completed term is based on the hours *completed* by the student for that term. If the student had enrolled full time at the beginning of the fall term but dropped to half-time status by the end of the term, the retroactive disbursement must be based on half-time status. At a term school, all completed coursework counts towards enrollment status, including earned F's and incompletes. (This does not apply to FSEOG and Perkins.)

To include an earlier period of eligibility when certifying a Stafford Loan, the student would have had to complete at least a half-time courseload in that period. For instance, you could include the Fall term and its costs when certifying a loan for the student in the Spring, if your school's half-time standard is 6 credit hours and the student received a B and an incomplete in two 3-hour courses taken that Fall.

In the case of loans disbursed on a payment period basis, if a student attended the previous payment period but did not maintain eligibility for a Stafford loan, you may not include the previous payment period or its costs in the loan period.

A school can make any retroactive disbursements in one lump sum.

## **Perkins & FSEOG disbursements**

- ➔ Payment by payment period:  
34 CFR 674.16(b) and 676.16(a)
- ➔ Uneven costs/uneven payments:  
34 CFR 674.16(c) and 676.16(b)
- ➔ Paying prior to student beginning attendance:  
34 CFR 674.16(f) and 674.16(d)
- ➔ Reporting Perkins Loans to credit bureau:  
34 CFR 674.16(i)

### **Uneven costs example**

Dan is enrolling in a one-year program at Ingram Technical College and must spend \$300 for books and supplies at the beginning of the program. ITC has awarded Dan a \$1,000 Perkins Loan. Rather than simply dividing the award in half, ITC may pay Dan a larger amount in the first payment period to meet the one-time cost for books and supplies.

To determine the first payment, the aid administrator at ITC subtracts the extra amount (in this case, \$300) from the total loan (\$1,000) and divides the remainder (\$700) by the number of payment periods (in this case, 2). The aid administrator then adds the regular amount for one payment period (\$350) to the determine the initial payment (\$650). The remaining amount (\$350) is then disbursed during the second payment period for a total loan of \$1,000.

### **Credit bureau reporting**

Schools must report the date and amount of each disbursement of Federal Perkins Loan to at least one national credit agency. (Please see Volume 2 for more information about credit bureau reporting.)

### **Disbursement rules for terms made up of modules**

- ➔ When a student is attending a modular program, but won't attend the first module, the date when classes begin for making disbursements is the starting date of the first module that the student will actually attend.
- ➔ The earliest the school can pay a student who is scheduled to begin attendance in the second of three 5-week modules that make up the payment period, is 10 days before the first day of the second module. (Or 30 days after the second module begins, if the student is a first-time borrower.)

## **FWS disbursements**

- 34 CFR 675.16
- also see Volume 6 for rules regarding school contribution and eligible FWS employment

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## **Noncash contribution**

Your school also has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. However, you may not count forgiveness of a charge such as a parking fine or library fine against a student who is employed under FWS as part of the school's noncash contribution to the student.

Noncash payments (tuition, fees, services, or equipment) must be made before the student's final payroll period of the award period. If the school pays its share for a forthcoming academic period in the form of prepaid tuition, fees, services, or equipment, it must give the student—again, before the end of the student's final payroll period—a statement of the amount of the noncash contribution earned.

## **DISBURSING FWS WAGES**

Your school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other similar payrolls at the school. Unless you are paying the student with noncash contributions (see below), you must pay the nonfederal share to the student at the same time you pay the federal share.

FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while he or she was still in school. However, when a student has withdrawn from school and is not planning to return, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving a disbursement under the FWS Program.

### ***Crossover payment periods***

When a payment period is in two award years (that is, when it begins before and ends after July 1), the student is paid for compensation earned through June 30 with funds allocated for the first award year and for compensation earned beginning July 1 with funds allocated for the following award year. (See *Volume 6* for a discussion of carrying back funds for summer employment.)

Disbursing to students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization. For audit and program review purposes, your school must have documentation (e.g., canceled checks, bank statements) in its files to show that students received disbursements in the amount charged to the FWS Program.

### ***Holding FWS funds on behalf of the student***

With written authorization from a student, a school may hold, on behalf of the student, FWS funds that would otherwise be paid directly to the student (unless this is prohibited by the terms of a reimbursement payment method). The restrictions for such an authorization are the same as those that apply to written authorizations for disbursements to student accounts. If your school holds FWS funds on behalf of students, it must:

- identify the amount of FWS funds held for each student in a designated subsidiary ledger account,
- maintain cash in its bank account that is always at a minimum equal to the FWS funds being held for students, and
- disburse any remaining balance by the end of the school's final FWS payroll period for the award period.

**Garnishment of wages**

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt; by law, FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

**COMPLETION OF COURSEWORK REQUIREMENTS****Pell Grants**

For a student enrolled in a credit hour program without terms or a clock hour program, a school may disburse a Federal Pell Grant to an eligible student only after it determines that the student has successfully completed the payment period as defined in *Volume 3, Chapter 1* for which he or she has been paid a Federal Pell Grant.

**Stafford and PLUS loans in clock hour programs**

If an educational program measures academic progress in clock hours, the school may not deliver a second disbursement until the later of the calendar midpoint between the first and last scheduled days of class of the loan period; or the date, as determined by the school, that the student has successfully completed half of the clock hours in the loan period. The school must deliver loan proceeds in substantially equal installments, and no installment may exceed one-half of the loan.

**Stafford and PLUS loans in credit hour programs without terms and credit hour programs with terms that are not substantially equal in length**

If the program is one academic year or shorter, the loan period is usually the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year. For each loan period in these programs, the second half of the loan proceeds may not be disbursed until the later of: the calendar midpoint between the first and last scheduled days of class of the loan period, or the date the student successfully completes half the clock hours in the loan period or, for credit hours, completes half the credit hours. In programs where the student cannot earn the credit hours until the end of the loan period, the school must determine when the student has completed half the coursework for the loan period.

For credit hour term-based programs there is no requirement that a student successfully complete all of the coursework to receive payment in the next term except when nonstandard terms are not substantially equal in length. For instance, a student could receive a Pell disbursement in the Spring term after failing several courses in the Fall term, provided that the student was still making satisfactory progress under the school's policy.

**Completion of coursework**

- Pell Grants: 34 CFR 690.75(a)(3)
- FFEL: 34 CFR 682.604(c)(8) and (c)(9)
- Direct Loans: 34 CFR 685.301(b)(5) and (b)(6)
- Excused absences: 34 CFR 668.164(b)

**Example: coursework completion requirement in a modular program**

A 1-year program with no terms awards 24 credit hours, which are taught in a series of six 4-hour modules. The school groups the modules into two 12-hour payment periods. The first payment period takes 15 weeks to complete. The student can not progress to the second payment period until the student successfully completes 12 credit hours *and* the 15 weeks of instruction have elapsed. If the student fails the first 4-hour module, he/she will still need to successfully complete three modules (for a total of 12 credits) to progress to the next payment period.

**Terms with clock hours**

The payment periods for clock-hour term programs are determined in the same way as for nonterm clock-hour programs. The student must complete all the clock hours in the payment period before receiving any more Pell funds. If a student doesn't complete all the hours scheduled for a term, each payment period still contains the number of clock hours originally scheduled, even if this means that none of the student's succeeding payment periods coincide with the terms.

## Disbursements when credits aren't awarded as work is completed

In some programs, it may not be possible to determine when the credit hours are earned, and thus it may be difficult to tell when a student is eligible to receive the next disbursement. For example, in some programs, credits are only awarded after the student has completed the entire program.

In such cases, the student is eligible to receive their next disbursement on the later of—

- the date your school identifies as the point when the student has completed half of the academic coursework in the program, academic year, or the remainder of the program, or loan period, or
- the calendar midpoint between the first and last scheduled days of class of the program, academic year, or the remainder of the program or loan period.

Cite: 34 CFR 682.604

### ***Excused absences***

In a clock-hour program, you're allowed to count a limited number of "excused absences" when deciding whether the student has completed the hours in a payment period. An excused absence may only be counted if the student is excused from hours that were actually scheduled, were missed, and do not have to be made up for the student to receive the degree or certificate for the program.

For instance, a student in a program that has 450-hour payment periods might miss 20 clock hours and only have attended 430 hours at the point where 450 hours of instruction had been given. If your school has an excused absences policy, and the hours missed are considered excused, this student could be paid the next disbursement of his/her Pell Grant.

To be counted for FSA purposes, excused absences must be permitted in your school's written policies. Under FSA regulations, no more than 10% of the clock hours in a payment period may be considered excused absences. If your school's *accrediting agency* or the *state agency that legally authorizes your school to operate* allows fewer hours to be counted as excused absences, you must follow the stricter standard rather than the FSA standard.



## LATE DISBURSEMENTS

A student who withdraws or otherwise ceases attendance loses FSA eligibility and generally may not be paid further funds for the enrollment period. However, a late disbursement of Title IV program funds may be made to an ineligible student (or parent in the case of a PLUS loan), 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 FSA program from which the late disbursement is to be made.

On November 1, 2002, the Department published regulations modifying the rules for making late disbursements. The revised regulations

- increase the time frame within which an institution may make a late disbursement from 90 to 120 days;
- provide that, for those cases in which the student is not at fault, the Department may approve an institution's request to make a late disbursement after 120 days;
- require an institution to offer or make a late disbursement to the student (or the student's parent for a PLUS loan) for a student who has completed the payment period or period of enrollment; and
- for a late disbursement of a Federal Pell Grant, eliminate the requirement that a school must have received a **valid** SAR or ISIR before the student became ineligible. Instead the Department must have processed a SAR/ISIR with an official EFC while the student was still eligible. (Of course, **the school must have a valid SAR or ISIR before it can make the actual disbursement.**)

A post-withdrawal disbursement is Title IV aid a student has earned, by virtue of a Return of Title IV Funds calculation, that was not disbursed before the student withdrew. Although a post-withdrawal disbursement is not the same as a *late disbursement*, a post-withdrawal disbursement must meet the conditions established for a late disbursement. For a student who lost eligibility because s/he ceased attendance before completing more than 60% of the payment period or period of enrollment, a school **must** make a late disbursement following the rules for a post-withdrawal disbursement in regulations governing the Return of Title IV funds (see *Volume 5 – Overawards, Overpayments, and Withdrawal Calculations*).

### Late disbursement of a PLUS loan

A school does not have to rely upon a SAR/ISIR to determine if a parent qualifies for a late disbursement of a PLUS loan. However, in cases in which a school does not have a SAR/ISIR, it may not certify or originate a PLUS loan until it documents that the student for whom the loan is intended meets all the applicable eligibility requirements (e.g., the student is not in default, does not owe an overpayment, is a citizen or eligible noncitizen, etc.).

If a student did not withdraw, but ceased to be enrolled as at least a half-time student, a school **may** make a late disbursement of a loan under the FFEL or Direct Loan programs to pay for educational costs the school determines the student incurred for the period of instruction. The school is permitted to credit the student's account to pay for current and allowable charges in accordance with the current cash management regulations. A school would have to provide notice to a student, or parent in the case of a PLUS loan, when the school credits the student's account with Direct Loan, FFEL, or Federal Perkins Loan Program funds in order to give the student or parent an opportunity to cancel all or a portion of the loan disbursement.

The revised rules require a school to disburse or offer a late disbursement to a student who completes a payment period or period of enrollment. Under the Return regulations, a student who completes more than 60% of the payment period or period of enrollment has earned 100% of his or her Title IV aid and the school **must** make or offer, as appropriate, a post-withdrawal disbursement of any of those funds that had not been previously disbursed. A student who completes 100% of the payment period or period of enrollment has the same entitlement to all of his or her Title IV funds for the period.

If a student successfully completed the payment period or period of enrollment, the school must provide the student (or parent in the case of a PLUS loan) the opportunity to receive the amount of Title IV assistance the student or parent was eligible to receive while the student was enrolled at the school. The school may credit the student's account to pay for current and allowable charges, but must pay or offer any remaining amount to the student or parent. The school must make the late disbursement to the student no later than 120 days after the date the student becomes ineligible. For an FFEL that was certified prior to the student becoming ineligible, the funds would have to be disbursed to the school by the lender in sufficient time for the school to deliver the funds to the student within 120 days of the date the student became ineligible.

The revised regulations allow a student to be considered for a late disbursement as long as the Department has processed a SAR/ISIR with an official EFC before the student became ineligible (additionally, for an FSEOG or Perkins Loan, the student must be awarded aid and for an FFEL/DL, the student's loan must be certified/originated). This provides the school with an easy way to document the student's eligibility, since each ISIR record includes the date the Department processed the application and created the SAR/ISIR. However, while the revised regulations eliminate the requirement that for payment of a Pell Grant an institution must have received a valid SAR or ISIR before the student withdrew, **the school still must have the valid SAR or ISIR before it can make an actual disbursement** of a Pell Grant.

There are additional limitation on making late disbursements. An institution is prohibited from disbursing

1. second or subsequent disbursements of FFEL or Direct Loan funds unless the student has graduated or successfully completed the loan period (34 CFR 668.164(g)(4)(ii));

For nonstandard term credit-hour programs where the terms are not substantially equal in length, credit-hour nonterm programs, and clock hour programs, an institution is prohibited from making a second disbursement until the latter of the calendar midpoint of the loan period, or the date that the student completes half of the academic coursework or clock hours (as applicable) in the loan period (34 CFR 682.604(c)(7) or (8), or 34 CFR 685.301(b)(5), or (6)).

2. disbursements of FFEL and Direct Loans to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study (34 CFR 668.164(g)(4)(iii)); and
3. disbursements of Federal Pell Grant funds to a student for whom the institution did not have a valid SAR/ISIR by the deadline established by ED.

The chart that follows summarizes the conditions and limitations on making late disbursements.

## PROMPT DISBURSEMENT RULES

The prompt disbursement rules for FSA funds are very important for purposes of reporting disbursement dates to COD or to a lender. You should report a disbursement date with the expectation of promptly disbursing the funds to the student or parent within the time-frames below.

In general, a school that uses the *advance payment* method must make disbursements as soon as administratively feasible but no later than 3 business days after receiving funds from the Department or an FFEL lender. (For other payment methods, see Chapter 3 on “Requesting and Managing FSA Funds.”) The disbursements may be credited to the student’s account or made directly to the student or parent, as discussed earlier.

Note that these time-frames for disbursing to the student’s account (or directly to the student/parent) are different than those for paying FSA credit balances to the student or parent. As we discussed earlier, a school generally has 14 days to pay an FSA credit balance to the student or parent, unless it has written permission to hold the credit balance.

## Requesting permission to make a late disbursement after 120 days

The Department may authorize a school to make a late disbursement after the 120-day late deadline if the

- student meets the conditions for a late disbursement; and
- delay in making the disbursement was not caused by the student (or parent, if applicable).

To request permission to make a disbursement after the 120-day late disbursement deadline, the school must fax a request to **Policy Liaison & Implementation – Late Disbursement Request** at

(202) 275-4552

For the topic, they should enter **Permission to make a disbursement after the 120-day late disbursement deadline**.

The request must include the

1. school's name;
2. contact person at the school, his/her phone number, and his/her E-mail address;
3. name of the student;
4. student's SSN;
5. type & amounts of Title IV aid to be disbursed;
6. reason the disbursement was not made on time; and
7. Pell ID, if Pell funds are included.

If the request is for permission to make a late disbursement of an FFEL or Direct Loan, the request must include the –

- a) type of loan (subsidized, unsubsidized, or PLUS);
- b) date the loan was certified;
- c) loan period; and
- d) amount of the disbursement.

<b>CONDITIONS AND LIMITATIONS ON LATE DISBURSEMENTS</b>		
<b>PROGRAM</b>	<b>CONDITIONS (34 CFR 668.164 (g)(2)) THAT MUST BE MET PRIOR TO LOSS OF ELIGIBILITY</b>	<b>LIMITATIONS (34 CFR 668.164 (g)(4)) LATE DISBURSEMENTS MAY NOT BE MADE UNLESS*</b>
Pell Grant		School received a valid SAR/ISIR by the date established by ED.
FSEOG	The Department processed a SAR/ISIR with an Official EFC (all programs).	
FFEL	Student is awarded a grant.	
Direct Loans	A loan application is certified.	For a first-time, first-year borrower, student completed 30 days of the program.
	An origination record is created.	For a second disbursement, student graduated or successfully completed the period for which the loan was intended
Perkins Loans	Student is awarded a loan.	

\*For all programs, unless approved by ED, the late disbursement is made no later than 120 days after the date of the institution's determination that the student withdrew. Or, for a student who did not withdraw, 120 days after the student became ineligible.

**Holding FFEL funds if student is temporarily ineligible**

When a school receives FFEL Program funds from the lender by *EFT or master check*, it usually must disburse the funds within 3 business days. If the FFEL lender provided the loan funds through a *check requiring the endorsement of the student or parent*, the school must credit the student's account or issue a direct disbursement to the eligible student (or parent borrower) no later than 30 calendar days after the school receives the funds.

In some cases, your school may receive the loan funds at a point when the student is temporarily not eligible for a disbursement—for instance, if the student needs to complete the clock hours or credit hours in the previous payment period (for an academic program without terms). If you expect such a student to become eligible for disbursement in the immediate future, your school has an additional 10 business days to disburse the funds. In effect, this means that your school can wait 13 days after receipt of the EFT or master check (40 days for a check requiring endorsement) to make a disbursement to a student who is expected to regain eligibility during this 10-day window.

A school must return FFEL Program funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement. However, if a student becomes eligible to receive FFEL Program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

The requirement that a school *return funds no later than* a certain number of days means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business on the last day of that period.

**Holding Stafford loan funds for verification**

If you have certified or originated a Stafford Loan for a student who was selected for verification, and the loan funds arrive before verification is completed, your school may hold the loan proceeds for up to 45 days. If the applicant does not complete the verification process within the 45-day period, your school must return the loan funds to the lender. (You also may choose to make an interim disbursement of the loan funds, but you must return the loan funds to the lender if the student does not complete verification or is found to be ineligible based on the verified information.)

If the student's eligibility was reduced as a result of verification, you may make the full disbursement if the excess amount can be eliminated by reducing subsequent disbursements for the applicable loan period. (You must advise the lender to reduce the subsequent disbursements.) If the excess funds cannot be eliminated in subsequent disbursements for the applicable loan period, your school must return the excess funds to the lender.

**Excess cash rules**

- In general, excess cash is any FSA funds other than Perkins that are not disbursed by the end of the 3rd business day after funds are received from the Department. [34 CFR 668.166]
- The regulations specifically exempt schools using the "just-in-time payment method" from this requirement.
- The cash management regulations allow a school to hold FFEL funds for up to 10 days if the student is expected to become eligible in that time. [34 CFR 668.167(b) and (c)]
- The verification regulations provide a 45-day exception for holding loan funds [34 CFR 668.58(c)]
- For information on excess cash tolerances, see Chapter 4 of this volume.

**Cash management in FFEL & DL**

The Cash Management regulations (34 CFR 668.167) establish specific time frames for schools to disburse FFEL Program funds or return the funds to the lender. In the Direct Loan Program, the school takes on a greater role with respect to the management of loan funds—for a detailed discussion of Direct Loan procedures, please see the *Direct Loan School Guide*.

**Returning FFEL funds promptly**

For purposes of the cash management regulations and this discussion, returning funds *promptly* means that a school may not delay its normal process for returning FFEL Program funds to lenders.  
FFEL: 34 CFR 668.167

### **E-Sign Act**

The Electronic Signatures in Global and National Commerce Act (E-Sign Act) was enacted on June 30, 2000. The E-Sign Act provides, in part, that a signature, contract, or other record relating to a transaction may not be denied legal effect, validity, or enforceability solely because it is in electronic form, or because an electronic signature or electronic record was used in its formation.

## **USING ELECTRONIC PROCESSES FOR AUTHORIZATIONS AND NOTIFICATIONS**

The Department continues to encourage and support schools' use of electronic recordkeeping and communications. So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically.

Of course, any time a school uses an electronic process to record or transmit confidential information or obtain a student's confirmation, acknowledgment, or approval, the school must adopt reasonable safeguards against possible fraud and abuse. Reasonable safeguards a school might take include:

- password protection,
- password changes at set intervals,
- access revocation for unsuccessful log-ins,
- user identification and entry-point tracking,
- random audit surveys, and
- security tests of the code access.

### ***The E-Sign Act***

The E-Sign Act permits lenders, guaranty agencies, and schools to use electronic signatures and electronic records in place of traditional signatures and records that, under the HEA and underlying regulations, otherwise must be provided or maintained in hard-copy format.

The E-Sign Act provides specifically for the creation and retention of electronic records. Therefore, unless a statute or regulation specifically requires a school to provide or maintain a record or document on paper, your school may provide and maintain that record electronically. Similarly, unless a statute or regulation specifically requires schools to obtain a pen and paper signature, you may obtain the signature electronically as long as the electronic process complies with the E-Sign Act and all other applicable laws.

As an example, the Department has issued specific guidance that a school may use an electronic certification to have an FWS supervisor report the hours worked by an FWS student-employee.