Disbursing FSA Funds

These rules apply to the following programs: Pell Grant, ACG, National SMART Grant, FSEOG, TEACH Grant, Perkins Loan, Direct Loan, FFEL. We have indicated when a rule applies to FWS. This chapter will discuss the rules for crediting Federal Student Aid (FSA) funds to the student’s account and making direct disbursements to the student or to the parent (PLUS), with provisions for early disbursements, delayed disbursements and late disbursements.

NOTIFICATIONS

Notification of disbursement

In general, there are two types of notifications a school must provide: (1) a general notification to all students receiving FSA funds; and (2) a notice when loan funds are credited to a student’s account.

General notification

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made.

If the funds include a Stafford Loan (whether Direct Loan or FFEL), the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. A school must provide the best information that it has regarding the amount of FSA program funds a student can expect to receive. Because the actual loan 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.

Loan notification

Except in the case of loan funds made as part of a Post-withdrawal Disbursement, when Perkins, Stafford or PLUS loan funds are being credited to a student’s account, the school must also notify the student or parent in writing (in writing means on paper or electronically) of the:

- anticipated date and amount of the disbursement;
- student’s (or parent’s) right to cancel all or part of the loan or disbursement (not required if issuing a paper check under the FFEL program); and
Confirmation process
34 CFR 668.165(a)(6)(i)

- procedures and the time by which the student (or parent) must notify the school that he or she wishes to cancel the loan or disbursement.

This notification must be sent –

- no earlier than 30 days before, and no later than 30 days after crediting the student’s account if the school obtains affirmative confirmation as described in the next section.
- no earlier than 30 days before, and no later than 7 days after crediting the student’s account if the school does NOT obtain affirmative confirmation.

The active confirmation process described in the Application and Verification Guide satisfies the requirement that a school notify students of their right to cancel all or part of their loan.

Loan cancellation notice & affirmative confirmation of loan

The loan cancellation provisions vary depending on whether a school obtains affirmative (active) confirmation from a student that he or she wants a loan.

Affirmative confirmation is a process under which a school obtains written confirmation of the types and amounts of FSA program loans that a student wants for an award year before the school credits the student’s account with those loan funds.

See the AVG and Volume 1 for more information on the confirmation process.

If the student or parent borrower wishes to cancel all or a portion of a loan, he or she must inform the school. A school must return the loan proceeds, cancel the loan, or do both, provided that the school receives the loan cancellation request within the following time-frames –

- if the school obtains affirmative confirmation from the student, by the later of the first day of a payment period or 14 days after the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan; or
- if the school does not obtain affirmative confirmation from the student, within 30 days of the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan.

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 in writing of the outcome of the request.

Proration of loan fees for returned FSA loan funds

Anytime a school returns an FSA loan disbursement or any portion of an FSA loan disbursement to a lender, the origination fee and insurance premium are reduced in proportion to the amount returned.

For Direct Loans, in the 30-120 day time frame, a school has the option of canceling the loan or directing the borrower to contact the DL Servicing Center. If a borrower returns the full amount of a loan within 120 days of disbursement, the loan is cancelled and the origination fee and insurance premium are eliminated.

For FFEL loans, if a borrower not in repayment returns an FFEL disbursement or any portion of an FFEL disbursement to the lender within 120 days after disbursement, the origination fee and insurance premium are reduced in proportion to the amount returned.

For information on how returning Direct Loans affects loan fees and accrued interest, see DLB-08-01 and DLB-08-02 FFEL 34 CFR 682.202(c)(7)(i); 682.209 DL 34 CFR 685.202(c)(4) & 685.211
When acting upon a loan cancellation request, your school must return the loan proceeds if received 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 e.g., as a result of a credit to the student’s account 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.

**TEACH Grant notification and cancellation**

Before making a disbursement of a TEACH Grant a school must notify the student of the amount of TEACH Grant funds that the student is eligible to receive, how and when those funds will be disbursed, and the student’s right to cancel all or a portion of the TEACH Grant.

If a school receives a TEACH Grant cancellation request from the student by the later of the first day of a payment period or 14 days after the date it notifies the student of his or her right to cancel all or a portion of a TEACH Grant, the school must return the TEACH Grant proceeds, and/or cancel the TEACH Grant.

If a student requests cancellation of a TEACH Grant after the 14-day period but within 120 days of the date the TEACH Grant was disbursed, the school may return the TEACH Grant proceeds and/or cancel the TEACH Grant, or do both.

If the school does not return the TEACH Grant proceeds, or cancel the TEACH Grant, the school must notify the student that he or she may contact the Department to request that the TEACH Grant be converted to a Federal Direct Unsubsidized Loan.
AUTHORIZATIONS

You must obtain authorization from a student (or parent borrower), before your school can perform any of the following activities:

- disburse FWS wages by EFT to a bank account designated by the student or parent;
- use FSA funds (including FWS) to pay for allowable charges other than tuition, fees, and room and board (if the student contracts with the school);
- hold an FSA credit balance; or
- apply FSA funds to prior-year charges other than for tuition, fees, room, and board.

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 funds to pay for other allowable 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.

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, including multiple academic years. However, regardless of any authorization obtained by a school, the school 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.

Voluntary Consent Required

Voluntary consent to participate in electronic transactions is required for all financial information provided or made available to student loan borrowers, and for all notices and authorizations to FSA recipients required under 34 CFR 668.165.
Authorizations

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.

Using electronic processes for notifications & authorizations

So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically. You may also use an electronic process to provide required notices and make disclosures by directing students to a secure Website that contains the required notifications and disclosures.

If you use an electronic process to provide notices, make disclosures or direct students to a secure Website, then every year you must notify each student individually. You may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an email address.

The annual individual notice must —

- identify the information required to be disclosed that year;
- provide the exact inter- or intranet address where the information can be found;
- state that, upon request, individuals are entitled to a paper copy, and inform students how to request a paper copy.
METHOD OF DISBURSEMENT

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

Credit to the student’s account

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

Allowable charges include:

- current charges for tuition and fees as defined in Volume 3, chapter 2 and room and board (if the student contracts with the school); and
- other current charges that a student has incurred for educationally-related activities if you obtain the student’s written authorization or the parent’s written authorization – in the case of PLUS loan funds.

If an educationally related charge does not meet the definition of an allowable charge, the school must obtain the student’s permission (or parent’s, if applicable) to use FSA program funds to pay for the charge.

Disbursements in programs where grades are not awarded

Before disbursing funds to students enrolled in programs equal to or less than one year in which students do not receive grades or credits until the end of the program your school must —

- have a satisfactory academic progress standard as described in Volumes 1 and 2 of the FSA Handbook;
- measure a student’s standing vis-a-vis satisfactory academic progress by the time the student has completed one-half of the program; and
- not make second disbursements of FSA funds to a student who is not making satisfactory academic progress.

For programs greater than one year in length in which students do not receive grades or credits until the end of the program — your school must measure a student’s standing vis-a-vis satisfactory academic progress at least once a year; and not award FSA funds for any additional period to a student who is not making satisfactory academic progress.
It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must disburse a FSA credit balance to a student within 14 days of the date it was created or within 14 days of the first day of class, and you must notify a student of a loan disbursement within a time frame related to the date of that disbursement.

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

A disbursement occurs when your school credits a student’s account or pays a student or parent directly with:

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

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

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

1 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.
Paying Pass-through Charges

The law allows a school to credit a student’s account with FSA funds only to pay for institutionally provided housing. However, it is not necessary that the school actually own the student housing. The school may enter into a contract with a third party to provide the institutional housing.

If a school enters into a contract with a third party to provide institutional housing, the school may credit FSA funds to a student’s account to pay for housing provided by a third party.

Keep in mind that other FSA requirements apply to both the funds used for the housing payment and to the physical location of the housing. For instance –

- A school must include the cost of housing as an institutional charge in any Return calculation required when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment. (See Volume 5, chapter 2.)

- The school is required to report statistics concerning the occurrence of crimes in the third party housing. (See Volume 2, chapter 6.)

- The third party must comply with the civil rights and privacy requirements contained in the school's Program Participation Agreement. (See Volume 2.)
Paying Prior-Year 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, a school may use current-year funds to satisfy prior award year charges for tuition and fees, room, or board (and with permission, educationally related charges) for a total of not more than $200. A school may not pay prior year charges in excess of $200.

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

The costs of education and other services a school provides a student are associated with the “year” for which the education and services are provided. A school has discretion over how it defines a “year.”

If a student’s aid package includes an FFEL or Direct loan, the “year” as the loan period. In this scenario, costs for the current year are defined as charges for education and services the institution will provide during the current loan period for which the institution certifies or originates an FFEL or Direct loan.

If the student does not have an FFEL or Direct loan, the “year” is the award year, and costs for the current year are defined as charges for education and services the institution will provide during the current award year.

Apportioning and Prorating Charges

In most cases, the total charges an institution assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some institutions charge a student upfront for the total cost of a multi-year program – for example, the student signs an enrollment agreement and is charged for the total costs of an 1800 clock hour program at the beginning of the program. In this case, because the charges assessed upfront represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate).

Institutional charges (generally speaking, tuition and fees) allocated to each year (or portion of a year) would be based on the education and services the institution provides during that period of time, in the same way as they are for institutions that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current year charges under 34 CFR 668.164(d). The amount of current year charges would then be used for determining whether the student has a Title IV credit balance under 34 CFR 668.164(e).

Note that this procedure for apportioning the costs over the length of the program does not affect how an institution maintains or should maintain its accounting records.
Example: Apportioning charges when a school posts all charges to the student’s account during the first payment period and the student has an FSA Loan

Katrina Technical Center (KTC) is a nonprofit postsecondary institution located in Houma, Louisiana offering a program in storm-water abatement. Hanna Galiano entered KTC’s Storm-Water Abatement program on May 4, 2009. KTC posts the charges for the entire (1500 hour) program at the beginning of the program.

**Program Profile**

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Year/Program</td>
<td>900 hours</td>
</tr>
<tr>
<td></td>
<td>30 weeks of instructional time</td>
</tr>
<tr>
<td>Program</td>
<td>1500 hours</td>
</tr>
<tr>
<td></td>
<td>50 weeks of instructional time</td>
</tr>
<tr>
<td>Program Start Date</td>
<td>May 4, 2009</td>
</tr>
<tr>
<td>Program End Date</td>
<td>April 16, 2010</td>
</tr>
<tr>
<td>Program Cost</td>
<td>$13,500.00</td>
</tr>
<tr>
<td>Pell Award Years Included</td>
<td>July 1, 2008 – June 30, 2009</td>
</tr>
<tr>
<td></td>
<td>July 1, 2009 – June 30, 2010</td>
</tr>
<tr>
<td>Payment Period 1 (450 hours)</td>
<td>May 4, 2009, to August 14, 2009</td>
</tr>
<tr>
<td>Payment Period 2 (450 hours)</td>
<td>August 17, 2009, to November 27, 2009</td>
</tr>
<tr>
<td>Payment Period 3 (300 hours)</td>
<td>November 30, 2009, to February 5, 2010</td>
</tr>
<tr>
<td>Payment Period 4 (300 hours)</td>
<td>February 8, 2010, to April 16, 2010</td>
</tr>
<tr>
<td>First loan period (900 hours)</td>
<td>May 4, 2009, to November 27, 2010</td>
</tr>
<tr>
<td>Second loan period is (600 hours)</td>
<td>November 30, 2009, to April 16, 2010</td>
</tr>
</tbody>
</table>

**Hanna’s Federal Student Aid Information**

Hanna was eligible to receive the following Federal Student Aid during her program.

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09 Pell Grant Scheduled Award</td>
<td>$4,800.00</td>
</tr>
<tr>
<td>2009-10 Pell Grant Scheduled Award</td>
<td>$5,400.00</td>
</tr>
<tr>
<td>Stafford Loan for First Loan Period</td>
<td>$3,500.00</td>
</tr>
<tr>
<td>Stafford Loan for Second Loan Period</td>
<td>$2,334.00</td>
</tr>
</tbody>
</table>

When a school charges for an entire program at the start of the course (up front), a school may apportion or otherwise assign the total charges for a multi-year program to determine the amount of those charges applicable to each year (loan period or award year as appropriate. Note that a school must use the same basis to apportion the charges for all students in a program.
Chapter 1 — Disbursing FSA Funds

**Apportioning charges example continued**

For example, KTC could:

1. apportion the charges in proportion to the number of clock hours in each loan period (900 hours/$8,100 in the first loan period and 600 hours/$5,400 in the second loan period; or
2. increase the charges the school assigned to the first loan period and decrease the charges in the second loan period because the school retained charges for books and materials in the first period; or
3. apportion the $13,500 equally ($6,750) over each of the two loan periods (four payment periods).

KTC chose to apportion the charges in proportion to the number of clock hours in each loan period.

### Student’s Apportioned Charges

<table>
<thead>
<tr>
<th>Payment Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Payment Period (450 hours)</td>
<td>$4,050</td>
</tr>
<tr>
<td>Second Payment Period (450 hours)</td>
<td>$4,050</td>
</tr>
<tr>
<td>Third Payment Period (300 hours)</td>
<td>$2,700</td>
</tr>
<tr>
<td>Fourth Payment Period (300 hours)</td>
<td>$2,700</td>
</tr>
</tbody>
</table>

On May 4, 2009, the school credited Hanna’s account with $4,150 in FSA funds — $2,400 in 2008-2009 Pell Grant funds and $1,750 in Stafford Loan funds. When applied against the $4,050 in school charges for the first payment period the FSA funds created an FSA credit balance of $100.00 ($4,150 – $4,050) that the school electronically transferred to the bank account that Hanna had previously specified be used for that purpose.

On August 17, 2009, the school credited Hanna’s account with $4,150 in FSA funds — $2,400 in 2009-10 Pell funds and $1,750 in Stafford funds. When applied against the $4,050 in school charges for the 2nd payment period the FSA funds created an FSA credit balance of $100.00 ($4,150 – $4,050) that the school electronically transferred to Hanna’s specified bank account.

On November 30, 2009, the school credited Hanna’s account with $2,967 in FSA funds — $1,800 in 2009-10 Pell funds and $1,167 in Stafford funds. When applied against the $2,700 in school charges for the 3rd payment period, the FSA funds created an FSA credit balance of $267.00 ($2,967 – $2,700) that the school electronically transferred to Hanna’s specified bank account.

Hanna began the 4th and final payment period on February 8, 2010, and the aid officer posted $1,167 in Stafford funds to Hanna’s account. When she looked at Hanna’s Pell eligibility, she found that Hanna had already used 100% of her scheduled award. In past award years, Hanna would not have been eligible for any additional Pell funds. However, students are now eligible to receive 2 consecutive Pell Grant Scheduled Awards during a single year if the student was enrolled: (1) in a certificate, associate or bachelor’s degree program and (2) at least 1/2-time for more than one academic year or more than two semesters or the equivalent time during a single award year.

The aid officer determined that Hanna met those criteria, and the school credited Hanna’s account with $1,800 in 2009-2010 Pell Grant funds from Hanna’s second Pell award. When added to the $1,167 in Stafford Loan funds and applied against the $2,700 in school charges for the 3rd payment period, the FSA funds created an FSA credit balance of $267.00 ($2,967 – $2,700) that the school electronically transferred to Hanna’s specified bank account.

As a result, Hannah’s tuition and fees were paid-in-full.
Hanna began the fourth and final payment period on February 8, 2010, and the aid officer posted $1,167 in Stafford Loan funds to Hanna’s account. When she looked at Hanna’s Pell eligibility, she found that Hanna had already used 100% of her scheduled award. In past award years, Hanna would not have been eligible for any additional Pell funds. However, the Higher Education Opportunity Act (Public Law 110-315) (HEOA) enacted on August 14, 2008, made a student eligible to receive two consecutive Federal Pell Grant Scheduled Awards during a single year if the student was enrolled: (1) in a certificate, associate or bachelor’s degree program and (2) at least half time for more than one academic year or more than two semesters or the equivalent time during a single award year.

The aid officer determined that Hanna met those criteria, and the school credited Hanna’s account with $1,800 in 2009-2010 Pell Grant funds from Hanna’s second Pell award. When added to the $1,167 in Stafford Loan funds and applied against the $2,700 in school charges for the third payment period, the Title IV funds created a Title IV credit balance of $267.00 ($2,967 – $2,700) that the school electronically transferred to the bank account that Hanna had previously specified be used for that purpose.

Hannah’s tuition and fees were now paid-in-full.

Hanna graduated from KTC, and is working for the Army Corps of Engineers helping to ensure that the levees in New Orleans never again fail.
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:

1. Issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent (a check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup).

2. Initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent, including transferring funds to stored-value cards and debit cards (see the discussion under Credit Balances later in this chapter).

3. Disbursing to the student in cash, provided that your school obtains a signed receipt from the student or parent, or

4. Releasing a FFEL check sent by a lender.

When a school receives FFEL funds by check

A school may receive a borrower’s Stafford Loan funds from a lender in the form of an individual bank check made payable to the borrower or co-payable to the borrower and the school. In the case of a co-payable check, both the school and the borrower must endorse the check.

Co-payable PLUS Loan checks must be sent directly to a school by a lender. A school must disburse PLUS proceeds to a parent borrower within 30 days of receiving a check. However, a school is not required to endorse a PLUS check before sending it to a parent borrower. The school may require the parent borrower to endorse the check and return it to the school for the school’s endorsement. The school then endorses the check, deposits it and disburses the funds.
Credit balances
34 CFR 668.164(e)

CREDIT BALANCES

FSA regulations refer to the amount of aid that exceeds the allowable charges as a credit balance. School administrators sometimes refer to this as a refund; however, it is not the same thing as a refund under the school’s refund policy or a Post-withdrawal Disbursement given to a student under the Return of Title IV Funds rules.

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

Paying credit balances

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

- the date the balance occurred on the student’s account, if the balance occurred after the first day of class of a payment period, or
- the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

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 (including to a bank account in the student’s name).

The Department does not specify how a school must determine which FSA funds create an FSA credit balance.

A school may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory timeframes.

Credit balances under $1

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

Please see Volume 5 for a discussion of credit balances when a student withdraws.
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.
**Paying a credit balance by issuing a check**

A school may pay a credit balance to a student by issuing a check payable to and requiring the endorsement of the student or parent. A school is considered to have issued the check on the date that it –

- mails the check to the student or parent; or
- notifies the student that the check is available for immediate pickup, and provides the specific location.

A school that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day timeframe. A school can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. A school that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the school’s process complies with the rest of the regulation. That is, the school must be able to give the student a check when the student comes to the office within the 14-day timeframe.

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored value card), and not be told that a check will be mailed to him or her.

A school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student’s or parent’s bank account, or return the funds to the appropriate FSA program.

**Paying a credit balance by initiating an EFT**

A school may pay a credit balance by initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent.

A school may establish a policy requiring its students to provide information about an existing bank account, or open an account at a bank of the student’s choosing as long as this policy does not delay the disbursement of FSA funds to students. Consequently, if a student does not comply with the school’s policy, the school must nevertheless disburse the funds to the student either by dispensing cash for which the school obtains a signed receipt; or issuing a check. A school must disburse the credit balance within the regulatory time frame.
Chapter 1 — Disbursing FSA Funds

**Holding credit balances**

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

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

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

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. **The FSA regulations do not set specific rules for determining which funds created a credit balance.**

---

**Standards for School-Required Bank Accounts**

In cases where a school opens a bank account on behalf of a student or parent, establishes a process the student or parent follows to open a bank account, or similarly assists the student or parent in opening a bank account, the school must –

1. **Obtain in writing affirmative consent from the student or parent to open that account:**
   
   Before the account is opened, inform the student or parent of the terms and conditions associated with accepting and using the account;

   Not make any claims against the funds in the account without the written permission of the student or parent, except for correcting an error in transferring the funds in accordance with banking protocols;

   Ensure that the student or parent does not incur any cost in opening the account or initially receiving any type of debit card, stored-value card, other type of automated teller machine (ATM) card, or similar transaction device that is used to access the funds in that account;

   - Ensure that the student has convenient access to a branch office of the bank or ATMs of the bank in which the account was opened (or ATMs of another bank), so that the student does not incur any cost in making cash withdrawals from that office or ATMs.

   This branch office or these ATMs must be located on the institution’s campus, in institutionally-owned or operated facilities, or consistent with the meaning of the term “Public Property” immediately adjacent to and accessible from the campus;

   - Ensure that the debit, stored-value or ATM card, or other device can be convertible to cash, and can be widely used, e.g., the institution may not limit the use of the card or device to particular vendors; and

   - Not market or portray the account, card, or device as a credit card or credit instrument, or subsequently convert the account, card, or device to a credit card or credit instrument.

2. **If a school fails to obtain a student’s consent, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations, and at no cost to the student.**

---

1. 34 CFR 668.164(c)(3)

2. If a school fails to obtain a student’s consent, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations, and at no cost to the student.
A stored-value card is a prepaid debit card that can be used to withdraw cash from an automated teller machine (ATM) or to purchase goods from a merchant. We distinguish a stored-value card from a traditional debit card in this discussion by defining a stored-value card as not being linked to a checking or savings account.

Typically, a school enters into an agreement with a bank under which the bank issues stored-value cards directly to students identified by the school. In a payroll or credit balance transaction, the school electronically transfers funds to the bank on behalf of a student and the bank makes those funds available to the student by increasing the value of the card. Since the funds are transferred from the school’s account to the bank, so long as the school cannot recall those funds to pay other charges for the student without the student’s written permission, the transaction would be equivalent to paying the funds directly to the student.

Under the following conditions, a school may use stored-value cards as a way to make direct payments to students (such as credit balances and Federal Work Study (FWS) wages) by following the 10 rules.

1. A school must obtain a student’s authorization to use a stored-value card for paying FWS wages.

2. The value of the card must be convertible to cash (e.g., a student must be able to use it at an ATM to make a cash withdrawal). In some cases, the cards are branded with the VISA or MasterCard logo, so the card may also be used to buy goods and services. We would not expect a school to limit the use of the card to specific vendors.

3. A student should not incur any fees for using the card to withdraw the disbursement from ATMs of the issuing bank or credit union.

   So long as ATMs from the issuing bank are conveniently located for a student, it would appear to be reasonable for a fee to be charged if the student chooses to use an ATM that is not affiliated with the issuing bank.

4. A student should not be charged by either a school or the affiliated bank for issuing a stored-value card, but it would be reasonable if a student was charged for a replacement card.

5. In order to minimize any risks with disbursing funds to a stored-value card account set up for a student, the account at the bank or credit union must be Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) insured. This means that there has to be an individual account for each student that is FDIC or NCUSAIF insured.

6. In order for the disbursements to the stored-value card to be treated as payments made to a student, a school cannot make any claims against the funds on the card without the written permission of the student, except to correct an error in transferring the funds to the bank under existing banking rules.

7. Since the stored-value card is being set up to disburse Federal Student Aid funds to a student, the account should not be marketed or portrayed as a credit card account and should not be structured to be converted into a credit card at any time after it is issued.

   A bank may wish to use its relationship with a student to offer other banking services such as checking accounts, savings accounts, or credit cards, but those should not link to the stored-value card account.

8. A school must inform a student of any terms and conditions associated with accepting and using the stored-value card.

9. A school must ensure that its stored-value card process meets all regulatory timeframes. (For example, a student must have access via the card to any credit balance within the 14-day timeframe in 34 CFR 668.164, or to any FWS wages at least once per month.)

10. A student’s access to the funds on the stored-value card should not be conditioned upon the student’s continued enrollment, academic status or financial standing with the institution.

---

1. If a school fails to obtain a student’s authorization, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations, and at no cost to the student.
When a school uses third-party servicers\textsuperscript{1} to disburse FSA funds

In response to current trends, companies are now offering services that include:

- obtaining the student's authorization to perform electronic transfers;
- transferring the funds electronically to the student's bank account;
- opening a bank account for the student; and
- issuing debit cards in conjunction with a participating bank.

Companies that contract with schools to provide these types of services in some instances become third-party servicers (servicer).

So long as a school cannot recall or receive a payment from an student or parent account, the Department considers the electronic transfer of funds to a bank account a servicer opens on behalf of a student to be the equivalent of a school's transfer of funds to a student's account and the equivalent of making a direct payment to a student.

\textbf{A school that enters into a contract with a servicer to provide debit, demand or smart cards through which FSA credit balances are paid to students must have a system to ensure compliance with all regulatory timeframes including having access to any credit balance within the 14-days, and to any FWS wages at least once per month.}

\textsuperscript{1} A third-party servicer is an entity that contracts with a school to administer any aspect of its FSA programs. Thus, if a school contracts with a company to perform activities that are the school’s responsibilities under the FSA regulations, the company is a third-party servicer.

In the contract between the school and the servicer, both parties must agree to comply with all statutory and regulatory provisions governing the FSA programs, and agree to be jointly and severally liable for any violation by the servicer of these provisions. Also, unless a third-party servicer has only one client, the servicer must submit an annual audit of the activities it performs on behalf of the school to the Department. (See Volume 2 for more information about Third-Party Servicers.

Cites
34 CFR 668.25(c)
34 CFR 668.23(c)
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. The school is permitted to retain any interest earned on the student’s credit balance funds.

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

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

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

School-issued stored-value cards

When a school pays an FSA credit balance to a student by making those funds available through a school-issued stored-value card over which the school exercises control, the school is, in effect, holding a student’s FSA credit balance. Therefore, all of the conditions on holding credit balances apply.
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 School Participation 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 you awarded funds to a student, you confirmed that he or she was an eligible student and was making satisfactory academic progress (See Volume 1, Student Eligibility). However, before disbursing FSA funds, you must determine and document that a student remains eligible to receive them. That is, you must confirm that:

1. The student is enrolled for classes for the period;
2. A student enrolled in a non-term program has completed the previous period (credits and weeks or clock hours and weeks of instruction);
3. If the disbursement occurs on or after the first day of classes, the student has begun attendance;
4. For FFEL and DL loans, the student is enrolled at least half time;
5. First-time FSA borrowers have completed entrance counseling and/or received the required disclosures;
6. For all ACG/National SMART Grants, the student is enrolled at least half time and meets the applicable GPA requirements;
7. For second year AC Grants, at the end of the first academic year, the student has at least a 3.0 cumulative GPA on a 4.0 scale, and
   a) is enrolled at least half time;
   b) has at least a 3.0 cumulative GPA on a 4.0 scale through the most recently completed payment period, and
   c) is enrolled and taking at least one course in an eligible major.
8. For National SMART Grants, the student —
   a) is enrolled at least half time;
   b) has at least a 3.0 cumulative GPA on a 4.0 scale through the most recently completed payment period, and
   c) is enrolled and taking at least one course in an eligible major.
9. For TEACH Grants, the student has, for that award year —
   a) completed the relevant initial or subsequent counseling;
   b) signed an “Agreement to Serve” and
   c) the appropriate GPA, has otherwise met the performance standard through testing, or is a retiree or a current or former teacher (See Volume 1.)

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.
RECEIVING FSA FUNDS THROUGH THE G5 SYSTEM

Schools to which ED pushes cash do not request funds directly through G5. The COD system pushes funds (automatically sends electronic payments) through G5 to these schools based on disbursement records submitted and accepted by COD. Similarly, schools on Reimbursement or Heightened Cash Monitoring do not request funds directly through G5. These schools receive funds based on disbursement records accepted by COD and approved by a reimbursement analyst (see Chapter 2).

Schools that receive funds through the Advanced Payment method must request funds directly through G5. Advance Pay schools are not required to submit disbursements prior to requesting funds. These schools receive an initial Current Funding Level (CFL) against which they can draw funds. As these schools submit disbursement records that substantiate the school’s drawdowns in a timely manner (within 30 days of the disbursement date) the school’s CFL will increase to a level that should allow the school to request the funds it needs to make its scheduled FSA disbursements.

In order to comply with the excess cash regulations, when requesting funds with which to make FSA disbursements, schools must ensure they do not draw down more cash than they can disburse over the next three days.

**Pushed cash schools must return funds**

In general, a school using the Advanced Payment method may use the federal cash it draws down for any eligible student. However, all cash that ED sends to a school through the pushed cash method are student specific. They are intended solely for disbursement to the students specified on the Funded Disbursement Listing report.

If you do not disburse the funds to the intended recipients (on the Funded Disbursement Listing Report), you must return those funds as excess cash to ED.
PROMPT DISBURSEMENT RULES

In general, schools that are not receiving federal cash from the Department through one of the heightened cash monitoring payment methods must make disbursements as soon as administratively feasible but no later than 3 business days after receiving funds from the Department. (For a discussion of payment methods, see Chapter 2.) The disbursements may be credited to the student’s account or made directly to the student or parent, as discussed earlier. There is a similar requirement for schools receiving FFEL funds.

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

Note: Excess cash is discussed in Chapter 2.
Chapter 1 — Disbursing FSA Funds

**DISBURSING FWS WAGES**

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

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

**Crossover payment periods**

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

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

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

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

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

**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.

**FWS Disbursements**

34 CFR 675.16.

**Direct payments**

34 CFR 668.164(c)

---

4–27
LATE DISBURSEMENTS

Generally, an otherwise eligible student or parent becomes ineligible to receive FSA funds on the date that the student:

- for a loan made under the FFEL or Direct Loan program, is no longer enrolled at least half time; or
- for purposes of the Pell Grant, ACG/SMART Grant, FSEOG, and TEACH grant and the Perkins Loan programs, the student is no longer enrolled at the school for the award year.

However, if certain conditions are met, students must be considered for a disbursement after the date they became ineligible. These disbursements are called “late disbursements.”

Conditions for a late disbursement

A student must be considered for a late disbursement if the Department processed a SAR/ISIR with an official EFC before the student became ineligible. Therefore, a school must review its records to see if a student who did not receive a disbursement of FSA funds before becoming ineligible is eligible for a late disbursement (Check the “processed date” as described in the sidebar.) In addition, for an FFEL or Direct Loan program loan, the loan must be certified or originated, as applicable, prior to the date the student became ineligible. For an FSEOG or a Federal Perkins Loan, the school must have made the award to the student prior to the date the student became ineligible. For a TEACH Grant, the school must have originated the award.

Late disbursements that must be made vs. late disbursements that may be made

If a student who qualifies for a late disbursement completes the payment period or period of enrollment, or withdraws during the payment period or period of enrollment, a school must make the late disbursement. A late disbursement for a student who has withdrawn during the payment period or period of enrollment is called a Post-withdrawal disbursement.

If a student did not withdraw or fail to complete the payment period or period of enrollment but ceased to be enrolled as at least a half-time student, a school may make a late disbursement of a loan under the FFEL or Direct Loan programs. So long as a school has previously confirmed that a student started the loan period enrolled at least half time, a school is not required to re-confirm a student’s attendance before making a late disbursement of a FSA loan.
A student who withdraws and subsequently signs a promissory note in time for the school to include the loan funds in the Return of Title IV Aid calculation may receive a late (Post-withdrawal) disbursement of the applicable amount of his or her loan funds (see Volume 5 for more information). In addition, a student who loses eligibility for a reason other than his or her withdrawal and subsequently signs a promissory note may receive a late disbursement of the applicable amount of his or her loan funds.

If a student’s enrollment status for an ACG/National SMART Grant was half-time on the date the student ceased to be enrolled, the school may make a late disbursement.

**Limitations on making a late disbursement**

The regulations prohibit a school from making a late disbursement in certain situations, even if a student otherwise meets the conditions for a late disbursement. A school is prohibited from making:

- a late second or subsequent disbursement of FFEL or Direct Loan funds unless the student has graduated or successfully completed the loan period;
- a late disbursement of FFEL or Direct Loan funds to a first-year, first-time borrower who withdraws before the 30th day of the student’s program of study (unless the school meets the requirements for a waiver based on low default rates (See Volume 1) and
- a late disbursement of Pell, ACG/SMART, or TEACH Grant funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by ED.
- a late disbursement of an ACG/SMART Grant if a student’s enrollment status for an ACG/SMART Grant was not half-time on the date the student ceased to be enrolled.

In addition, a school may not make a late disbursement later than 180 days after the date the student becomes ineligible. (Note that for an FFEL that was certified prior to the student becoming ineligible, the funds would have to be disbursed to the school by the lender in sufficient time for the school to deliver the funds to the student within 180 days of the date the student became ineligible.)
### Conditions and Limitations on Late Disbursements

**These Conditions Must Be Met Before a Student Loses Eligibility in Order for the Student to Receive a Late Disbursement (34 CFR 668.164(g)(2))**

<table>
<thead>
<tr>
<th>Program</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pell Grant¹</td>
<td>No additional requirements.</td>
</tr>
<tr>
<td>FSEOG</td>
<td>Student is awarded a grant.</td>
</tr>
<tr>
<td>FFEL</td>
<td>A loan application is certified.</td>
</tr>
<tr>
<td>Direct Loans</td>
<td>A loan record is originated.</td>
</tr>
<tr>
<td>Perkins Loans</td>
<td>Student is awarded the loan.</td>
</tr>
<tr>
<td>TEACH Grants</td>
<td>The grant is originated</td>
</tr>
</tbody>
</table>

**These Additional Limitations Must Be Satisfied Before a School May Make a Late Disbursement (34 CFR 668.164(g)(4))²**

<table>
<thead>
<tr>
<th>Program</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pell Grant¹</td>
<td>School received a valid SAR/ISIR by the date established by ED.</td>
</tr>
<tr>
<td>FSEOG</td>
<td>No additional limitations.</td>
</tr>
<tr>
<td>FFEL</td>
<td>1 For a first-time, first-year borrower, student completed 30 days of the program. (Subject to waivers discussed earlier under Timing of Disbursements.)</td>
</tr>
<tr>
<td>Direct Loans</td>
<td>2 For a second disbursement, student graduated or completed the period for which the loan was intended.</td>
</tr>
<tr>
<td>Perkins Loans</td>
<td>No additional limitations.</td>
</tr>
<tr>
<td>TEACH Grants</td>
<td>School received a valid SAR/ISIR by the date established by ED.</td>
</tr>
</tbody>
</table>

¹ Within this chart, Pell Grant also apply to ACG/SMART Grants.

² For all programs, the late disbursement is made no later than 180 days after the date of the institution's determination that the student withdrew. Or, for a student who did not withdraw, 180 days after the student became ineligible.
Paying a late disbursement

If a school chooses to make a late disbursement of an FFEL or Direct Loan to a student who ceases to be enrolled as at least a half-time student, the school determines the amount of the late disbursement of the FFEL or Direct Loan it will offer the student by determining the educational costs the student incurred for the period of instruction during which the student was enrolled at least half time.

A school must contact a student prior to making ANY late disbursement of FSA loan funds, and explain to the student his or her obligation to repay the loan funds if they are disbursed. The information provided in this notification must include the information necessary for the student or parent to make an informed decision about whether the student or parent would like to accept any disbursement of the loan funds. In addition, the school must confirm that the loan funds are still needed by the student, and that the student wishes the school to make the disbursement.

Your school may credit a student’s account with a late disbursement of FSA grant funds without the student’s permission for any current allowable charges. An institution must obtain a student’s authorization to credit a student’s account with Title IV grant funds for charges other than current charges.

If grant funds remain to be disbursed from a late disbursement after the outstanding charges on the student’s account have been satisfied, the school must pay the grant funds directly to the student within 14 days.

If a student had a FSA credit balance before becoming ineligible and that credit balance consists of FSA loan funds, the school must offer the funds in writing to the student, and may not disburse the funds directly to the student without first having obtained the student’s authorization.