

# Summary of New Cash Management Rules for Direct Title IV Disbursements

General effective date: July 1, 2016

## Tier 1 (T1) arrangement:

- The institution contracts with a third-party servicer to perform one or more functions associated with processing direct payments of Title IV program funds; and
- The institution or third-party servicer makes payments to—
  - ✓ One or more financial accounts that are offered to students under the contract;
  - ✓ A financial account where information about the account is communicated directly to students by the third-party servicer, or the institution on behalf of or in conjunction with the third-party servicer; or
  - ✓ A financial account where information about the account is communicated directly to students by an entity contracting with or affiliated with the third-party servicer.

## Tier 2 (T2) arrangement:

- The institution contracts with a financial institution, or entity that offers financial accounts through a financial institution, under which financial accounts are offered and marketed directly to students enrolled at the institution. Marketed directly means:
  - ✓ The institution communicates information directly to its students about the financial account and how it may be opened;
  - ✓ The financial account or access device is cobranding with the institution's name, logo, mascot, or other affiliation and is marketed principally to students at the institution; or
  - ✓ A card or tool that is provided to the student for institutional purposes, such as a student ID card, is validated, enabling the student to use the device to access a financial account.
- Requirements depend on how many students at the institution have Title IV credit balances (thus, receive direct disbursements).
  - ✓ For the three most recently completed award years, either an average of at least 500 students had a Title IV credit balance, or an average of at least 5 percent of enrolled students had a Title IV credit balance: The institution is subject to a higher level of compliance that includes all Tier 2 requirements (those designated T2 and T2-H in the chart that follows).
  - ✓ At least 1 student in each of the three most recently completed award years had a Title IV credit balance, but less than both of the thresholds defined above: Only certain Tier 2 requirements apply (those designated T2 in chart that follows, but not T2-H).
  - ✓ No student had a Title IV credit balance in at least one of the three most recently completed award years: No Tier 2 provisions are required, but institution may voluntarily comply.

Current Regulations at 668.164(c)	New Regulations at 668.164(d),(e),(f)
<p>“Bank account” means an account insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF); may be a checking, savings, or similar account that underlies a stored-value card or other transaction device.</p>	<p>“Access device” means a card, code, or other means of access to a financial account, or any combination thereof, that may be used by a student to initiate electronic fund transfers.</p> <p>“Financial account” means a student’s or parent’s checking or savings account, prepaid card account, or other consumer asset account held directly or indirectly by a financial institution.</p> <p>“Financial institution” means a bank, savings association, credit union, or any other person or entity that directly or indirectly holds a financial account belonging to a student, issues to a student an access device associated with a financial account, and agrees with the student to provide EFT services.</p>
<p>N/A</p>	<p><u>Student choice selection process</u></p> <p>Schools that pay students via EFT (or use third-party servicers to pay via EFT) and have T1 or T2 arrangements must establish a selection process under which the student chooses one of several options for receiving payments via EFT.</p> <p>The selection process need not list checks or cash as an option, but the institution must be able to issue checks (even if only as a last resort) and may disburse cash to students who make no selection or do not wish to use EFT.</p> <p>School must:</p> <ul style="list-style-type: none"> <li>• Ensure that the student’s options for receiving direct payments are described and presented in a clear, fact-based, and neutral manner, with no option preselected.</li> <li>• Allow the student to change, at any time, his or her previously selected payment option, if the student provides the institution with written notice of the change within a reasonable time.</li> <li>• Present prominently as the first option, the student’s preexisting financial account.</li> </ul>

Current Regulations at 668.164(c)	New Regulations at 668.164(d),(e),(f)
<p>Institution may require students to provide bank account information or open an account at a bank of their choosing as long as this policy does not delay the disbursement of Title IV funds to students.</p> <p>Disburse timely by other allowable means if student does not comply with school policy to have a bank account for EFT.</p>	<p><u>Student choice selection process (cont'd.)</u></p> <ul style="list-style-type: none"> <li>• Inform the student in writing that he or she is not required to open or obtain a financial account or access device offered by or through a specific financial institution.</li> <li>• Ensure that a student who does not make an affirmative selection is paid the full amount of the credit balance in the appropriate time by one of the allowable means (EFT to existing account, check, or cash).</li> <li>• Ensure direct payments by EFT to a student's <b>existing</b> financial account is as timely and no more onerous to the student as initiating an EFT to an account provided under a T1 or T2 arrangement.</li> </ul>
<p>Before the account is opened, inform the student or parent of the terms and conditions associated with accepting and using the account.</p>	<p><u>Student choice selection process (cont'd.)</u></p> <ul style="list-style-type: none"> <li>• List and identify the major features and commonly assessed fees associated with each financial account offered under T1 and T4 arrangements, and a URL for the terms and conditions of each account.</li> </ul> <p>By July 1, 2017: Following ED-specified format, content, and update requirements published in <i>Federal Register</i> will satisfy major features and assessed fees disclosure.</p> <p><u>T1 and T2 arrangements</u></p> <p>Inform student of terms and conditions before the financial account is opened, as required by the student choice selection process rules.</p>
<p>Obtain in writing affirmative consent from the student or parent to open that account.</p>	<p><u>T1 and T2 arrangements</u></p> <p>Obtain student's consent to open the financial account before an access device, or any representation of an access device, is sent to the student.</p> <p>The institution may send the student an access device that is a card provided to the student for institutional purposes, such as a student ID card, if the institution or financial institution obtains the student's consent before validating the device to enable the student to access the financial account.</p>

Current Regulations at 668.164(c)	New Regulations at 668.164(d),(e),(f)
N/A	<p><u>T1 arrangements</u></p> <p>Ensure that a student’s personally identifiable information shared with a third-party servicer before the student makes a selection—</p> <ul style="list-style-type: none"> <li>• Does not include information about the student, other than certain directory information, beyond— <ul style="list-style-type: none"> <li>✓ Unique institutionally-generated student identifier that does not include a Social Security number, in whole or in part;</li> <li>✓ The disbursement amount;</li> <li>✓ A password, PIN code, or other shared secret provided by the institution that is used to identify the student; or</li> <li>✓ Additional items specified by ED in the <i>Federal Register</i>;</li> </ul> </li> <li>• Is used solely for activities that support making direct payments of Title IV program funds and not for any other purpose; and</li> <li>• Is not shared with any other affiliate or entity except for the purpose described above.</li> </ul> <p><u>T2 arrangements</u></p> <p>Obtain the student’s consent to open the financial account before providing, or allowing a third-party servicer to provide, personally identifiable information about the student to the financial institution or its agents, other than directory information as permitted under FERPA rules.</p>
<p>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.</p>	<p><u>T1 arrangements</u></p> <p>Ensure that the student incurs no cost for:</p> <ul style="list-style-type: none"> <li>• Opening the financial account or initially receiving an access device;</li> <li>• Point-of-sale transactions; or</li> <li>• A balance inquiry or withdrawal of funds at an ATM that belongs to the surcharge-free regional or national network.</li> </ul> <p><u>T2 arrangements</u></p> <p>Ensure that the student incurs no cost for opening the financial account or initially receiving or validating an access device.</p>

Current Regulations at 668.164(c)	New Regulations at 668.164(d),(e),(f)
<p>Ensure that the student has convenient access to a branch office of the bank or an ATM (of the bank in which the account was opened or another bank), so that the student does not incur any cost in making cash withdrawals from that office or ATMs. The branch office or ATMs must be located on the institution's campus, in institutionally-owned or operated facilities, or immediately adjacent to and accessible from the campus [see 668.46(a), "Public property"].</p>	<p><u>T1 arrangements</u></p> <p>Ensure that the student has convenient access to the financial account funds through a surcharge-free national or regional ATM network that has ATMs sufficient in number and housed and serviced such that Title IV funds are reasonably available to students, including at the times the institution or its third-party servicer makes direct payments into the financial accounts of those students.</p> <p><u>T2-H arrangements</u></p> <p>Ensure that the student can execute balance inquiries and access funds deposited in the financial accounts through surcharge-free in-network ATMs sufficient in number and housed and serviced such that the funds are reasonably available to the student, including at the times the institution or its third-party servicer makes direct payments into them.</p>
<p>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.</p>	<p><u>T1 arrangements</u></p> <p>Ensure that the financial account or access device is not marketed or portrayed as, or converted into, a credit card, and no credit is extended or associated with the financial account.</p> <p>Ensure that no fee is charged to the student for any transaction or withdrawal that exceeds the balance in the financial account or on the access device, except that a transaction or withdrawal that exceeds the balance may be permitted only for an inadvertently authorized overdraft, so long as no fee is charged to the student for the inadvertently authorized overdraft.</p> <p>Ensure that the institution, third-party servicer, or third-party servicer's associated financial institution provides a student account holder convenient access to Title IV funds in part and in full up to the account balance via domestic withdrawals and transfers without charge, during the student's entire period of enrollment following the date that such Title IV funds are deposited or transferred to the financial account.</p> <p><u>T2 arrangements</u></p> <p>Ensure that the financial accounts are not marketed or portrayed as, or converted into, credit cards.</p>

Current Regulations at 668.164(c)	New Regulations at 668.164(d),(e),(f)
N/A	<p><u>T1 arrangements</u></p> <p>No later than September 1, 2016, and then no later than 60 days following the most recently completed award year thereafter, disclose conspicuously on the institution's Web site the contract(s) establishing the T1 arrangement between the institution and third-party servicer or financial institution acting on behalf of the third-party servicer, as applicable, except for any portions that would compromise personal privacy, proprietary information technology, or the security of information technology or of physical facilities.</p> <p><u>T2 arrangements</u></p> <p>No later than September 1, 2016, and then no later than 60 days following the most recently completed award year thereafter, disclose conspicuously on the institution's Web site the contract(s) establishing the T2 arrangement between the institution and financial institution in its entirety, except for any portions that would compromise personal privacy, proprietary information technology, or the security of information technology or of physical facilities.</p> <p><u>T1 and T2 arrangements</u></p> <p>Within same timeframes, provide to ED an up-to-date URL for the contract for publication in a centralized database accessible to the public.</p>
N/A	<p><u>T1 and T2-H arrangements</u></p> <p>No later than September 1, 2017, and then no later than 60 days following the most recently completed award year thereafter, disclose conspicuously on the institution's Web site, in a format established by ED and at the same URL used for the contract disclosure:</p> <ul style="list-style-type: none"> <li>• The total consideration for the most recently completed award year, monetary and non-monetary, paid or received by the parties under the terms of the contract; and</li> <li>• For any year in which the institution's enrolled students open 30 or more financial accounts under the arrangement, the number of students who had financial accounts under the contract at any time during the most recently completed award year, and the mean and median of the actual costs incurred by those account holders.</li> </ul>

Current Regulations at 668.164(c)	New Regulations at 668.164(d),(e),(f)
N/A	<p><u>T1 arrangements</u></p> <p>Take affirmative steps, by way of contractual arrangements with the third-party servicer as necessary, to ensure that regulatory requirements are met with respect to all accounts offered under T1 arrangements.</p> <p><u>T2 arrangements</u></p> <p>Take affirmative steps, by way of contractual arrangements with the financial institution as necessary, to ensure that regulatory requirements are met with respect to all accounts offered under T2 arrangements.</p>
N/A	<p><u>T1 and T2-H arrangements</u></p> <p>Ensure that the terms of accounts offered under the arrangement are not inconsistent with the best financial interests of the students opening them. Account terms are not inconsistent with the best financial interests of the students (i.e., this requirement is met) if:</p> <ul style="list-style-type: none"> <li>• The institution documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the arrangement are, considered as a whole, consistent with or below prevailing market rates; and</li> <li>• All contracts for the marketing or offering of accounts under the arrangements to the institution's students make provision for termination of the arrangement by the institution based on complaints received from students or a determination by the institution that the fees assessed under the arrangement are not consistent with or are higher than prevailing market rates.</li> </ul>
N/A	<p><u>T2 arrangements</u></p> <p>An institution that enters into a cobranding agreement but maintains that the account is not marketed principally to its enrolled students and is not otherwise marketed directly, must retain the cobranding contract and other documentation it believes establishes that the account is not marketed directly to its enrolled students, including documentation that the cobranded financial account or access device is offered generally to the public.</p>

Current Regulations at 668.164(c)	New Regulations at 668.164(d),(e),(f)
N/A	<p>Exceptions to the new rules:</p> <ul style="list-style-type: none"> <li>• Schools may provide, for the benefit of the student, information about available non-T1/T2 financial accounts that have deposit insurance under 12 CFR part 330, or share insurance in accordance with 12 CFR part 745.</li> <li>• An institution that does not offer or use any financial accounts offered under a T1 or T2 arrangement may make direct payments to a student's or parent's existing account, or by check or cash without establishing a selection process.</li> <li>• T2 requirements no longer apply with respect to a student who has an account under a T2 arrangement when the student is no longer enrolled at the institution and there are no pending Title IV disbursements. However, this does not limit the institution's responsibility to comply with the disclosure of monetary and non-monetary consideration and mean and median costs incurred by account holders with respect to students enrolled during the award year for which the institution is reporting. To effectuate this provision, an institution may share information related to title IV recipients' enrollment status with the financial institution or entity that is party to the arrangement.</li> <li>• Student choice selection process and T1/T2 regulations are not applicable to foreign institutions.</li> </ul>
<p>Ensure that the debit, stored-value or ATM card, or other device can be widely used, e.g., the institution may not limit the use of the card or device to particular vendors.</p>	<p>It is NASFAA's understanding that institutions must still ensure that an ATM card can be widely used even though this specific wording does not appear in the new regulation. The requirement that a card be part of a national or regional network, as well as other federal laws, would preclude an institution from limiting use of the card or access device to only particular vendors..</p>
<p>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.</p>	<p><u>T1 and T2 arrangements</u></p> <p>Regarding ownership of financial accounts opened through outreach to an institution's students, accounts offered or marketed under these arrangements must meet certain banking law requirements, which would preclude an institution from making claims against an account without written permission.</p>