

# NASFAA's "Off the Cuff" Podcast – Episode 366 Transcript

OTC AskRegs Experts: Understanding Comment Code 352 and Best Practices to Prevent Student Aid Fraud

Speaker 1:

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Maria Carrasco:

Hello and welcome to another episode of Off the Cuff. I'm Maria Carrasco with our communications team.

Jill Desjean:

I'm Jill Desjean with NASFAA's policy team.

Sarah Austin:

And I'm Sarah Austin, also with the policy team.

Maria Carrasco:

Thank you, Jill and Sarah, for joining us today for another episode. Jill, I know we're seeing some activity on listservs and communities about Comment Code 352 showing up on '26, '27 ICERs. Can you fill us in?

Jill Desjean:

Yeah. Yeah. This is one of those funny... Like, I'm sure if you're in a financial aid office, you're like, "This is not news." But anyone who's been in a financial aid office has probably noticed a pretty large number of reprocessed ICERs started arriving in eight offices over the past couple days, week or so, with this Comment Code 352, and an associated C-Flag. So Comment Code 352, has always been around, but it's been repurposed, renamed, whatever it might be, to indicate that the loan limit exception flag in NSLDS has changed.

So this is a new indicator that has been added to NSLDS to let financial aid administrators know whether the student qualifies for the interim exception to the new loan limits, or does not qualify for those. Because of course, whether you qualify for the interim exception determines whether you are up against your annual aggregate. And in some cases, lifetime borrowing limits. So we've been getting a lot of questions about what exactly schools are supposed to be doing about this C-Flag. And a spoiler alert, unfortunately, we're not totally sure. So if you're listening to find out, "What do I do about this C Code?" This isn't the place you want to be. But if you want to learn more about the background of it, I can share what we do know, and hopefully we'll have some updates soon.

Maria Carrasco:

Thanks, Jill. So is this all related to Ed updating its systems last month, related to all the OB3 changes that are set to take place a few weeks from now?

Jill Desjean:

Yes. Yes. It is very much related to those. You might remember, back in April, the department launched several systems updates to implement all these loan limit changes, including this new field. And this field exists both in COD and NSLDS for the loan limit exception status. So the value for this field basically determines which annual and [inaudible 00:02:54] loan limits apply to the student. And the way this was designed by everyone at the Department of Education, all these people who are in charge of the different systems had to come up with a process flow. And they decided that COD was going to identify the loan limit exception eligibility. That's going to be the system of record, and feed that information on a regular basis to NSLDS.

So the value in COD and NSLDS for this field should always match. There is, of course, a lag because they are two distinct systems, so one is to talk to the other. But my understanding is that COD feeds information to NSLDS daily, or probably nightly. I don't know. So there could be a one-day lag, but typically speaking, the information is supposed to match up. But COD is the driver. It's that system of record, and NSLDS gets that information from COD. The new field's initial value in COD was blank. They have this field, and they sort of launch it, they think this is a space to be filled. And then they have to go and actually follow this process to identify students who could qualify for the limited exception field.

And the way they decided they would identify people was, anyone who has a loan for '25, '26 with an award end date on or after April 4th of 2026. I don't know why they picked that date, but that was the way that they decided. They said, "If those conditions are met, we're going to flag you as eligible for the limited exception. If those conditions are not met, we will flag you as not eligible for the limited exception."

COD then transferred these values to NSLDS just recently, in the past couple of weeks. NSLDS then has its regular post-screening process that they run every week, which is just a regular system process that they run, that identifies whether anything in the student's financial aid history in NSLDS has changed. That needs to be communicated to schools via a new ICER transaction, or a system-generated ICER transaction. So that loan limit exception flag did change. It was blank, it changed to yes, or I guess in some cases, no. COD populated, so they must have populated true, false, or yes, no. And that triggered this system-generated ICER with Comment Code 352 and a C-Flag telling schools, "Hey, this flag changed."

Maria Carrasco:

Got it. And how many ICERs were affected by this?

Jill Desjean:

I don't have any numbers, but it's really essentially anybody with a '25, '26 loan, and a '26, '27 FAFSA. Yeah, that's pretty much it. Those are all the people that COD changed the exception flag from blank to either yes or no. And that might not make immediate sense when you think about the criteria to qualify for the interim exception, because there's more than just, "Did you have a loan in '25, '26?" But from COD's perspective, I'm talking about COD like it's a person, but this little computer guy named COD, it only knows what it knows. It does have incomplete information, and so the rules, as we know, for the loan limit exception are that the student is enrolled in the same program of study as of June 30, 2026. That they will be enrolled in after July 1, 2026, and that they have a loan dispersed before July 1 of 2026.

Well, COD doesn't know all that. They know you had a loan in '25, '26. So they know that you were enrolled, because you got a loan, and they know you had a loan dispersed technically up to today, but they were using the April 4th cutoff date. But there's just a lot that COD doesn't know, and cannot know right now, whether that student is still going to be enrolled as of June 30th. That is a criteria for the limited exception. COD can't predict the future. Nobody knows that. The financial aid office knows you're enrolled today, they don't know what you're doing tomorrow. You might as a student not know whether you're going to be enrolled as of June 30th. Things happen. So it's based on the best information that's available right now.

COD doesn't know whether the student is going to continue to be enrolled in the same program of study for '26, '27. It knows you got a loan in '25, '26, but what are your plans for next year? Again, financial aid office doesn't know. The student might not know. They might be in the process of, maybe they filled out their FAFSA and they said, "I'm going to send it to my current school, but I'm also thinking about transferring. And so I'm going to send it to five other schools as well so I'm set up to go someplace else if I decide to do that."

Even in the financial aid office, we're making a lot of assumptions. We're awarding aid right now based on things that we think will be true for next year. And as we get new information, we might be moving students from yes eligible for limited exception, to no, or the other way. COD is doing the same thing on their end as they get new information. And so that's all to say that what COD is feeding NSLDS is based on the best information that it has right now. And just remember, this Comment Code 352 isn't saying something's necessarily wrong, it's just saying something changed. These could have all changed and all be correct, but they're generating these C-Flags, which is what's really the big issue from my perspective, is just kind of like, "Why is this not just information? Why does this require resolution?"

Ultimately, the school is responsible for determining limited exception eligibility. COD is kind of doing this nice thing where they're trying to automatically flag people so that most of them are reflected correctly in the department systems, but ultimately, it falls on the financial aid office. And so they just really need to know when they're dispersing the aid, whether the student qualifies for the limited exception or not, and whether it's correct in the system. They don't necessarily know that it changed, because the change doesn't tell you whether it's right or wrong. I'm not sure how helpful it is to get a C code. I understand why it might be interesting to know that something changed, but as far as requiring school action, still kind of confused there.

Maria Carrasco:

So what should schools be doing with the information they have right now?

Jill Desjean:

Yeah. So as promised, I don't have any answers. I did warn you upfront. I don't know. Somebody knows, I suppose, or they're figuring it out. The FAFSA Specifications Guide, which we usually lean on to see how to resolve C-Flags just says for the C-Flag, they don't know yet. It'll be updated later. So that's the best we know. We have been in conversations with FSA, Federal Student Aid. They told us they'll be updating one of their earlier electronic announcements that was related to all these changes with one of those fun blue notes that goes at the top with a new date that kind of says like, "Hey, here's some new information about this."

And they have said that they will provide some information about how to resolve these right now. So, sorry that I don't have a resolution. Like I said, I warned you all at the beginning, but hopefully at least understanding the process full, like, where do these come from? Just will help you make sense of what

you're seeing, and what this influx of ICER transactions means, and more to come. Read Today's News, listen to the podcast, follow us on socials and find out. When we know, you'll know.

Maria Carrasco:

Thanks, Jill, for helping us trying to make sense of this changing OB3 landscape. I'm sure our listeners appreciate it. Switching gears, Sarah, we recently saw a new electronic announcement from the department about preventing fraud in student aid. Could you go over this EA with us?

Sarah Austin:

Yeah, of course. I think it's funny, we always give Jill the very weedy, very technical, complicated topic, and then I'm like, "Here's just some general information." I always get the easy stuff. Sorry, Jill. But yes, my topic is a little bit less complicated. So about a week ago, the department put out an electronic announcement that detailed some best practices for schools, for their own, school's own fraud detection and prevention process. And it lists several best practices, and then with each of those, provides actual examples of schools that are already doing these best practices, they've already come up with some pretty good processes that their schools are doing. And so it kind of gives real world examples of each of the suggestions that the department is providing.

Maria Carrasco:

So how does this play into the new real-time fraud detection that Ed rolled out last month?

Sarah Austin:

Yeah. So while this is kind of separate, it's definitely still related. So back in April, Federal Student Aid rolled out a new real-time fraud detection process for the FAFSA, where applicants who... When they're completing their FAFSA, they may have certain risk indicators that basically could potentially determine that they are at high risk of fraud, and need to complete some sort of additional confirmation of their identity at the time that they're completing the FAFSA. So it's real-time, they get a popup message, they have the opportunity to right then and there... In most cases, I'll say. They have the opportunity to confirm their identity via a live video. But if not, if they don't do that in real-time, then they do still need to confirm their identity with the financial aid office before actually receiving Title IV funds. So that's the new automated real-time detection process.

And with this process, schools do have some requirements that they need to do. So either completing verification if the student gets selected for actual verification, like V4, V5, or completing that other identity confirmation process with the students who maybe weren't selected for verification, but still had this high risk indicator flag on their FAFSA. And if they do not, like I said, complete the verification of their identity during the FAFSA, they need to do that with the financial aid office. So the school also has to, of course, have some responsibility in that, making sure that that's completed before dispersing funds.

Now this new EA is really separate from that. It's instead best practices, not actual... Any new rules, or regulations, or anything, it's best practices that schools could use to come up with their own institutional policies or processes for their campus related to fraud prevention. And I know that in several places, I've heard the department saying that they get asked by schools for help or advice on fraud detection, what they should be doing on their campuses to prevent fraud, things like that. And so I think this is probably in response to that.

We know they also have a new flag in that real-time fraud detection process that even shows people that maybe have some fraud risk indicators, but not to the level where they need to confirm identity. So

that may help schools identify students they want to maybe watch or check in with in terms of if something might be fraud. So I think this is really in response to schools wanting to beef up their own processes, even if it's beyond what is required of them. And so the department put together this EA that gives them some best practices. And in talking with schools, and in hearing things through communities, on Slack, it sounds like some schools really do have some very robust fraud prevention policies on their campuses. So I'm assuming some of those schools are the ones that are now highlighted in this EA as having some best practices to follow.

Maria Carrasco:

Could you walk us through some of those best practices?

Sarah Austin:

Yes. I definitely won't go through all of them, because I think there was about 10. And then, again, within each one, there's several examples of them. But overall, I'd say there was some best practices that are very specific. So things like use account holds aggressively when risk indicators appear. That's one of the best practices. And it basically is saying that institutions might want to create systems that are automatically triggering holds on a student account when certain indicators are present.

So those indicators could be a variety of things. It could be suspicious identity documents, unusual address changes, conflicting FAFSA information, if you just got information from another office on campus. But basically, having some way to kind of automatically put holds on student accounts within your system. And the examples they provided, these holds could be preventing registration, preventing disbursement of financial aid, preventing credit balance refunds, kind of a variety of things. But basically, having some sort of automatic trigger if there's any sort of risk indicator of fraud in your systems.

So that's a pretty specific one. There's also one about checking attendance or academic engagement before issuing credit balance refunds. And they mentioned this is particularly important for online or short-term programs. So kind of coming up with a way that you can track actual academic activity, or real attendance of the students before giving them a credit balance. And this one kind of goes a little bit further than just offering what some schools are already doing, and Federal Student Aid actually suggests three controls related to this. One of them having some sort of timely instructor reporting of no shows or lack of academic activity, having some sort of a review process of students who maybe have some sort of suspicious indicator, and then also having coordination between financial aid office and then whoever's just doing the disbursements, so that credit balance refunds are not going out automatically when there are some sort of risk indicators or concerns about the student's academic attendance, or their engagement in the actual coursework.

So those are some specific ones. There's definitely more general best practices as well. For example, there's one that just said treat conflicting information as a campus-wide responsibility, which I feel like that's always been the case. That's not specific to fraud prevention. I know in financial aid offices we have been saying for years and years, "Conflicting information is not a financial aid thing. It is a total campus responsibility across all offices." Of course, financial aid administrators have to consider conflicting information even from other offices. So this one's not really new. It's been talked about for a long time, but they just kind of reiterate that here, and talk about that... Especially with fraud prevention, you need to have some sort of communication channel, or some sort of escalation process where you're sharing information with other offices, like admissions, registrars, student accounts, academic affairs, and so on.

So that was more of a reminder than anything, I'd say. Another reminder they provided in there was that you need to be referring any sort of suspected fraud to the Department's Office of Inspector

General, or OIG. This again, nothing new, and is not different now that there's this new real-time fraud detection process. The same rules apply that you need to be referring cases of suspected fraud to that OIG office. The reminder here that I think is important, that the department put in the electronic announcement, is that you as a financial aid administrator are not responsible for proving fraud. You don't have to know for sure that something is fraudulent before referring it to OIG. It just is cases of suspected fraud.

So they don't want people to be worried or concerned about reporting something that turns out not to be an issue. It's not your responsibility to prove if it's actually fraudulent or not. That's their responsibility to do the actual investigation. And they did say in there that OIG will reach back out to the school if they have a need for more information. I know a lot of times we hear from schools that they report things to OIG, and then never hear, and they don't know what happened. So I'd be interested to know, especially now with reminding everyone that they need to do this, of course just the overall emphasis we're putting on fraud prevention, if maybe we ever hear some more details about what that actual process is, because I know our members ask us, and we're like, "We don't know either. We don't know what happens once it gets referred on."

So just a reminder that you should be referring those cases, but you are not responsible for actually determining fraud or not. Your responsibility is to refer it to OIG. So like I said, I'm not going to go through all of them, there are more listed in that electronic announcement. I know NASFAA, we put together an article that went out shortly after the EA, so sometime in the last week, we can link it in our show notes, but kind of summarizing each of the best practices as well.

Maria Carrasco:

Awesome. Thanks. And was there anything else you wanted to mention about the EA?

Sarah Austin:

The only other thing I would say is just that, I want to reiterate, these are best practices. So we know that some schools have been asking for help in their fraud prevention plans, but this is truly just a best practice list. I know that it's hard to read this list and be like, "Oh my gosh, there's so much stuff we need to do." When obviously you're doing a lot already. I'm sure offices are at max capacity, then they see this list of a million more things they need to do. I'd say some of these things you're probably doing already and you just don't even realize it, but I just wanted to reiterate, it is a list of best practices. Of course, it's important to prevent fraud, but know that this is a list of best practices only.

The department even put in there a line that says that these are provided solely as illustrative examples of practices that institutions may consider when developing or implementing their fraud prevention efforts. So just remember that as you're looking through and potentially getting overwhelmed at all the things you need to do. But read the full electronic announcement for all the details there, so you can see what else they included that I didn't touch on today.

Maria Carrasco:

Thanks, Sarah. And yes, please check our show notes for resources on the student aid fraud EA, and also the Comment Code 352. And thanks Jill and Sarah for joining us for another episode. I think this is our last episode until the conference, with Jill and Sarah. We will be back next week with Melanie and Karen, I believe. Yeah, thanks so much for listening to Off the Cub.