

NASFAA's "Off the Cuff" Podcast – Episode 374 Transcript

Sorting Through Title IV Credit Balances

Hugh Ferguson:

Hey, everyone. Welcome back to another episode of "Off the Cuff." I'm Hugh Ferguson with our communications team.

David Tolman:

And I'm David Tolman with training and regulatory assistance.

Hugh Ferguson:

Welcome back, David. It's been a little while since we've had you on, but I know you've got some important information for us to go over today.

David Tolman:

Yeah. Yeah. I had a nice break over the summer. Always a lot to do and now I can't believe it, it's been four months since I've done one of these. But my goodness, a lot has happened in those last four months.

Hugh Ferguson:

Yeah, a lot has happened and this time of year tends to just fly by at least for me. And it's been a busy couple of weeks in the news developments that we've been going over in TN. But yeah, good to have you back on to talk about some just important information that sometimes might not be at the forefront of everyone's mind, but always good to dive into some of the weedy issues of Title IV.

David Tolman:

Yeah. I mean, let's set aside schedule of reductions and estimated time to completion and all the stuff that's gotten all the attention. I mean, one thing I like to highlight when I'm on are items that might be misunderstood a little bit, common things. Maybe it's been done this way for decades at my school. It may not have changed, but it's just not... People think they understand. We've got one today that's just going to be a simple, let's clear this up, it'll be simple and I think people understand by the end of the episode.

Hugh Ferguson:

That's great. I love when things are simple and wish they would stay that way. But yeah, so we're going to talk a little bit about Title IV credit balance.

David Tolman:

Yeah. Title IV credit balance. So what it is, for those who like digging into the regulations, it's 668.164H, and we can put a link on that for those who like to follow along with the regulations. If not, then you just don't need to click on it. But what it is, is when the amount of Title IV funds that are credited to a student's ledger account for a certain payment period exceeds the total amount of allowable charges for that payment period.

Now we're going to go through some examples, but it's important to look at totals, like the total allowable institutional charges for the payment period, the total Title IV aid disbursed for the payment period, and ignore the timing of the disbursements or the order in which funds apply toward payment of the charges. As long as you're looking at totals and all those totals reference the same payment period, and for those standard term schools might not have the concept of payment period, we're talking like semesters or quarters if you're at a standard term school for the payment period.

Those who don't operate on that system probably know what a payment period is, but it's important to know, does a Title IV credit balance exist, because that's what kicks off the deadlines and the requirements for delivering those Title IV credit balance to the student generally. So let's just go right into one example. I'm going to keep the dollar amounts not realistic. I'm going to just keep them in whole numbers. When we disburse aid, things rarely end in two zeros, but we'll look at the payment period being fall semester. Right? Charges are those for the fall semester, aid that's disbursed, it's for the fall semester.

So all the eligible charges, tuition, \$1,000, that's what the student's been charged for the payment period or the fall semester. It's eligible charges. And a Pell that's going to disburse or has disbursed is \$1,500. So in that example, does a Title IV credit balance exist? And yes, simple answers. Easiest example, the Title IV aid credited to the student's account for the payment period, \$1,500. It exceeds the total amount of allowable charges for the payment period or tuition in this case, \$1,000. So a Title IV credit balance exists in the amount of 500. All right. So, Hugh, I'm going to give another example. Do you want to answer this next one after I go through it?

Hugh Ferguson:

Sure.

David Tolman:

Best guess?

Hugh Ferguson:

I will try my best.

David Tolman:

Okay. So we're going to change it up a little bit. Tuition is still \$1,000, but the Pell is now 500, reduced from the 1,500 in the first example. The Pell is now 500, but there's a scholarship for \$1,000. So the total aid now is \$1,500. So the same total of aid, the same institutional charges, does a Title IV credit balance exist?

Hugh Ferguson:

David, does the timing of the disbursement matter?

David Tolman:

Well, to reference something that we were talking about before we started taping, all the information is included in the task.

Hugh Ferguson:

So this is very-

David Tolman:

Bonus points. Yes.

Hugh Ferguson:

Yeah, this is where for any fans of this show called TaskMaster, I think they have a few international versions of it, but if I was a contestant on that show, I would be scurrying around and fervently pulling the envelope apart to try and see if there were any more details in there.

David Tolman:

Looking under the desk or behind the desk. So, bonus points if any of you are listening and you caught that TaskMaster reference. So really, all the information that you need is in that description. So in short, the timing doesn't matter. So I'll repeat it again. Tuition is 1,000, Pell is 500, scholarship is 1,000. Does a Title IV credit balance exist?

Hugh Ferguson:

So I'm going to guess no.

David Tolman:

And that is correct. No Title IV credit balance exists. And I know some people, this is why we're talking about it today, but it doesn't matter whether the scholarship was the first to disburse or how soon it disbursed before the Pell disbursed, if it went first. When determining whether a Title IV credit balance exists, ignore the non-Title IV aid. So the Title IV aid the student has in this example is the Pell. And the scholarship, it doesn't matter if it's from the school, from the state, from an outside organization. It's just not important. You ignore it. You're looking only at Title IV aid and institutional charges. So you were right. The formula is \$500 in Pell or you have a comparison. 500 in Pell is less than the \$1,000 in tuition. So no Title IV balance exists. You ignore the \$1,000 in scholarships.

Hugh Ferguson:

Got it. So if the tuition was paid by the scholarship in full in September, the student's account balance would be zero. And if the \$500 Pell disbursed one month later, the student's account would show a \$500 balance. But you're saying that's not a Title IV credit balance.

David Tolman:

Yeah, that's right. A student's account balance does not mean it is a Title IV credit balance. And even if you could easily look at that \$500 and think that that \$500 balance was created because the Pell disbursed, that's true in the time the scholarship went in, paid all the tuition a month earlier, and now the Pell is disbursing and the student has a \$500 balance. You might think, "Oh, that's a Pell balance. That's a Title IV credit balance." But it's not.

And that confusion is why we are discussing Title IV credit balances today. And it's going to be easier to think through this if you remember to exclude any non-Title IV aid, include only Title IV aid that is already disbursed and not to look at the dates and the timing. So \$500 in Pell is less than the \$1,000 in tuition. Ignore the scholarship. There's not a Title IV credit balance.

Hugh Ferguson:

Got it. And so that's important because if it's not a Title IV credit balance, then regulations don't apply?

David Tolman:

Yeah, that's correct. In that example, that \$500, it's like, "Oh, we've got a refund check. We've got to get it out to that student in 14 days," which we'll talk about deadlines soon. But yeah, it doesn't apply. So let's look at another example. Tuition is \$1,000. Let's say this is spring now, spring semester. Tuition for the spring, \$1,000. That's the charge on the student's account. But also on the student's account is a \$5,000 charge for a summer experience.

And let's say it's not study abroad. There's no credit associated with the summer experience. It might just be a group of students that are touring together. It's not to do with their degree program. It's collected by the institution because they're sponsoring it, but it's not an allowable institutional charge. So in addition, so this is for the upcoming summer. So on their account right now, the charge for \$1,000 for tuition, 5,000 for the summer experience, the Pell \$500, and let's add a direct loan of \$3,000.

So the student has \$6,000 total charges on the account. The Title IV aid disbursed is \$3,500. Now looking at the student's account, it shows that they still owe a balance to the institution. Does a Title IV credit balance exist? What do you think, Hugh, on this one?

Hugh Ferguson:

So in this case, yes.

David Tolman:

And yeah, yes is right. So even though the student still looks at the institution and at first glance, if I'm helping a student in answering their questions and I look at their account balance and see that it's negative, they still owe some money, I might say, "Oh, yeah, you don't have one." But they do because you're looking only at allowable institutional charges, which is the 1,000 in tuition and then comparing that to the Title IV aid. So we're looking at \$1,000 in the tuition. That's the only allowable charge that's on their account. Compare that \$1,000 to the \$500 Pell and the \$3,000 direct loan. So there is actually a \$2,500 Title IV credit balance.

So hopefully the school didn't apply the Pell and direct loan towards payment of the summer experience. That would not be allowed, but the student still owes the school money. But even though they owe the school money on their student account, it still does have a Title IV credit balance. Ignore non-Title IV aid, but also ignore non-allowable charges. In this example, there's not any Title IV aid to ignore, but there are non-allowable charges to ignore. Okay. Should we go through one more?

Hugh Ferguson:

Yeah. Let's go ahead.

David Tolman:

All right. Just to make sure we've got it. So let's go back. \$1,000 tuition, \$500 Pell for the payment period. Right? But the student is slow to apply and the parent, to avoid late charges and so forth, early on in the semester paid the tuition charge. They wrote out the check for \$1,000. So several months later, still in the payment period, the \$500 Pell applied. Does a Title IV credit balance exist when that Pell finally applies?

Hugh Ferguson:

In this case, I'd say no.

David Tolman:

All right. And no is right. It's similar to the example with the scholarship. So even though it looks like the student is eligible for a \$500 refund check, because they've got a \$500 over, and the \$500 is comprised of Pell funds, it's not a Title IV credit balance. You look at what was the tuition charged for the payment period? \$1,000. It doesn't matter that several months earlier, the parent paid that tuition charge and basically wiped it out. What the original institutional charge was for the payment period is \$1,000. The Pell, the only Title IV aid is \$500. So the total Title IV aid of \$500 is less than the tuition of \$1,000. So even though in looking at their account, they've got \$500 and that money is not owed to the institution, it's owed to the student. It's not a Title IV credit balance. No refund exists.

Hugh Ferguson:

Got it. So what are the regulations that must be followed when a Title IV credit balance does exist?

David Tolman:

Yeah. And so that's why it's important to distinguish these to know. And the biggest one is 14 days. So the timeline on delivering those funds to the student is pay them to the student as soon as possible, but no later than 14 days either after the balance occurred, if the credit balance occurred after the first day of class of that payment period. Now, some institutions disburse early. They do the early disbursements, which you can do up to 10 days before the start of the payment period. And if that was the case, you have 14 days not from that first disbursement, but 14 days after the first day of class, if the credit balance occurred on or before the first day of class of that payment period.

Again, it only applies to institutions that disburse early, which you can do up to 10 days, but the 14 days doesn't start from that early disbursement. It starts from the first day of class. And it is calendar days, not business days. And it's important to know that if you are disbursing or a school that's not disbursing early, but maybe holding disbursements, and they might do this for a lot of reasons, but they could have disbursed early, but they didn't, there is a provision that's related to credit balances. And that is this provision for books, course materials, supplies and equipment.

So the school has to provide a way for a student to obtain or purchase books, materials, supplies, and equipment, even if Title IV hasn't disbursed if these two conditions are met. So the disbursement could have occurred 10 days prior to the beginning of the payment period, but for some reason the school did not do it. Maybe it's by policy, but it could have. The student otherwise met all the other eligibility requirements. They got their FAFSA and everything is ready to go. Verification was done if it was required and so on. And then, here's the tie in to our topic, if the student would have had a Title IV credit balance, had those funds disbursed, then you need to provide this option to the students that they can still obtain the materials, because now the school is holding these funds for whatever reason from disbursing.

But a Title IV credit balance could have occurred, the student could have had some money, but you're not comparing dollar to dollar like, "Well, they would have had a balance of \$500 had we made those early disbursements. So we'll allow them up to \$500." That's not what the regulation says. It's if they had a Title IV credit balance at all, then they need to be presented with this option. And it is an option. The student can say, "No, I don't want to. I don't want to take that option."

Hugh Ferguson:

So what does the school have to do in order to meet the 14-day deadline?

David Tolman:

Okay. There's still some old language out there. It's when the school mails the check or notifies the student that the check is available and can be picked up. Kudos to anybody who's still working in that profession and remembers when those things were regularly done, big days and everyone was coming to campus to pick up their remainder check. But it's now also in addition to those things when you initiate the EFT process as well, which is probably the more common one.

So again, this is not a complicated area. You've got 14 days from the date of the credit balance, Title IV credit balance, and you meet that by issuing a credit or issuing the EFT. But there are some cases when the student might authorize to hold a Title IV credit balance. So we'll just talk about those, or a parent, if it's a parent plus loan. So generally the student or parent can provide the school with written authorization to hold those on their account. And there might be other reasons for doing this. We want to be better able to manage funds or the students got some rent payments that are due later and so they're like, "I don't trust myself, so don't disburse that money to me yet or hold it, what's disbursed."

If that is done, and we're not going to go into all the requirements as to what constitutes a written authorization, but as far as the cash management piece on Title IV credit balance, if that written authorization has been provided, the school still needs to pay the student or the parent plus borrower any funds the student or the school's holding from loans by the end of the loan period. And the loan period could be single payment period loan or it could be multiple payment periods, whatever that last loan period is or the last payment period in the loan period for direct loans. Any other funds, they have to provide that. Written authorization basically expires by the end of the last payment period in the award year.

Hugh Ferguson:

Okay. So what happens under a scenario where let's say the funds are never picked up?

David Tolman:

Yeah. So there's a provision on undeliverable Title IV credit balances and the deadline on this to keep in mind is 240 days, but that doesn't mean that it just sits there for 240 days. Certainly, if you mailed a check and it hasn't been cashed, then you do have 240 days. But what is more likely to happen is maybe the check was sent and returned to the institution by the post office. It was undeliverable or there was an attempt to deliver funds by EFT, but there's some issue and the EFT was rejected.

So the institution then has the option to make additional attempts to deliver those funds. But in this case, you have no longer than 45 days after the funds were returned or rejected. Okay, 45 days. Now the institution can say, okay, let's try this again and there's another 45 day cycle. You can continue to do that if you want up to that same limit of 240 days that would also apply to an uncashed check. So 45-day, your cycle of attempts within a whole span of 240 days after it first issued that check or the EFT.

And then the last thing I want to point out is if it's never, especially in the case of a stale-dating check, a lot of states have escheating rules. It's called escheating, which means that if it's a check that's not picked up or uncashed, then those funds go to the state. But federal law trumps state law. So the funds have to be returned back to the program within that 240 or 45-day cycle windows. You cannot allow your normal processes of allowing funds to escheat to the state. So that is kind of our review of a dry topic. Hasn't changed much in years, but hopefully some people have learned something new as we've gone through it.

Hugh Ferguson:

Awesome. That all sounds great, David. And yeah, it feels like it's not very often that things stay static and haven't changed significantly, especially after these last couple of years of developments.

David Tolman:

Yeah. And people, their attention is focused elsewhere. It's like, "Oh, we need to comply with these new requirements," forgetting maybe we should review the things that we've been doing for a long time and make sure that they're all right.

Hugh Ferguson:

For sure. Well, thank you so much, David, for all that information. Hope it was helpful for all our members and listeners out there. And yeah, thanks for tuning into another episode of "Off the Cuff," and we will be back with another episode real soon.