

Overview of Overpayments and Overawards

Instructor's Notes

Time Estimate:

Lecture 25 minutes

Exercise 20 minutes

Total Time: 45 minutes

By the end of this session, you will be able to :

- *describe the differences between an overpayment and an overaward and*
- *identify circumstances under which overpayments and overawards might occur.*

INTRODUCTION

The purpose of this session is to introduce the important concepts of overpayments and overawards and to explain how they might occur in Title IV programs and what the results are.

- The consequences for schools are straightforward. Simply stated, schools incur financial liability when they deal with overpayments and overawards improperly.
- For this reason, we are presenting an overview of the topic now, while the Presidents/CEOs are still here.
- The technical discussions about how to correct overpayments and overawards appear later, in Sessions 20 and 26.

WORKING DEFINITIONS

We'll begin this session with an introduction to the terms overpayment and overaward.

In general, **overpayments** are aid funds *disbursed* to a student that are in excess of the student's need. They must be returned to the appropriate federal aid program.

Overpayments

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- For example, in the Federal Pell Grant Program, various factors might cause the amount paid to a student to be greater than the amount the student is entitled to receive.
- The excess, called an overpayment, must be returned to the school's Pell account.
- Overpayments can also occur in the campus-based programs.
- Overpayments do not occur in the Direct Loan Program or FFEL Program because of specific program rules, which will be discussed in detail in Session 26.

In general, **overawards** are financial aid awards *determined* by the school, but ***not yet disbursed***, that are in excess of the student's need.

Overawards

- Overawards apply to campus-based awards, which are directly determined by the school.
- Overawards also apply to Direct Loans and FFELs, where the school certifies the amount for which the student is eligible.

It's important to know that a Pell Grant is the foundation of student aid, as it is the first source of aid calculated. Therefore, a Pell Grant is **not** adjusted to take into account other aid that may exceed the student's need. In other words, you wouldn't adjust a Pell to correct an **overaward** situation; instead, you would adjust other sources of aid.

The chart on page 2 of your Workbook shows to which programs overpayments and overawards can apply.
[IG, pg. 9]

PW 2

» Allow participants 1 minute to look over the chart.

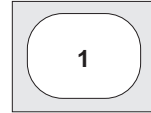
For the remainder of this session, we'll talk about how overpayments and overawards occur. Let's start with overpayments.

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OVERPAYMENTS

How Overpayments Occur

A Pell Grant overpayment can occur for a variety of reasons. There are four common overpayment situations. (OH 1)



1. **Student errors**, such as failing to report the spouse's income on the application, may occur.
2. **School errors**, for instance, occur when the school incorrectly calculates a student's award or pays a student who is not making satisfactory progress.
3. **Required recalculations**, such as when a student never begins attending class, does not begin attending all of his or her classes, or withdraws from school after receiving a disbursement for living expenses can also cause an overpayment situation.
4. Finally, **optional payments**, such as when the school makes an interim disbursement to a student selected for verification, but the student never completes verification, can result in overpayment.

No matter the reason, the student owes the amount of the overpayment, which the school must make an effort to collect.

Who is Responsible

If the overpayment is the school's fault:

- The school must reimburse the Pell Grant or campus-based accounts, as appropriate, and within regulatory time frames. In the case of the campus-based programs, this also means restoring any administrative cost allowance claimed on the amount of the overpayment.

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- If the student does not repay the overpayment, the school must make the payment from its own funds.

If the overpayment is the student's fault:

- The school must make no further Title IV payments to the student until the overpayment amount is repaid, or until the student makes satisfactory repayment arrangements with the school.
- The school must make a reasonable effort to contact the student and collect the overpayment.
- If the school is unable to recover or eliminate an overpayment, the school must report the information on financial aid transcripts requested by other schools and to the National Student Loan Data System (NSLDS).
- ED then assumes collection responsibility and will notify the school by letter of collection results.

Note to Instructor:

The NSLDS screens on which to report overpayments should be available during the 1997-98 award year.

Are there any questions?

Let's do a quick exercise to test your understanding of how overpayments occur. Please turn to page 3 in your Workbook and answer the questions in Exercise 1.

- » Give participants 3 minutes to complete the exercise before going over the answers.

PW 3**Exercise 1—Identifying Pell Overpayment Situations**

Determine whether the overpayment situation is caused by a school error, student error, required recalculation, or optional payment.

- Q1: Rebecca has been selected for verification. She has submitted all the required documents except her verification worksheet. Rebecca received a Pell Grant for the fall semester.**

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- A1: Optional payment.** The school made a first payment to the student before it received final documentation to verify the information provided on Rebecca's FAFSA.
- Q2: Janis lives with her mother and stepfather.** She only listed her mother's income information on the FAFSA. Janis was awarded the maximum Pell Grant.
- A2: Student error.** When the stepfather's income is included in calculating the Expected Family Contribution (EFC), it may require reducing the student's Pell Grant award.
- Q3: Greater Falls University's satisfactory academic progress (SAP) policy** requires that a student maintain a 2.0 grade point average (GPA) to receive Title IV aid. Lori's GPA at the end of her second year is 1.979. She received a Pell Grant in the fall semester of her third year.
- A3: School error.** The school paid Lori, although she was not making satisfactory academic progress.

CAMPUS-BASED PROGRAM OVERAWARDS

How Campus-Based Overawards Occur

An overaward occurs when campus-based aid, **combined with all other resources**, exceeds a student's need.

You will remember that the student's need is the cost of attendance (COA) **minus** the Expected Family Contribution (EFC).

- However, the student's other resources must be subtracted from the resulting need figure to determine eligibility for campus-based aid. (OH 2)

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- These other resources include aid from other SFA programs, such as a Pell Grant, veterans' educational benefits, and state scholarships.

Now take a look at Exercise 2 on page 4 of your Workbook for an idea of how this works.

» Allow participants 2 minutes to complete the exercise.

Alyssa attends The Management School, where the COA is \$7,500. Her EFC is \$1,000. The Management School provided Alyssa with the following award package.

Pell Grant	\$1,200
FSEOG	400
Federal Perkins Loan	750
Subsidized Stafford Loan	2,625
Management School Merit Award	1,500
	\$6,475

Alyssa then receives a state scholarship for \$600, which makes her EFA \$7,075.

Q1: Does the scholarship create an overaward?

A1: Yes, because Alyssa's total resources exceed her need.

Q2: How much is her overaward?

A2: \$575, because her new EFA + EFC exceeds the COA by \$575. (OH 3)

The point is, you cannot award or disburse campus-based aid if, when combined with all other resources, it exceeds the student's need. To correct an overaward, schools take other matters into account, such as overaward thresholds and certain sources of aid that can replace EFC. We'll deal with these at length in Session 26.

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OVERAWARDS FOR DIRECT LOAN AND FFEL PROGRAMS

Now we'll briefly look at overawards for **loans** in a student award package. You will recall from Session 2 that the Direct Loan and FFEL Programs have both subsidized and unsubsidized loans.

Let's look at the distinction between how subsidized and unsubsidized overawards can occur.

Overawards for Subsidized Loans

For subsidized loans, the student's award package may not exceed need (which is determined by COA - EFC). This is similar to overawards for campus-based programs. (OH 4)

One cause of an overaward is a school error of using the wrong EFC figure when calculating financial need.

Another frequent reason for an overaward is the existence of outside aid that the school was unaware of when certifying the student's eligibility for a loan. If the student's estimated financial assistance increases, the student's federal financial aid eligibility decreases.

Overawards for Unsubsidized Loans

Unsubsidized loans are not awarded on the basis of need; they are awarded on the basis of school cost. This means that EFC is not taken into account to determine need for unsubsidized loans. Unsubsidized loans are awarded using the following formula: (OH 5)

COA - EFA (estimated financial assistance) = eligibility for unsubsidized loan

An overaward occurs when an unsubsidized loan amount exceeds the COA. The total award package may not exceed the COA.

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BACK AT THE OFFICE

Once you return to work, you should obtain and study your office's packaging policy—this will help you anticipate when overawards and overpayments might occur.

What else should you do when you return to your office?

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Where Overpayments and Overawards Might Occur in Title IV Programs		
Program	Overpayment = Funds disbursed to students in excess of need	Overaward = Funds awarded (but not yet disbursed) to students in excess of need
Federal Pell Grant Program	Yes	No
Federal Campus-Based Programs	Yes	Yes
Federal Direct Loan Program	No	Yes
FFEL Program	No	Yes