Session 26 - Campus-Based and Direct Loan/FFEL Overawards and Overpayments

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

- ***identify overpayments and overawards and***
- ***correct and adjust overpayments and overawards in Title IV programs.***

RESOURCES

- *The 1997-98 Federal Student Financial Aid Handbook*, Chapter 5, Chapter 7, and Chapter 10
- *The Verification Guide, 1997-98*, Chapter 5
- *34 CFR Section 668.35(c)*
- *34 CFR Section 673.5*

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NEED TO KNOW

Campus-based Program Overawards:

- $300 overaward threshold allowed if it occurs after campus-based aid has been awarded.

  - ♦ School can't deliberately award campus-based aid in excess of a student's financial need.

- To correct campus-based overawards: (Follow steps until corrected)

  Step 1: Adjust FFEL and Direct unsubsidized loans and PLUS loans

  Step 2: Adjust FFEL and Direct subsidized loans

  Step 3: Recalculate need and, if necessary, adjust other aid (including campus-based)

Campus-based Overpayments:

- To correct, if school's fault, restore to program funds amount of overpayment plus administrative cost allowance claimed on that amount.

- To correct, if student's fault, make no further Title IV payments to student and make reasonable effort to recover funds from student.

  - ♦ Include written notice of amount owed, warn of Title IV ineligibility.

  - ♦ Note overpayment on FATs.

  - ♦ For FSEOG, refer students to ED if can't recover funds and if federal share of overpayment is $25 or more.

NEED TO KNOW (cont'd)

Direct Loan and FFEL Overawards:

- There is no threshold for Direct Loan and FFEL overawards.
  - ♦ Threshold does apply if campus-based funds are present.
- For Direct Loans, see chart on pages 5 and 6 of this Workbook and the Direct Loan Trainee Guide.
- To correct FFEL "potential" overaward **(before the loan proceeds arrive at the school):**
  - ♦ ask lender to cancel or reduce loan amount *or*
  - ♦ adjust institutional or campus-aid first.
- To correct FFEL "actual" overaward **(after loan proceeds arrive at the school):**
  - ♦ return part or all of loan to lender (include written statement explaining reason for return) *or*
  - ♦ request corrected amount from lender.

Procedures for Direct Loan Adjustments

Disbursement Adjustments[1]

A disbursement adjustment is a return of a portion of a disbursement within 120 days of the disbursement date. Events that would create a ***disbursement adjustment*** include:

- A disbursement amount was entered incorrectly and must be corrected.
- A reduction in the student's eligibility results in a downward adjustment to a disbursement. (Note: Schools are not required to make an adjustment if the loan has been disbursed.)
- A refund is due under the Title IV refund policy that is less than the full amount of the disbursement.

Other than to correct a data error, if an originating school adjusts a disbursement downward, it returns the net adjustment amount (the amount received back from the borrower) to its "federal" account. Excess funds must be returned to ED. Standard origination and Option 1 schools return the net adjustment amount to ED. Option 2 schools may use the funds to disburse to another eligible borrower. All schools send disbursement adjustment records reflecting an adjustment to ED. **The borrower is responsible for loan fees and accrued interest only on the total adjusted amount of the disbursement**. **If a borrower returns a portion of a disbursement directly to ED within 120 days of the disbursement date, the borrower must include with the payment a letter that explains that the disbursement should be adjusted. If the borrower includes this letter, the borrower will be responsible only for the loan fees and accrued interest on the adjusted amount of the disbursement. If no letter is included, the borrower will be responsible for the loan fees and accrued interest on the entire disbursement amount.**

[1]Within 120 days of the disbursement date.

Procedures for Direct Loan Cancellations and Payments on a Loan Balance

Disbursement Cancellations[1]

A disbursement cancellation is the return of the total disbursement amount received by the borrower, by either the school or the borrower, within 120 days of the disbursement date. Events that would create a ***disbursement cancellation*** include:

- The school determines that the disbursement should not have been made.
- The borrower requests a cancellation.
- The borrower returns to the school all funds that have been disbursed.
- There is a refund due under the Title IV refund policy that would result in a refund of the total amount disbursed.

An Option 2 school returns cancelled funds to its "federal" account when the school determines or has knowledge that an event listed above has happened. Excess funds are to be returned to ED. Standard origination and Option 1 schools return the net cancellation amount to ED. Option 2 schools may use the funds to disburse to another eligible borrower. All schools send disbursement and cancellation records to the Direct Loan Servicing Center. **ED will cancel a borrower's disbursement if the borrower or the school returns the full amount of a disbursement to ED within 120 days of the disbursement date. The borrower is not responsible for loan fees and accrued interest for a cancelled disbursement.**

Payment of a Loan Balance[2]

A partial or total disbursement returned for any reason, by either the school or the borrower, 121 days or more after the date of the disbursement does not reduce the loan amount borrowed. Rather, the payment is applied to the borrower's account just like any other regular payment. When making a payment, the school or borrower must send a check to ED with the appropriate information needed to apply the amount to the borrower's account. ED, upon receiving the check, applies the payment amount to late charges, collection fees, and outstanding interest before crediting it to the principal balance. **The borrower is responsible for loan fees and accrued interest on the original amount of the loan.**

[1]Within 120 days of the disbursement date.

[2]After the 120-days cancellation / adjustment period.

PRACTICE

Exercise 1 — Campus-Based Overawards

James attends Hilltop College. His need is $8,900. The school has awarded him the following package:

Pell Grant	$2,700
FSEOG	$3,000
Federal Perkins Loan	$2,000
FWS	$1,200
TOTAL	**$8,900**

After the school packaged his aid, James received a $900 scholarship from a youth organization.

1. Does this create an overaward?
2. If so, how much?
3. Assume that the school has recalculated James's need and finds that it is still $8,900. What changes must the school make to address the overaward?

Pell Grant	$ _____
FSEOG	$ _____
Federal Perkins Loan	$ _____
FWS	$ _____
Youth Scholarship	$ _____
TOTAL	**$ _____**

PRACTICE (cont'd)

Exercise 2 — Overaward Threshold

Marilyn's need at the local community college is $4,700. Her award package consists of the following:

Pell Grant	$2,300
FSEOG	$2,000
TOTAL	**$4,300**

Describe the actions the school must take in each of the following scenarios.

1. Marilyn receives a merit scholarship of:

   a. $450

   b. $700

   c. $1,200

   _____

   _____

   _____

   _____

2. Marilyn takes a job after class at a health spa that is owned by a family friend.

   _____

   _____

3. Marilyn asks for an FWS job to make up her remaining need of $400. After she's been on the job for two weeks, she receives a $500 American Legion Award.

   _____

   _____

PRACTICE (cont'd)

Exercise 3 — Overpayment and Overaward Scenarios

For the following scenarios, determine if there is an overpayment or an overaward and describe the school's responsibility. Assume the COA for each student attending Jackson College is $4,000 and that each student's EFC is zero.

1. Joshua plans to attend Jackson College. His subsidized loan for $4,000 is certified, but the loan proceeds have not yet been received by the school. The aid administrator learns that Joshua has just been awarded a full $4,000 scholarship from a foundation. Is this an overaward or an overpayment? What does the school need to do?

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_____

_____

_____

2. Arlene has an aid package for Jackson College as follows:

Pell Grant	$2,000
FSEOG	$1,000
Subsidized Loan	$1,000
TOTAL	**$4,000**

The subsidized loan proceeds have been received by the school, but not yet delivered to Arlene, when she receives a $1,500 civic-club scholarship. What does the school need to do? What will Arlene's new aid package look like?

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_____

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PRACTICE (cont'd)

3. Bruce has an aid package to attend Jackson College as follows:

Pell Grant	$1,000
FSEOG	$1,000
FWS	$1,000
Subsidized Loan	$1,000
TOTAL	**$4,000**

The loan proceeds have been received by the school. The first installment of $500 has been delivered to Bruce when he receives a $700 scholarship. What does the school need to do? What will Bruce's new aid package look like?

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BACK AT THE OFFICE

Back at the office, you should:

- Be sure to have systems and policies in place that identify and address overawards and overpayments as quickly as possible.
- Develop a system for flagging students with overpayments so that they do not receive additional Title IV aid.
- _____
- _____
- _____

ANSWER KEY

Exercise 1 — Campus-Based Overawards

James attends Hilltop College. His need is $8,900. The school has awarded him the following package:

Pell Grant	$2,700
FSEOG	$3,000
Federal Perkins Loan	$2,000
FWS	$1,200
TOTAL	**$8,900**

After the school packaged his aid, James received a $900 scholarship from a youth organization.

1. Does this create an overaward?

   Yes, because James's original package already meets his full need.

2. If so, how much?

   $900, of course.

ANSWER KEY (cont'd)

3. Assume that the school has recalculated James's need and finds that it is still $8,900. What changes must be school make to address the overaward?

   There are a number of alternatives. The important concept here is that the school must adjust the aid from the campus-based programs to eliminate the overaward.

   The answer below represents one acceptable alternative.

Pell Grant	$ 2,700
FSEOG	$ 3,000
Federal Perkins Loan	$ 1,100
FWS	$ 1,200
Youth Scholarship	$ 900
TOTAL	**$ 8,900**

ANSWER KEY (cont'd)

Exercise 2 — Overaward Threshold

Marilyn's need at the local community college is $4,700. Her award package consist the following:

Pell Grant	$2,300
FSEOG	$2,000
TOTAL	**$4,300**

Describe the actions the school must take in each of the following scenarios

1. Marilyn receives a merit scholarship of:

   a. $450

   b. $700

   c. $1,200

   a. The $450 scholarship creates an overaward of $50, so the school does not have to take any action.

   b. Because the $700 scholarship creates a $300 overaward and, therefore, does not go beyond the allowable threshold, the school doesn't have to take any action.

   c. The $1,200 scholarship creates an overaward of $800 [($4,300 + $1,200) - $4,700 = $800]. Therefore, the school must reduce the FSEOG award by $800.

2. Marilyn takes a job after class at a health spa that is owned by a family friend.

   The job is non-need-based, so the school does not have to take any action.

ANSWER KEY (cont'd)

3. Marilyn asks for a FWS job to make up her remaining need of $400. After she's been on the job for two weeks, she receives a $500 American Legion Award.

   It depends on how much she has earned on her FWS job.

   - **If Marilyn has earned $201 or more, then the $500 scholarship creates an overaward beyond the $300 threshold and the school must reduce the FSEOG.**

   - **If Marilyn has earned $200 or less on her FWS job, the overaward is at or below $300. This means the school does not have to take any action.**

Exercise 3 — Overaward and Overpayment Scenarios

For the following scenarios, determine if there is an overpayment or an overaward and describe the school's responsibility. Assume the COA for each student attending Jackson College is $4,000 and that his or her EFC is zero.

1. Joshua plans to attend Jackson College. His subsidized loan for $4,000 is certified, but the loan proceeds have not yet been received by the school. The aid administrator learns that Joshua has just been awarded a full $4,000 scholarship from a foundation. Is this an overaward or an overpayment? What does the school need to do?

   The school must cancel the subsidized loan.

2. Arlene has an aid package for Jackson College as follows:

Pell Grant	$2,000
FSEOG	$1,000
Subsidized Loan	$1,000
TOTAL	**$4,000**

   The subsidized loan proceeds have been received by the school, but not yet delivered to Arlene, when she receives a $1,500 civic-club scholarship. What does the school need to do? What will Arlene's new aid package look like?

   The school must cancel and return the loan and reduce campus-based aid.

Pell Grant	$2,000
Scholarship	$1,500
FSEOG	$ 500
TOTAL	**$4,000**

ANSWER KEY (cont'd)

3. Bruce has an aid package to attend Jackson College as follows:

Pell Grant	$1,000
FSEOG	$1,000
FWS	$1,000
Subsidized Loan	$1,000
TOTAL	**$4,000**

The loan proceeds have been received by the school. The first installment of $500 has been delivered to Bruce when he receives a $700 scholarship. What does the school need to do? What will Bruce's new aid package look like?

The school must cancel his second loan disbursement and reduce the campus-based award.

Pell Grant	$1,000
Scholarship	$ 700
FSEOG or FWS	$1,000
FWS or FSEOG	$ 800
Subsidized Loan	$ 500
TOTAL	**$4,000**