SESSION 26

Campus-Based and Direct Loan/FFEL Overawards and Overpayments

Instructor's Notes

Time Estimate:
Lecture 35 minutes
Exercise 25 minutes
Total Time: 60 minutes

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.***

INTRODUCTION

We'll begin this session with a quick recap of the definitions for overawards and overpayments.

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

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.

CAMPUS-BASED PROGRAM OVERAWARDS

Now let's look at what this means for the campus-based programs. Then, we'll move on to the Direct Loan and Federal Family Education Loan (FFEL) Programs.

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). (COA - EFC = Need.)

Instructor's Notes

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

You cannot award or disburse campus-based aid if, when combined with all other resources, it exceeds the student's need.

- However, schools are allowed an overaward threshold of $300 for campus-based programs.
- Campus-based aid is the only federal financial aid that has an overaward threshold.
- The $300 threshold is **only if** an overaward occurs after campus-based aid has been awarded.
- This threshold does not allow a school to deliberately award campus-based aid in excess of a student's financial need.

Let's look at an example.

The financial need for Beth is $5,200. Beth was awarded a Pell Grant of $2,300, a Federal Supplemental Educational Opportunity Grant (FSEOG) of $1,500, and a Perkins Loan of $600. The amount of aid is less than her financial need, so there is no overaward. (OH 1)

1

Subsequently, Beth was informed she had won a private $1,500 art scholarship. The scholarship is considered an additional resource. (OH 2)

2

The school must reduce Beth's campus-based aid (the FSEOG, Perkins Loan, or both) to prevent an overaward. (OH 3)

3

The Handbook states in Chapter 5, page 5-15, that an overaward occurs if the student receives **additional** resources after he or she has been awarded a financial aid package that causes the package to exceed the student's need.

Instructor's Notes

"Resources" for the campus-based programs are defined in Chapter 5 of the Handbook, on pages 11 and 12.

» Give participants 1 minute to look over the definition and example of resources.

There are two types of resources that need careful handling.

1. One is **need-based employment.** There is a difference between need-based employment, which is considered a resource, and non-need-based employment, which is not considered a resource.

   - Need-based employment is awarded by the school itself or by another entity for the purpose of defraying educational costs of attendance.

   - Non-need-based earnings are reported as income on the next year's Free Application for Federal Student Aid (FAFSA) and are used to calculate the EFC for that award year.

Q: **Joyce attends Burton College. Her need is $4,000. She receives a Pell Grant for $2,200, an FSEOG for $1,500 and Federal Work-Study (FWS) for $1,200. Is this a case of an overaward? (OH 4)**

4

A: **Yes. FWS is need-based employment awarded by the school. It is considered a resource and, therefore, creates an overaward.**

2. Another resource that needs careful handling is veterans' educational benefits.

- Veterans' **educational** benefits are considered resources when determining a student's financial need.

- Veterans' **noneducational** benefits are included in the EFC formulas and, therefore, are not considered a resource.

Instructor's Notes

Q: Bobby also wants to attend Burton College. Bobby's need is $4,500. He receives a Pell Grant for $2,400, an FSEOG for $1,500, and FWS for $600. As a dependent of a veteran he receives $200 monthly (a total of $1,200 for the year) in Dependency and Indemnity Compensation (DIC) benefits. Is this a case of an overaward? (OH 5)

5

A: No. DIC benefits are veterans' noneducational benefits, so they are not treated as a resource; instead, they are included in the EFC formula.

Correcting Campus-Based Overawards

The procedures for correcting overawards are the same for all three campus-based aid programs. However, one additional step is required for the FWS program. We will cover that additional step after we discuss procedures that apply to all three of the programs.

If a campus-based overaward occurs, schools must follow a three-step procedure. (OH 6)

6

Step 1: Begin with Unsubsidized Stafford Loans, Direct Unsubsidized Loans, and/or PLUS Loans.

- If the student financial aid includes one of these non-need-based loans, adjust the loan to reduce or eliminate the overaward. Unsubsidized loans have higher interest rates than subsidized loans, so reducing an unsubsidized loan first benefits the student.
  - ◆ Also, unsubsidized loans or PLUS Loans that are being used to cover need can be shifted over to cover EFC, thereby reducing or eliminating the overaward.

Instructor's Notes

Step 2: Look at Subsidized Stafford Loans and Direct Subsidized Loans.

- If the student's financial aid includes a subsidized Federal Stafford Loan or Direct Subsidized Loan, the school must return to the lender or the federal government any portion of the loan not yet delivered, up to the amount of the overaward.

Step 3: Recalculate Need.

- If, after eliminating (1) any unsubsidized loans and (2) any subsidized loans, the student's total resources still exceed the student's need by more than $300, the school **must recalculate the student's need** to determine whether he or she has increased need that was not anticipated when the school awarded aid to the student. If total resources do not exceed the increased need by more than the $300 overaward threshold, the school is not required to take any further action.
- If the school recalculates the student's need and determines that the total resources still exceed the need by more than the $300 overaward threshold, the school must adjust any aid that it can control.

Please turn to page 7 of your Workbook and complete Exercise 1.

PW 7

» Allow participants 3 minutes to complete the exercise.

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

Instructor's Notes

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

Q: Does this create an overaward?

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

Q: How much of an overaward?

A: $900, of course.

Q: Since James has no Direct Loans or FFELs, the school has skipped to Step 3 and recalculated James's need. It is still $8,900. What changes must the school make to address the overaward?

» Call on two or three participants to answer the question, because 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.

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

As we mentioned earlier, overaward situations involving FWS jobs require an additional step.

To prevent FWS overawards, schools must monitor each student's net income from need-based sources to determine whether the student's need has been met.

Such income is considered a resource.

- Payroll records of FWS and any other need-based employment programs should be monitored.

Instructor's Notes

- If a student's earnings exceed his or her need by more than $300, FWS funds may no longer be used to pay the student.
  - The school may, however, choose to continue to use its own non-need-based funds to pay the student.

Turn to page 8 in your Workbook to do Exercise 2 on overaward thresholds.

PW 8

» Allow participants 5 minutes to complete the exercise.

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

Tell me the actions the school must take in each of the following scenarios.

Q: Marilyn receives a merit scholarship of $450. What must the school do?

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

Q: Marilyn gets a scholarship of $700. What does the school do?

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

Q: What does the school do if the scholarship is for $1,200?

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

Instructor's Notes

Q: What does the school do if Marilyn takes a job after class at a health spa that is owned by a family friend?

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

Q: 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. What does the school do?

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

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

How Campus-Based Overpayments Occur

If the school takes these steps and the student's total disbursement still exceed his or her need by more than the $300 overaward threshold, the amount that exceeds the need by more than $300 is an overpayment. The calculation is shown on the overhead. (OH 7)

7

Overpayment = Total Resources - Need - $300

Correcting Campus-Based Program Overpayments

Correcting campus-based program overpayments is explained in the Handbook in Chapter 5. Let's summarize a few important points. It is similar to correcting Pell Grant overpayments, which we discussed in Session 20.

Instructor's Notes

If the overpayment is the school's fault:

- If the school makes an overpayment because it failed to follow the procedures we just covered, it must restore to its campus-based program funds an amount equal to the overpayment **plus** any administrative cost allowance claimed on that amount.

If the overpayment is the student's fault:

- If the school makes an overpayment that is not its fault, that is, the school followed the procedures we've just discussed, it must make no further Title IV payments to the student until the overpayment amount is repaid.

It must also make a reasonable effort to recover the money from the student. This consists of a written notice to the student to repay the amount of the overpayment, including a notice that failure to repay or make satisfactory repayment arrangements will mean the student is ineligible for any additional Title IV funds in the future.

Until the student repays the overpayment, the school must note on any financial aid transcripts (FATs) generated for that student that the student owes money on an overpayment. The school will also be required to report this information to ED's National Student Loan Data System (NSLDS) so that it appears on any federal output documents the student and other schools might receive.

Note to Instructor:
The NSLDS screens for reporting overpayments should be up some time during the 1997-98 award year.

For FSEOG, schools must take one further action.

- Similar to the Federal Pell Grant Program, schools must refer students who do not repay FSEOG overpayments or make satisfactory repayment arrangements to ED.

- Referral is required only if the federal share of the overpayment is $25 or more.

Note to Instructor:
The referral process is described on pages 63-66 of the 1997-98 *Verification Guide.*

Instructor's Notes

OVERAWARDS OF DIRECT LOAN AND FFEL PROGRAMS

How Direct Loan/FFEL Overawards Occur

PW 4

You will recall from Session 10 that the Direct Loan and FFEL Programs have both subsidized and unsubsidized loans.

Unlike campus-based programs, which have a $300 overaward threshold, there is no overaward threshold for subsidized or unsubsidized loans in a student award package. If a student's award package consists of campus-based aid **and** a Direct Loan or FFEL, however, the $300 award threshold applies.

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.

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

Another frequent reason for a subsidized loan 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

Remember, unsubsidized loans are not awarded on the basis of need; instead, they can be awarded to replace the EFC. However, an unsubsidized loan amount may not exceed the COA.

Instructor's Notes

An unsubsidized overaward occurs when the loan, combined with other estimated financial aid assistance, exceeds the student's cost of attendance.

- For example, if in addition to a $3,000 subsidized loan and a $1,000 unsubsidized loan, a student receives a $500 merit scholarship, the student is overawarded by $500. (OH 8)

8

Correcting Overawards for Direct Loans and FFEL Programs

The procedures for handling overawards for loans under the Direct Loan Program and FFEL Program are different.

Direct Loan schools are able to manage adjustments entirely electronically with ED's servicing contractors. A discussion of Direct Loan procedures can be found in the *1997-98 Direct Loan Trainee Guide*. A chart summarizing the process appears on pages 5 and 6 of your Workbook. [IG, pgs. 16 and 17]

PW 5-6

FFEL school procedures are more complicated, so this discussion focuses mainly on FFEL Program loans.

How you handle a FFEL overaward depends on when the overaward is discovered. (OH 9)

9

One possibility is that the school might become aware of the overaward **before the loan proceeds arrive at the school.** This is sometimes called a "potential overaward."

- In this case, the school can ask the lender to cancel or reduce the award to avoid the overaward.
- Or, the school might choose to adjust the amount of institutional or campus-based aid first—you are not required to adjust the loan first.

A second possibility is that the school might become aware of an overaward **after the loan proceeds arrive at the school.** This is sometimes called an "actual overaward." (OH 10)

10

Instructor's Notes

- If an **actual overaward** occurs, the school no longer has the option of adjusting institutional or campus-based aid first—it must adjust the FFEL first, repaying FFEL funds to the lender if necessary.

If the overaward can be eliminated by reducing or cancelling subsequent loan disbursements, the school may deliver the first disbursement and request that the lender adjust the remaining disbursement(s) to avoid an overaward.

If the student is ineligible for the entire loan disbursement, the school must promptly return all the loan proceeds to the lender.

If the student is ineligible for only part of the disbursement, FFEL schools have two options:

1. The school may return the loan proceeds to the lender and, in the case of proceeds delivered by check, request a new check for the correct amount **or**

2. The school may have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer, obtain the student's authorization to release loan funds.

   - The school then credits the student's school account with the portion for which the student is eligible and returns to the lender the portion for which the student is ineligible.

When returning funds to a lender, the school must provide a written statement explaining why the funds are being returned. There is guidance in Chapter 10 of the Handbook on refunding a portion of the insurance premium to the borrower's account.

There is a third possibility—the school might become aware of an overaward **after all loan proceeds have been delivered to the student.**

Instructor's Notes

Q: In this case, would this be considered an overaward? Why or why not?

A: No, this is no longer considered an overaward or an overpayment because repaying disbursed funds is covered by the student's signed promissory note. (OH 11)

11

No refund or further action is required.

OVERAWARD AND OVERPAYMENT SCENARIOS

In this session and in Sessions 10 and 20, you've learned about overpayments and overawards. The questions in the scenarios for Exercise 3 on pages 9 and 10 of your Workbook focus on what you've learned. Work together with three or four other participants to answer the questions. Note that there may be more than one possible solution to some of the questions. Appoint a spokesperson for your team to answer the questions when we go over the solutions.

PW 9-10

» Allow participants 10 minutes to complete the exercises before going over solutions.

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.

Q: 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?

A: This creates a potential overaward. The school must cancel the subsidized loan.

Instructor's Notes

Q: 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?

» Give a team spokesperson a chance to respond.

A: The school must cancel and return the loan and reduce Arlene's campus-based aid.

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

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

Pell Grant	**$1,000**
FSEOG	**$1,000**
FWS	**$1,000**
Subsidized Stafford 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?

Instructor's Notes

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

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

BACK AT THE OFFICE

PW 11

Correcting overawards and overpayments properly and in a timely way will prevent school liability. To protect your school and your students, be sure that you identify and address overawards and overpayments as quickly as possible. Develop a system for flagging students with overpayments so that they do not receive any additional Title IV aid.

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

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 an *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 and 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.