

The Timing of Issuing a Federal Credit Balance & Recovering Unclaimed Federal Funds

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Issuing a Federal Credit Balance

After the start of a term when student aid (including federal aid) has been disbursed to student accounts, most business offices issue credit balances to students within 14 days. That is, 14 calendar days, not business days. Why 14 days? A federal regulation requires a school to pay directly to the student a federal aid credit balance within 14 days. Rather than determine whether any portion of a credit balance is a federal credit balance, most schools have incorporated the 14 day rule in their procedures without consideration of the source of funds.

Note: If the federal credit balance is attributable to a PLUS loan, the funds are returned to the parent, unless the parent authorized that the student receive the refund.

So what is a federal credit balance? Simply put, subtract all federal grant and loan student aid from allowable charges, e.g., tuition, fees, room/board (provided by the institution), other educationally related charges (with student authorization), and, if any, up to \$200 of carried forward, prior-year charges. If student aid remains, there is a federal credit balance. Be careful. The calculation is based solely on allowable charges and federal student aid credits for a term. Allowable charges are strictly defined by federal regulation.

Some institutions may hold a credit balance beyond 14 days, if the credit balance includes non-federal funds. The institution may have a

policy or procedure that allows it to hold a credit balance on a student's account for a specified period, e.g., after a certain point in the term or until the end of term or academic year. This may be offered as an option for students who find it helpful for budgeting to cover future charges, or for those receiving nonfederal aid intended to cover more than one term.

To hold a federal credit balance the institution must have a signed authorization (that complies with federal rules) from the student (or parent, if applicable). The student (or parent) cannot be required or coerced to authorize the hold of a federal credit balance. In any case, even if an institution has an authorization to hold funds, it must release any federal funds to the student (or parent, if applicable):

- by the end of the loan period, if the federal credit balance is federal loan monies, or
- by the end of the last term of the award year in which the student was enrolled, if the federal credit balance is other federal aid (than loan).

Note: If the federal credit balance includes both grant and loan, these two timeframes will not necessarily coincide.

Institutions that promptly issue credit balances are doing the right thing, but must keep a watchful eye for student aid adjustments to student accounts. Federal aid adjustments can occur within the term; after a student's withdrawal; and/or after the end of a term, an award year, or loan period. It can be maddening to manage. If there is a negative aid adjustment, a



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balance may be created on a student account that must be collected. If there is a positive aid adjustment, there may be a credit balance to process.

Note: A federal credit balance occurs whenever the total amount of federal aid credited to a student's account for the term exceeds the amount of allowable charges (as federally defined) for the term.

Recovering Unclaimed Federal Funds

As maddening as adjustments can be, monitoring a failed transaction of a credit balance refund is equally frustrating and requires action, i.e., a rejected electronic fund

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transfer (EFT), a non-deposited or non-deliverable check, or an unprocessed credit balance on a student account. This is particularly troublesome if the credit balance includes federal student aid funds, because there are federal rules for the recovery of unclaimed federal funds.

If a failed transaction includes federal student aid funds, the institution can either attempt to issue the transaction again or must return the federal aid to the appropriate federal program(s) within 45 days. Yes, 45 calendar days, not business days.

There is a federal provision that allows an institution to make more attempts to disburse the aid, but each attempt must be made within 45 days of a failed attempt. When the institution stops trying to return funds to the student (or parent, if applicable), it must return the unclaimed federal student aid funds to the appropriate federal program within 45 days of the last failed attempt. There is a limit to the total number of days in which attempts can be made. The institution must cease all attempts to disburse the funds and return the funds to the respective federal aid program(s) no

later than 240 days after the initial date it issued the first check or EFT.

Of course, the business office has to determine what portion of the credit balance is federal aid. If the federal credit balance includes more than one type of federal aid, the institution has to determine to which program(s) and in what order, it will return funds.

Note: Federal regulations are silent on the order in which federal funds must be returned. However, the U.S. Department of Education strongly suggests that an institution act in the best interest of the student. That is, return loan funds before grant monies.

A best practice for recovery of unclaimed federal funds is to review at least monthly:

- EFT transactions,
- non-deposited and non-delivered checks, and
- student accounts for unprocessed credit balances.

The business office will need a customized program or report to calculate by term the allowable charges, federal aid disbursed (excluding Federal Work-Study earnings), and the resulting balance of federal aid, if any.

If there are unclaimed funds to process, take the following steps:

- **Business Office:** Notify the Financial Aid Office that federal unclaimed funds must be returned to the respective federal program(s).
- **Financial Aid:** Authorize the downward adjustment amount to disbursed fund(s) on the student account.
- **Business Office:** Process the negative disbursement. Check that the federal credit balance is reversed on the student account.

- **Financial Aid:** Ensure the downward adjustment in disbursed amount has been submitted and accepted by the Common Origination and Disbursement (COD) system, if appropriate.
- **Business Office and Financial Aid:** Reconcile the federal aid account(s).
- **Business Office:** Transmit the unclaimed funds to the federal payment system (G-5), if appropriate.

The business office must always be alert to ensure that federal student aid credit balances are released on a timely basis (14 days) and, if those funds go unclaimed, to ensure that they are never escheated to the State, or revert back to the institution or any other third party. They must be returned to the appropriate federal program(s).

Failure to properly, accurately, and timely administer federal credit balances and/or repay unclaimed federal student aid funds could result in audit or program review findings citing an institution for lack of administrative capability and/or fiscal responsibility, and for having inadequate internal controls. Sanctions also may include fines or other types of enhanced oversight.

Federal Regulations: Title 34 – Education, CFR – Code of Federal Regulation, 668 – Student Assistance General Provisions, 668.164 – Disbursing Funds and 668.165 – Notices and Authorizations, specifically:
34 CFR 668.164(c) -- Crediting a student's ledger account, includes definition of Allowable Charge
34 CFR 668.164(h)(1) – Federal Student Aid credit balances defined
34 CFR 668.164(h)(2) – Timeframe to pay
34 CFR 668.164(l) -- Returning funds
34 CFR 668.165(b) -- Student or parent authorizations

Or go to: Federal Student Aid Handbook 2018-2019, U.S. Department of Education, Volume 4 – Processing Aid and Managing FSA Funds, Chapter 2 – Disbursing FSA Funds, pages 4-43 through 4-47 (Allowable Charges and Federal Credit Balances), page 4-51 (Authorization to Hold Federal Funds), and pages 4-49 and 4-50.(Recovery of Unclaimed Federal Funds)

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