Cash Management Common Questions & Answers

**General (GEN)**

GEN Q1: Is the Department planning on disbursing Title IV funds directly to students and parents as is mentioned in the cash management final regulations?

GEN A1: Both the proposed and final regulations reflect the Secretary’s existing authority to make direct payments of Title IV funds to students. However, we do not currently have plans to implement such a direct disbursement system. We are examining the feasibility of making direct payments to students and will continue to evaluate whether doing so would ultimately be in the best interests of students and taxpayers. [Guidance issued 5/12/2016]

**Tier One and Tier Two Arrangements (TA)**

TA Q1: What is a Tier One (T1) arrangement?

TA A1: In a T1 arrangement, a third-party servicer contracts with an institution located in a State to perform one or more of the functions associated with processing direct payments of Title IV funds; and the institution or third-party servicer makes payments to one or more financial accounts that are offered to students under the contract, or about which information is communicated directly to students by one of three entities: (1) the third-party servicer, (2) the institution on behalf of or in conjunction with the third-party servicer, or (3) an entity contracting with or affiliated with the servicer. [Guidance issued 5/11/2016]

TA Q2: What is a Tier Two (T2) arrangement?

TA A2: In a T2 arrangement, an institution located in a State contracts with a financial institution or other entity that offers financial accounts through a financial institution, and, under the contract, financial accounts are offered and marketed directly to students enrolled at the institution. The Department considers financial accounts to be directly marketed if:

* The institution communicates information directly to its students about the financial account and how it may be opened;
* The financial account or access device is cobranded with the institution’s name, logo, mascot, or other affiliation and is marketed principally to students at the institution; or
* A card or tool provided to the student for institutional purposes, such as a student ID card, is validated, enabling the student to use the device to access a financial account. [Guidance issued 5/12/2016]

TA Q3: What is the difference between a T1 and a T2 arrangement?

TA A3: A T1 arrangement exists between an institution and its third-party servicer when the servicer performs one or more of the functions associated with processing direct payments of Title IV, HEA program funds on behalf of the institution and the institution or servicer makes payments to financial accounts that the servicer directly or indirectly offered the institution’s students and parents. A T2 arrangement is an arrangement for direct marketing agreement made between an institution and a financial account provider that is not a third-party servicer.  Both types of arrangements require certain disclosures and contain provisions regarding the availability of surcharge-free ATMs, but only T1 arrangements must comply with certain limitations on fees charged to account holders.  [Guidance issued 5/12/2016]

TA Q4: Why is there a minimum threshold of credit balance recipients for T2 arrangements?

TA A4: Our reasons for establishing a higher threshold are described in detail in the final regulations published on October 30, 2015. They are based on existing Department regulations and an analysis of publicly available data to determine thresholds at which a sufficient number of students exist to warrant regulation. We acknowledge that where no Title IV credit balances exist, the Department’s regulatory authority is limited. To protect the Federal interest at institutions with T2 arrangements, we have established thresholds of enrolled Title IV recipients before our regulations would apply. While some provisions are applicable when only a single student receives a credit balance in each of the most recent three years (for example, the provisions regarding student consent to sharing of personally identifiable information with a financial institution or its agents), there are three provisions that apply only if either an average of 500 or more, or five percent or more of, students receive a Title IV credit balance: requirements for convenient ATM access, due diligence responsibilities in negotiating the marketing contract in the best interests of students, and required disclosures of summary cost information. [Guidance issued 5/12/2016]

TA Q5: For purposes of triggering status as a T2 arrangement based on issuance of a cobranded card, what constitutes “principally marketed to enrolled students”?

TA A5: Because students are often led to believe that a card or access device bearing the institution’s logo constitutes an endorsement of the product by the institution, the regulations cover certain instances of cobranding. However, the general banking market also supports so-called “affinity agreements” under which institutions contract for the use of their intellectual property. Products offered under affinity agreements are typically intended for general banking consumers and not for students with Title IV credit balances. We believe the distinguishing characteristic between affinity agreements and those instances where students are the subject of direct marketing is whether the access device is principally marketed to enrolled students, rather than offered to the general public.

We believe that in the vast majority of cases this distinction will be plainly evident from the underlying contracts. In affinity agreements, the contract typically covers the use of the intellectual property, whereas in cases where there is a more comprehensive cobranding marketing contract, bonuses or incentive payments may compel an institution to take actions to sign up a certain number of account holders. We also note, that just using the term “affinity agreement,” or attempting to obfuscate the true nature of the contract, will not exempt the arrangement under the regulations. Only in cases where the agreement between the institution and the financial account provider provides for the use of the institution’s intellectual property to market a card for use by the general public, rather than focusing principally on marketing to the institution’s enrolled students, do the regulations provide that such endorsement does not constitute direct marketing for purposes of the T2 arrangement definition. [Guidance issued 5/12/2016]

TA Q6: What are some examples of relationships that would not fall under the new regulations?

TA A6: Generally speaking, accounts offered under a contract with third-party servicers, or marketed by third-party servicers, their agents, or the institution on behalf of the third-party servicer, are T1 arrangements. Accounts offered by entities that are not third-party servicers or their agents, affiliates, or contractors but are directly marketed to students (either by the institution, through the use of a student ID, or through a cobranding arrangement) are T2 arrangements. Other types of arrangements between an institution of higher education and a financial institution, or general information-sharing, are not subject to the regulations. Examples of such arrangements include: general marketing agreements (i.e., no direct marketing) that do not specify the kind of account or how it may be opened, arrangements sponsoring on-campus facilities or events (e.g., stadium or building naming rights, sponsored athletic or academic programs) rather than marketing specific financial accounts; lease agreements for on-campus branches or ATMs that do not include terms for marketing of financial accounts; and a non-exclusive list of area financial institutions provided by an institution to students solely for informational purposes without being under any obligation to do so. [Guidance issued 5/12/2016]

TA Q7: The athletics department has an agreement with a bank to offer bank accounts that can be linked to the student ID card, but the arrangement has nothing to do with Title IV credit balance disbursements. Does this still count as a T2 arrangement?

TA A7: Yes. Any account that can be linked to a student ID will be considered, at minimum, to be an account under a T2 arrangement. [Guidance issued 5/12/2016]

TA Q8: Are there requirements regarding an institution’s negotiation of T1 and T2 arrangements?

TA A8: Institutions that have a T1 arrangement or a T2 arrangement that meets the applicable credit balance recipient thresholds will have to establish and evaluate the contracts governing those arrangements in light of the best financial interests of students as discussed in the regulations. This means that an institution must document that the account fees are at or below market rates and that the institution can terminate the contractual arrangement based on student complaints or a determination that the fees are not consistent with or are above prevailing market rates. [Guidance issued 5/12/2016]

**Student Choice Menu (SCM)**

SCM Q1: The regulations state that institutions must ensure that “initiating” direct payments by electronic funds transfer (EFT) to an existing account is as timely as it is to send money to an account under a T1 or T2 arrangement. What does this mean?

SCM A1: This means that institutions and financial institutions with T1 and T2 arrangements cannot create any unnecessary delay by processing a student’s existing banking and payment information more slowly than accounts made available under T1 and T2 arrangements. For example, some financial institutions would require students to fill out paper applications to initiate EFTs to their own bank accounts. Students would then have had to fax in that form to receive money in their own bank account. At the same time, financial institutions would make it clear in the selection menu that students could sign up for accounts online and receive their payments much more quickly. There was no technological reason for this delay, and it simply existed as a manufactured delay designed to push students toward the accounts. This practice and others like it are now prohibited under the new regulations.

However, we understand that, while institutions may initiate electronic payments at the same time, the time that elapses before a student receives the funds may vary based on the method of electronic transfer used and the speed with which the receiving financial institution processes payments. To account for differences over which the institution and initiating financial institution have no control, we also have stated that there can be no difference in the time between initiating a payment to a student’s bank account and initiating a payment to an account opened under a T1 or T2 arrangement. [Guidance issued 5/12/2016]

SCM Q2: Is it acceptable for institutions to inform their students that check disbursements take longer to process?

SCM A2: The provision discussing initiating payments only covers EFTs, so it is acceptable to inform students that a check can take longer to process. However, we remind institutions that the requirement to make a student’s credit balance available within 14 days is still in effect. [Guidance issued 5/12/2016]

SCM Q3: What are the consent requirements for accounts offered under T1 and T2 arrangements?

SCM A3: Institutions with T1 arrangements will have to allow students to make a selection regarding how they choose to receive their Title IV credit balances before the institution can share certain personal information about those students with the third-party servicer. Institutions with T2 arrangements must obtain consent from a student to open an account before the institution can share certain personal information with the financial account provider. Under both T1 and T2 arrangements, a student must consent to open an account before an access device can be sent to the student or a student ID card can be validated to enable the student to use it to access the financial account. [Guidance issued 5/12/2016]

**Fee Limitations (FL)**

FL Q1: What fee limitations do the regulations establish for T1 and T2 arrangements?

FL A1: For T1 arrangements, the regulations prohibit point-of-sale fees and overdraft fees and provide students with the ability to conveniently access their Title IV credit balance funds in part and in full through domestic withdrawals and transfers while a student is enrolled at the institution without paying a fee. They also prohibit fees for opening an account or obtaining an access device, regardless of whether the arrangement qualifies as a T1 or a T2 arrangement. The regulations require that, for T1 arrangements and most T2 arrangements, Title IV funds are accessible through surcharge-free, in-network ATMs sufficient in number and housed and serviced such that the funds are reasonably available from them, including at the times the institution or its servicer makes direct payments into them. [Guidance issued 5/12/2016]

FL Q2: How should institutions with T1 relationships comply with the requirement of fee-free withdrawal throughout enrollment?

FL A2: Institutions may use whatever method they wish (check, cash, EFT, etc.) to comply with the requirement that a student have a convenient way to withdraw his or her Title IV funds in whole or in part, as long as the student does not incur a fee when exercising this option.[Guidance issued 5/12/2016]

**Disclosure Requirements (DR)**

DR Q1: What disclosure requirements do the regulations establish with respect to financial accounts provided pursuant to T1 and T2 arrangements?

DR A1: Institutions that enter into T1 arrangements will be required to post their T1 contract(s) to their websites (with certain personal and security information redacted). Institutions with T1 arrangements also will be required to post annually, in a format to be established by the Secretary, the total consideration paid or received by the parties under the contract, the mean and median costs that student account holders incurred, and the number of student account holders for whom these mean and median costs were calculated. Institutions must send the URL for the contract and contract data to the Department for the Department to make publically available.

Institutions with T2 arrangements that enroll at least one student who received a Title IV credit balance in each of the three most recent award years also will be required to disclose the contract and send the related URL to the Department. Institutions that have a T2 arrangement and on average have Title IV credit balance recipients in numbers at or above applicable thresholds also will be required to disclose the total consideration paid or received by the parties under the contract, the mean and median costs that student account holders incurred, the number of student account holders for whom these mean and median costs were calculated, and to send the related URL to the Department. To protect student privacy and data validity, institutions at which fewer than 30 students open an account offered under a T1 or T2 arrangement will not be required to disclose usage data. [Guidance issued 5/12/2016]

**Books and Supplies (BAS)**

BAS Q1: Are the books and supplies provisions in the regulations tied to T1 and T2 arrangements, or must all institutions comply with these provisions?

BAS A1: All institutions must comply with the books and supplies provisions. [Guidance issued 5/12/2016]

BAS Q2: The regulations state that an institution may include the costs of books and supplies as part of tuition and fees if the institution has an arrangement that enables it to make those books or supplies available to students below competitive market rates. What does the phrase “below competitive market rates” mean?

BAS A2: The phrase “below competitive market rates” means that the price charged to students is below the price generally available to the public. It does not refer to the list or “sticker” price of the book. Institutions are expected to demonstrate that they have researched available prices of books and supplies before including the cost in tuition and fees. [Guidance issued 5/12/2016]

BAS Q3: Do institutions that arrange for bulk rental or purchase of textbooks for all students in a program and include the cost of those materials in tuition and fees in order to provide savings for their students have to provide a mechanism for students to opt out of such an arrangement?

BAS A3: Institutions must have a process that allows students to opt out of an arrangement to include the cost of books and supplies in tuition and fees and notify students of the option to opt out of the arrangement, unless the books or supplies are not available elsewhere or there is a compelling health or safety reason to use certain books and supplies. For any student who opts out, the institution must reduce the tuition by the cost of any books and supplies included in tuition and fees. The reduction for students who opt out must reflect the institution’s per-student cost of the books. [Guidance issued 5/12/2016]

**Confirming Eligibility (CE)**

CE Q1: Under the regulations, if a student drops to half-time enrollment status at some point between the origination and disbursement of Direct Loan funds, does an institution need to recalculate loan eligibility based on the revised enrollment status?

CE A1: In this scenario, an institution does not have to recalculate a student’s loan eligibility. Please refer to Volume 4, Chapter 2 of the Federal Student Aid Handbook for guidance in checking eligibility at the time of disbursement. [Guidance issued 5/12/2016]