Session #8

Cash Management: Institutional Charges

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Agenda

- What is an Institutional Charge?
- Institutional, Non-Institutional, and Excludable Charges
- Return of *Title IV* Funds (R2T4) Calculations
- Books and Supplies Requirements
- Crediting a Student's Account / *Title IV* Credit Balances
- Proration of Institutional Charges
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- Questions and Answers

What is an Institutional Charge?

- Institutional charges are generally those charges for tuition and fees, room and board (if contracted with the institution), and other educational expenses that are paid to the school directly.

- Institutional charges also include expenses for required course materials if the student does not have a "real and reasonable opportunity" to purchase the course materials from any place but the school.

Why are Institutional Charges Important?

Institutional charges affect a school's administration of the *Title IV* programs in several important ways. Whether or not charges are institutional charges:

- Affects the amount of *Title IV* aid that schools are required to return as part of the R2T4 process when a student withdraws;
- Impacts whether schools are required to prorate institutional charges intended for longer than a single payment period; and
- Determines whether institutions are subject to "opt-out" and other requirements for books and supplies included in tuition/fees.

Principles for Institutional Charges

1. All charges for tuition, fees, room and board, and other charges assessed by an institution are institutional charges *unless demonstrated otherwise*
2. An institutional charge does not need to be assessed to all students
3. Institutional charges may or may not be charged to a student's account, and not all charges on a student's account are institutional charges

Limitations on Institutional Charges

- **Tuition discounting**: A recipient of *Title IV* aid cannot be assessed charges that are higher than what is charged to a student not receiving aid under the *Title IV* programs.

- **Overtime charges**: A school may not use *Title IV* funds to pay overtime charges for a student who fails to complete his or her academic program within the normal time frame.

Three Types of Charges

Each of the charges assessed by an institution falls into one of three categories:

- Institutional charges
- Non-institutional charges
- Excludable charges

What are Non-Institutional Charges?

Non-institutional charges include the following:

- Charges for required course materials where the institution can document that students have "a real and reasonable opportunity" to purchase the materials elsewhere
- Charges to the student’s account for room charges that are collected by the institution but are "passed through" to an unaffiliated entity

What are Non-Institutional Charges?

- Charges to a student’s account for group health insurance fees if:
  - The insurance is required for all students; and
  - The coverage remains in effect for the entire period for which the student was charged, despite the student’s withdrawal
- Charges to a student’s account for discretionary educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.)

Real and Reasonable Opportunity

- A school may treat charges for books, supplies, equipment, and materials as non-institutional charges if the school can substantiate that its students have the option of obtaining the required course materials from an alternative source.

- Alternative sources include relatively convenient locations <u>and online providers</u> that are unaffiliated with the school.

Real and Reasonable Opportunity

In order to demonstrate that a real and reasonable opportunity to purchase materials elsewhere exists, the school:

- Must document that the required course materials were conveniently available for purchase at an unaffiliated provider;
- Must not restrict the availability of financial aid funds to purchase the materials; and
- Cannot maintain practices (e.g. mandatory book vouchers only good at the school's bookstore) that discourage or prevent the student from purchasing the materials from another vendor.

Q&A: Real and Reasonable Opportunity

Question: Some schools are owned by companies that also produce widely-available products used in the schools. What degree of separation must be evident for the purchase option to be considered “unaffiliated” with the school?

Answer: Provided its products are widely available on the retail market, a distributor or cosmetology supply company that is owned by or connected with the institution can be an alternative source for students to purchase their kits and supplies. In general, the Department would not consider nationally-distributed merchandise routinely available to students and the public for the same price as coming from an affiliated entity.

What are Excludable Charges?

Excludable charges are institutional charges that an institution is permitted to "exclude" from the R2T4 calculation. There are three types of excludable charges:

- An administrative fee (up to $100 or 5% of total institutional charges, whichever is less)
- Documented cost of non-returnable equipment
- Documented cost of returnable equipment, if not returned in good condition within 20 days of withdrawal

Q&A: Excluding Cost of Unreturnable Equipment

Question: In some cases, schools are permitted to exclude the documented cost of unreturnable equipment or returnable equipment that a student fails to return in good condition. What does “documented cost” mean? Is it the amount that the institution spent to purchase the materials or the amount that the institution charged students for those materials?

Answer: In this context, the “documented cost of … equipment” means the amount that the institution spent on the equipment. It does <u>not</u> mean the amount that the institution ultimately charged students for the materials.

Institutional Charges and R2T4

When a school determines that a withdrawn student has not earned all his or her *Title IV* funds, the institution uses institutional charges to determine the amount of unearned *Title IV* aid that the school is responsible for returning.

The amount due from the institution is calculated by adding all the institutional charges incurred by the withdrawal date, then multiplying that total by the percentage of the period the student did <u>not</u> complete.

STEP 5: Amount of Unearned Title IV Aid Due from the School

L. Institutional charges for the period

Tuition	
Room	
Board	
Other	
Other	
Other	

Total Institutional Charges = **L.$**
(Add all the charges together)

M. Percentage of unearned Title IV aid

100% − ____ % (Box H) **= M. ____ . ____ %**

N. Amount of unearned charges

Multiply institutional charges for the period (Box L) by the percentage of unearned Title IV aid (Box M).

____ (Box L) **x** ____ **%** (Box M) **= N.$ ____ .**

O. Amount for school to return

Compare the amount of Title IV aid to be returned (Box K) to amount of unearned charges (Box N), and enter the lesser amount. **O.$ ____ .**

Institutional Charges and R2T4

For R2T4 purposes, institutions may “exclude” certain types of institutional charges from the calculation by performing the following steps:

Step 1: Determine the total amount of institutional charges for the period incurred by the student as of the withdrawal date; and

Step 2: Subtract any excludable costs from the total determined in Step 1.

L. Institutional charges for the period

Tuition	$2,000
Room	$1,000
Board	$500
Other	Books: $1,000
Other	Exclusion:
Other	-$500

Total Institutional Charges *(Add all the charges together)* = **L.$** 4,000

Note that the institutional charges used in the R2T4 calculation can never be less than zero.

Providing Books/Supplies to Students

An institution must provide a way for a student to obtain required books and supplies for a payment period by the 7th day of the period if, 10 days prior to the start of that period:

- The institution could disburse the *Title IV* funds for which the student was eligible; and
- The disbursements would have created a *Title IV* credit balance

NOTE: These requirements apply regardless of whether the books and supplies are institutional charges

Providing Books/Supplies to Students

- The amount that the institution must provide to the student to obtain or purchase books and supplies is the lesser of:
  - The *Title IV* credit balance amount; or
  - The amount needed by the student

- The institution must have a policy that allows students to opt out of the method it provides to obtain books and supplies

Including Cost of Books/Supplies in Tuition/Fees

- If an institution meets certain conditions, it can include the cost of books and supplies in tuition and fees
- However, because this practice effectively prevents students from purchasing required materials elsewhere for a lower price, institutions that incorporate the cost of books and supplies into tuition and fees are subject to additional requirements

Including Cost of Books/Supplies in Tuition/Fees

Inclusion in Tuition and Fees Allowed if:

School has arrangement with book publisher or other entity	Books and supplies available to students for prices below competitive market rates	Provides a way for students to obtain the books and supplies by the seventh day of the payment period, **AND**	Has a policy permitting students to opt out

… also allowed if:

The books and supplies are not available elsewhere or accessible by students from sources other than those provided or authorized by the school, **OR**	The school documents a compelling health or safety reason

Including Cost of Books/Supplies in Tuition/Fees

- If books and supplies are institutional charges, they are always considered to be included in the institution's tuition and fees

- Therefore, if students do not have a real and reasonable opportunity to purchase books and supplies from a provider other than the institution, the institution must meet the requirements for including the cost of books and supplies in tuition/fees (e.g., must be available at below-market rates; students can opt out)

Crediting a Student's Account

- An institution may credit a student's ledger account with *Title IV* funds to pay for **allowable charges** associated with the current payment period
- Allowable charges include:
  - Tuition, fees, institutionally-provided room and board, and all other institutional charges
  - Books, supplies, and other educationally-related goods and services provided by the institution that are *not* institutional charges, but for which the institution has obtained authorization from the student or parent (if for a Parent PLUS loan)

Crediting a Student's Account

- All institutional charges are allowable charges. A school may credit a student's account for institutional charges without authorization by the student or parent.

- A school must obtain authorization from a student or parent in order to credit a student's account for non-institutional educationally-related charges.

Charging Tuition Up-Front

A school is permitted to charge a student for the total tuition cost for a program at the beginning of the first period of enrollment. However, this has the following effects on *Title IV* awards:

- If the program is longer than an academic year, for Direct Loans and Campus-Based aid, the tuition costs apply <u>only to the first period of enrollment</u>.
- For Pell, the school must prorate these charges by academic year.

Prior-Year Charges

- Allowable charges also include “prior-year charges”
- A school can only credit up to $200 in prior-year charges
- For purposes of determining what a “prior-year” charge is, the current year is:
  - For a student or parent who receives only a Direct Loan, the current loan period;
  - For a student who does not receive a Direct Loan, but receives funds under another *Title IV* program, the current award year; or
  - For a student who receives both types of aid, either the current loan period or the current award year (at the school’s discretion)

Title IV Credit Balances

A *Title IV* credit balance occurs whenever the amount of *Title IV* funds credited to a student's account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period.

Example: *Title IV* funds credited exceed total allowable charges assessed by the institution

Allowable Charges=	**$ 3,000**
Credits to account	**= $ 6,172**
Pell	$1,900
Direct Loans	$3,272
Scholarship	*$1,000*
***Title IV* Credit Balance**	**= $ 2,172**

Title IV Credit Balances

If no authorization to hold credit balance funds, school must pay credit balance to student or parent no later than:

- 14 calendar days after balance occurs if it occurs after first day of classes of payment period; or
- 14 calendar days after first day of classes if it occurs on or before the first day of classes of payment period

Note: Schools are not required to pay credit balances below $1.00

Holding *Title IV* Credit Balances

A student or parent may voluntarily authorize school to hold a credit balance until the end of the academic year. To hold a student or parent's credit balance with an authorization, a school must:

- Identify amount of funds held for each student and/or parent in a subsidiary ledger account; and
- Maintain cash equal to credit balances held

A school may retain interest earned on credit balance funds held by the school with authorization.

Prorating Charges by Payment Period

If a school assesses institutional charges for longer than a payment period, it must prorate the amount of allowable charges for which the institution is permitted to credit the student's account without an explicit authorization. The school must do this in one of two ways:

If the payment periods for which the charge is assessed are substantially equal, by:	• Dividing the total institutional charges by the number of payment periods for which the charges are assessed
If the payment periods for which the charge is assessed are not substantially equal, by:	• Dividing the number of credit or clock hours in the current payment period by the total number of credit or clock hours in the period for which the charge is assessed, and multiplying that result by the amount of the charge

Proration by Payment Period – Books and Supplies

- If books and supplies are considered “institutional charges,” they must be considered part of tuition and fees, and charges must also be prorated if intended for longer than a payment period

- Books and supplies are institutional charges if a student does not have a **real and reasonable opportunity** to purchase the materials elsewhere

Proration by Payment Period – Example 1

A school charges $4,000 for each academic year in a standard term credit-hour program where the terms are 15 weeks long. Students are charged once at the beginning of each year.

The $4,000 charge is prorated between the Fall and Spring terms by dividing the charge in half because the two terms are substantially equal in length. The school has incorporated the cost of books and supplies in its tuition.

A student receives a $2,500 Pell Grant disbursement for the Fall term. Because there are only $2,000 in allowable charges for the Fall term, this creates a $500 *Title IV* credit balance. The school provides the student with a $500 credit balance within 14 days of the disbursement.

Tuition and fee charge: $4,000 for the Fall and Spring terms

Fall Term	Spring Term
Prorated tuition/fees = $2,000 minus **Pell Grant = $2,500 equals** ***Title IV* credit balance = $500**	**Prorated tuition/fees = $2,000 minus** **Pell Grant = $2,500 equals** ***Title IV* credit balance = $500**

Proration by Payment Period – Example 2

A school offers a one-academic-year nonterm credit-hour program comprised of 24 credit-hours and 30 weeks of instruction. The school charges a total tuition of $12,000 for the program. However, the school does not charge the full amount up front.

The school charges $7,000 at the beginning of the first payment period (PP1) and $5,000 when the student begins the second payment period (PP2). All students in the program receive a laptop and all required books for the program on the first day of class, and the school requires all students to pay $2,000 up front for those materials.

Because the school cannot document that students have a real and reasonable opportunity to purchase the kit elsewhere, the cost of the kit must be prorated over the two payment periods in the program. To prorate the charge, the institution divides it in half because the two payment periods it covers are substantially equal in length.

PP1 Tuition and fees: $7,000	PP2 Tuition and fees: $5,000
Books and Supplies: $2,000 for the whole program	

Proration by Payment Period – Example 2 (cont.)

A student is awarded a $3,500 Subsidized Direct Loan, a $6,000 Unsubsidized Direct Loan, and a $4,500 Pell Grant for the program.

The student receives a total of $7,000 in disbursements of *Title IV* aid in each payment period. The school determines the allowable charges are **$8,000** for PP1 ($7,000 tuition/fees plus $1,000 for the prorated kit charge) and **$6,000** for PP2 ($5,000 tuition/fees plus $1,000 in prorated kit charge). There is no credit balance during PP1 (the student pays $1,000 out of pocket) and a $1,000 credit balance in PP2, which the school provides within 14 days.

PP1 Tuition and fees: $7,000	PP2 Tuition and fees: $5,000
Books and Supplies: $2,000 for the whole program	

PP1	**PP2**
Tuition/fees = $7,000 **plus** Prorated books/supplies = $1,000 **minus** *Title IV* aid = $7,000 **equals** **Balance due from student = $1,000**	Tuition/fees = $7,000 **plus** Prorated books/supplies = $1,000 **minus** *Title IV* aid = $7,000 **equals** ***Title IV* credit balance = $1,000**

Proration by Payment Period – Example 3

A school offers a clock-hour program that includes 1,500 clock-hours over 50 weeks of instructional time. It charges $13,000 up front for the entire program, which must be prorated over all the payment periods in the program.

The school defines the academic year for the program as 900 hours and 26 weeks of instructional time. The payment periods for the program are structured as follows:

- Academic Year 1 Payment Period 1: 450 hours
- Academic Year 1 Payment Period 2: 450 hours
- Academic Year 2 Payment Period 1: 300 hours
- Academic Year 2 Payment Period 2: 300 hours

Tuition and fees: $13,000 for the entire program.

Proration by Payment Period – Example 3

The school includes a $2,000 charge for the required kit in the student's enrollment agreement. Students cannot enroll in the program without purchasing the kit from the school; therefore, the school cannot demonstrate that students have a real and reasonable opportunity to purchase the materials elsewhere.

The charges for the kit are considered institutional charges and must be prorated over the payment periods in the program in the same way that the tuition and fees are.

NOTE: Once opened by a student, the kit cannot be returned to the institution.

Tuition and fees ($13,000) plus books and supplies ($2,000) = $15,000 for the entire program.

Proration by Payment Period – Example 3

Because the payment periods in the program are not substantially equal, the institution must prorate the total institutional charges for each payment period by:

1. Dividing the hours in the period by the total number of hours in the program; and
2. Multiplying the result from Step 1 by the total institutional charges for the program

AY1 PP1

Hours in period (450) divided by hours in program (1,500) = 0.3
Program charges ($15,000) x 0.3 = $4,500

AY1 PP2

Hours in period (450) divided by hours in program (1,500) = 0.3
Program charges ($15,000) x 0.3 = $4,500

AY2 PP1

Hours in period (300) divided by hours in program (1,500) = 0.2
Program charges ($15,000) x 0.2 = $3,000

AY2 PP2

Hours in period (300) divided by hours in program (1,500) = 0.2
Program charges ($15,000) x 0.2 = $3,000

Proration by Payment Period – Example 3 (cont.)

Because the institution has charged the full tuition for the program at the beginning of the first period of enrollment (academic year), for Direct Loan purposes, all those costs will be included only in the cost of attendance for the first year.

- Academic year 1 cost of attendance: $22,000
- Academic year 2 cost of attendance: $5,000

Tuition, fees, books, and supplies charge: $15,000 for the entire program.

Cost of attendance for AY1: $22,000	**Cost of attendance for AY2: $5,000**
Includes **Tuition/fees/books/supplies: $15,000** **Living expenses: $7,000**	**Includes** **Tuition/fees/books/supplies: $0** **Living expenses: $5,000**

Proration by Payment Period – Example 3 (cont.)

In the first academic year, a student receives the following *Title IV* aid:

- Pell Grant: $5,100
- Subsidized Direct Loan: $3,500
- Unsubsidized Direct Loan: $2,000

The school determines that the student will receive *Title IV* disbursements totaling $5,300 in both PP1 and PP2 and will have an $800 credit balance for both periods. The school provides the student with those refunds within 14 days of disbursement.

Tuition, fees, books, and supplies charge: $15,000 for the entire program.

AY1 PP1	AY1 PP2
Prorated tuition/fees = $4,500 **minus** *Title IV* aid = $5,300 **equals** ***Title IV* credit balance = $800**	Prorated tuition/fees = $4,500 **minus** *Title IV* aid = $5,300 **equals** ***Title IV* credit balance = $800**

Proration by Payment Period – Example 3 (cont.)

In the second academic year, the student receives the following *Title IV* aid:

- Pell Grant: $3,400
- Subsidized Direct Loan: $1,600

The school cannot award Direct Loan funds exceeding $1,600 because the total Direct Loan cost of attendance for the academic year is only $5,000 and the school must subtract the $3,400 in Pell Grant funds as estimated financial assistance.

Tuition, fees, books, and supplies charge: $15,000 for the entire program.

AY2 PP1

Prorated tuition/fees = $3,000 minus
Title IV aid = $2,500 equals
Balance due from student = $500

AY2 PP2

Prorated tuition/fees = $3,000 minus
***Title IV* aid = $2,500 equals**
Balance due from student = $500

Proration by Payment Period – Example 3 (cont.)

Because the student is receiving a much smaller amount of *Title IV* aid this year, she only receives disbursements totaling $2,500 in each payment period.

The amount of *Title IV* aid that the student will be receiving in each payment period ($2,500) exceeds the prorated charges for each period of $3,000. Therefore, the student will not have a credit balance in either payment period during the second academic year.

Tuition, fees, books, and supplies charge: $15,000 for the entire program.

AY2 PP1	AY2 PP2
Prorated tuition/fees = $3,000 minus *Title IV* aid = $2,500 equals Balance due from student = $500	**Prorated tuition/fees = $3,000 minus *Title IV* aid = $2,500 equals Balance due from student = $500**

Example 3: R2T4 Considerations

But wait! What would happen if the student withdrew during the first payment period in the program?

How would the student's institutional charges be determined?

Step 1: The institution would add up the prorated charges for the payment period; and

Step 2: The institution would then subtract the total amount of excludable costs – the amount that it spent on the unreturnable kit – from the total in Step 1.

L. Institutional charges for the period

Tuition	$4,000 (prorated)
Room	
Board	
Other	$500 (prorated)
Other	Exclusion:
Other	-$1,000

Total Institutional Charges *(Add all the charges together)* = **L.$** 3,500

The total prorated charges for the first payment period were $4,500, and the school spent a total of $1,000 on the kit prior to the student's enrollment. Therefore, the total institutional charges used in the R2T4 calculation is **$3,500**.

Resources

- **January 1999 Policy Bulletin**: Calculating institutional refunds: what are institutional charges?
- **December 2000 Dear Colleague Letter GEN-00-24**: Return of *Title IV* Aid—Volume 1
- **November 28, 2012 Dear Colleague Letter GEN-12-21**: How an institution may use *Title IV* funds to pay for charges at a bookstore
- **March 5, 2019 Electronic Announcement**: Determining the prorated amount of charges associated with a payment period
- ***FSA Handbook*, Volume 4, Chapter 2**
- ***FSA Handbook*, Volume 5, Chapters 1 and 2**

Questions and Answers