

# Return of Title IV Funds Task Force: Report to the Board

*NASFAA – July 2015*

## Introduction

With the overall goal to simplify the Return of Title IV Funds Calculations and Process for Withdrawing Students, the NASFAA R2T4 Task Force was to:

- Further develop, clarify, and amplify the Reauthorization Task Force’s (RTF) broad proposal approved by the NASFAA board (attached) and
- Formulate a treatment of nontraditional program formats, including modules

After reviewing the recommendations from the RTF, the R2T4 task force looked at how much and what types of funds were returned at the task force members’ own schools. Also, it looked at which students were most affected if they leave school without earning all their aid for a semester. Based on our small analysis, schools generally return one to two percent of the total federal aid they receive. The students most affected by R2T4 are low income, because the return leaves an owing balance at the school. As a result of the R2T4 calculation, the Department receives its funds, but the student must clear the debt with the school before returning. After much discussion about how to go forward and what might work for modules, the task force decided to broaden its approach to identifying ways to improve R2T4.

## Background

As the initial RTF group wrote,

“While the basic concept underlying the return of Title IV funds (R2T4) is quite straightforward, the details have become so complicated that it has become very burdensome to explain to students and to administer. Even the Department needs over 200 pages in the Handbook to describe and illustrate this process. Errors are virtually inevitable in so complex a set of rules. Further, given the wide range of program formats, individual student circumstances, and other factors, it is very difficult to address all scenarios that arise logically under a “one size fits all” highly regulated approach.”

## Deliberations and Recommendations

The task force concluded that the current Return to Title IV laws and regulations have run their course. It is time to revisit the law and find a better way to attend to the needs of students who completely withdraw, in a way that is fair to all financial aid recipients.

Without clear intent and purpose the hidden truth that all schools know is that R2T4 tends to affect/punish the most at-risk students. It is the at-risk students who withdraw, and in many cases end up owing money they cannot afford to repay, sometimes pushing them to other schools to start over and sometimes barring them from completing an education that would take them out of their at-risk situation. The reality is that Return to Title IV is most confusing and damaging to the very students financial aid is designed to help.

The regulations are too vulnerable to interpretation, making the Department of Education the only sure authority on the subject, which has caused R2T4 to become a stumbling block in independent audits and Department of Education program reviews. It is one of the most consistent reasons that schools are cited for compliance findings in audits and program reviews, and it has been that way for many years.

The current regulations have veered far from the original law that established the process. It has become a costly administrative problem for schools as they attempt to navigate the mixed bag of regulation upon regulation it has become. There is no clear direction as to the intent and purpose of the R2T4 calculation and why grants and loans need to be returned to the government.

The comment many schools at some time or other pose is, “there has to be a better way.” The common feeling within schools is that the R2T4 process imposes stringent limitations on our most at-risk students and is unnecessarily burdensome to institutions. The current policy does not encourage students to return to complete the programs that were started. There has to be a better way to handle withdrawals.

The problem is answering the questions, “Is there a better way to do it?”, and “Where do we start?” Congress and the education community need to agree upon a clear intent and purpose on how we treat aid when students withdraw. The things that need to change to promote student success, versus what the current policy is trying to do, also need to be determined and evaluated.

A statement of purpose should be developed to provide a goal for the regulations. In developing a statement of purpose, the community should consider:

- Are we trying to keep the student from borrowing too much?
- Are we trying to prevent abuse of tax payer funds?
- Are we trying to prevent schools from keeping funds for students that the institution could not retain, and help be successful?

OR

- Do we want to promote student success?
- Do we want to encourage students to complete programs in a reasonable amount of time?

It could be simply said that the system is not perfect, but to some degree it works, and walk away from the problem. Yet, there is 15 years of knowledge to build on and get this right once and for all. Maybe a better purpose would be to clear a pathway for students should they decide to leave school, and the intent is to make returning to school as simple as possible for the at risk student.

Ultimately the task force settled on asking the Board to consider three alternative approaches to R2T4 reform. They are:

- I. Eliminate the return of Title IV funds requirement altogether.
- II. Wipe the R2T4 slate clean and start over to devise a new set of rules.
- III. Fix the current process pending the elimination or refurbishment of R2T4.

## I. Eliminate the Return of Title IV Funds Requirement Altogether.

The task force understands that current law and regulation already maintain integrity and manage abuse of federal aid programs. In that understanding the task force would like to see an elimination of the current R2T4 requirement and offers the following thoughts and suggestions.

The future agenda appears to be ambitious in college performance measurements. If these goals are meant to take down barriers that keep college costs high, then it seems to make sense to make that colleges value more transparency to the students by simplifying the aid bureaucracy. An obvious and quality place to start would be with the hundreds of pages that attempt to interpret the R2T4 regulations.

Laws and regulations are already in place that could take the place of the R2T4. Continued review of these aid processes individually and collectively accomplish what we believe the intent of R2T4 is.

### *Satisfactory Academic Progress (SAP)*

Schools are required to have a reasonable policy for measuring student progress. Many schools' policies already contain parameters for student withdrawals. In this sense, student withdrawals are being evaluated by the school and if not, schools could be encouraged to do so. In addition, the 2010 changes to SAP strengthened efficiency and effectiveness requirements for schools in this area, resulting in more consistent definitions and defined parameters and terms.

SAP evaluates progress both in qualitative and quantitative measures, ensuring that students who do not keep pace or maintain academic proficiency are monitored for continued use of the federal aid programs.

### *Annual and Aggregate Loan Limits*

Both annual and aggregate loan limits either directly or indirectly provide an incentive to complete academic pursuits in a timely manner and prevent someone from becoming a 'permanent' student.

Even if modifications of the limits are raised to defray rising costs, the limits still provide an incentive for having an academic plan in mind.

Current R2T4 processes confuse students with respect to repaying funds to ED versus repaying an institutional debt as a result of the R2T4 calculation. The students incur not only a loan debt for which they signed a promissory note and must repay to ED, but also may have the added requirement of owing a school bill. The multiple sources of debt is frustrating, confusing, and can be a barrier to persistence.

### *Lifetime Eligibility Usage (LEU)*

The Consolidated Appropriations Act of 2012 imposed a lifetime limit on a student's Federal Pell Grant eligibility. Like the aggregate loan limit, this factor serves a double purpose as an incentive to complete the academic program and helps prevent abuse of Title IV funds.

When schools or students must repay Pell Grant funds due to the R2T4 calculation, students end up confused about interpreting how both a withdrawal and the LEU will affect future aid eligibility. Students end up in terms of enrollment

where only part of a Pell is available when they are close to maximum usage. The unintended consequence makes completion complicated and alternatives challenging when students are close to completion.

### *Unusual Enrollment History (UEH)*

Monitoring student enrollment patterns help protect the federal programs by deterring fraud and abuse. If a student is enrolling just long enough to receive a credit balance payment from federal aid and then withdrawing while not making any academic progress, receipt of future funds can be thwarted. The penalties a student incurs in the current R2T4 process may, in fact, lead to enrollment at multiple institutions as a way of finding a school where a fiscal barrier from a prior R2T4 does not exist.

### *Direct Loan Subsidy Limit*

In 2012, another initiative was enacted to limit the eligibility to borrow under the subsidized provision of the loan program. While this does not impose an aggregate stoppage to borrowing, it does incentivize a student to maintain persistence toward graduating.

### *Verification*

The Department's goal of customized verification is gaining momentum. As the Department refines its approach, it seems logical to think that the data analysis could also identify other variables that could replace the need for R2T4.

### *Risk Sharing*

The subject of risk-sharing has been a big topic in the last couple of years. Not to be forgotten in that argument are most public schools that already have some skin in the game from their respective States in the form of state funding. Private schools always have some skin in the game by managing their enrollments which pays their bills. All schools have default rates that can penalize a school if their cohort default rate gets too high.

### *Summary*

Eliminating the current R2T4 provisions provides both advantages and disadvantages to students, schools and the federal government. The task force believes, however, the benefits outweigh the potential drawbacks.

<b>Organization</b>	<b>Pros</b>	<b>Cons</b>
<b>Students</b>	Know the funds they are going to receive for the period they are enrolled, regardless of the outcome from that enrollment.	Could run out of funds faster if they are not successful.
<b>Institutions</b>	Simplification and the removal of audit liability. Reduced costs for processing.	Might have changes which require more research, such as unusual enrollment history.
<b>Federal Government</b>	Simplification of audits and policies and procedures. Better understanding on the part of students. Fewer complaints and phone calls regarding R2T4.	Reduced funds from grant money not being returned. Loan money is not an issue, since it would be repaid anyway.

## II. Wipe the R2T4 Slate Clean and Start Over to Devise a New Set of Rules.

The task force considered three different alternatives as to what the return of funds process might look like in a start over. It recognizes that there may be other alternatives, but it is the purpose of these three to demonstrate that there are answers to those asking, “Is there a better way?” The task force also realizes that these ideas just begin to scrape the surface of the regulations that would be needed to replace the current R2T4 process, but again, the purpose is to demonstrate that there are better ways.

The three alternatives discussed are:

1. Combine R2T4 with SAP and administer it with SAP.
2. Move the determination of withdrawal and the calculation of R2T4 to the end of the payment period.
3. Use the current formula and order to return funds, but do not return loan funds.

Note: All of these approaches attempt to deal with the problem of calculating R2T4 for modules in different ways. Some deal with the module issues by reducing the number of withdrawals that would require a return, and others by changing the timing of when returns are calculated.

### *1. Alternative: Combine R2T4 with SAP and administer it with SAP.*

Perspective: Federal aid is to assist students to obtain an education with the ultimate goal of completing a program of study. Students may not complete a term of study in several ways and federal regulations deal with them differently. For example, student may:

- Withdraw from some classes. There is no immediate impact on aid, but a student who does not cumulatively complete at least 67% of course work and maintain at 2.0 loses aid eligibility through the satisfactory academic progress process.\*  
\*SAP policies vary by institution within federal guidelines and this is an example.
- Withdraw from some modules. A student can potentially have a combination of completions and withdrawals and be considered to be withdrawn from the full semester. In the case of modules, it is the last action of the student that takes precedence of whether the student is withdrawn.
- Withdraw from all classes/modules:
  - Formal withdrawal prior to 60% completion. Lose aid eligibility for the current semester based on the percentage of the semester completed. Determination made immediately at time of notification. Complications with modules. Lack of completion feeds into SAP calculation.
  - Formal withdrawal after 60% completion. All aid is retained. Lack of completion feeds into SAP calculation.
  - Informal withdrawal determined by completed course work. Student obtains F, N or W's in all classes. Research or other methodology is used to feed into determining the last day the student attended by determining the last day they attended class or completed course work. Return of aid calculated at the end of the semester once a date is determined using the percentage of aid earned.
  - Informal withdrawal unable to be determined by completed course work. Return of aid is calculated at 50%.
  - Earn poor or failing grades, but complete classes. No immediate impact on aid, but a student who does not cumulatively complete at least 67% of course work and maintain at 2.0 loses aid eligibility through the satisfactory academic progress process.

Instead, what if a completely new process were structured? As in SAP, allow per institution, a warning semester where a student can fail or withdraw without consequences to their aid. After that “warning” semester, if the student does not successfully complete, regardless of the reason, they lose eligibility for the aid they received based on a percentage of “successful expected completion.”

Return of funds would only be required to be calculated at the end of the semester after a determination of grades for SAP. Determination of withdrawal as a reason for failure would be made the same way it is now, either through grades (for example, an earned F versus an F given for failure to complete coursework) or determination of last day of class work based on instructor records, not attendance. In the following examples, the “successful expected completion” rate to keep aid is set at 40%.

Student is required to successfully complete 40% of the credits for the full semester, regardless of the reason for lack of success:

Total Credits Registered	Credits Withdrawn or Failed	Percent of Completion	R2T4 Needed Yes/No
15	7	8/15 or 53%	No
12	9	3/12 or 25%	Yes
8	2	6/8 or 75%	No
6	2	4/6 or 66%	No
9	4	5/9 or 56%	No

Additional thoughts on this approach: Percentage completion would be determined the same way as it is for SAP, without regard to the grades received, to determine the percentage of aid earned. We may want to consider a percentage structure that is less stringent than SAP for the per term completion rate, because we would be including students that are unsuccessful completions because they earned the F as well as those students who simply walked away. The example uses 40% here because it seems to give a little leeway, and SAP (at its higher required completion rate) will come in later if there continue to be issues.

This policy helps encourages student success each semester with some leniency.

Organization	Pros	Cons
<b>Students</b>	Would keep the funds they received for the payment period longer. SAP and R2T4 would be coordinated, so it may seem a more organized approach to aid management. Encourages student success each semester with some leniency.	May spend money they have to return later. Having to return funds despite an earned F (for example) might discourage student access.
<b>Institutions</b>	Simplification and reduction in audit liability. Cost reduction because R2T4 for modules would be the same as for a full-semester course.	Collecting funds from students may be more difficult because of the delay and there might be more to collect.
<b>Federal Government</b>	Simplification and consistency of processes for aid management, rather than ones dependent on timing and intent to withdraw. More funds might be returned.	Takes longer to return funds.

## *2. Alternative: Move the determination of withdrawal and the calculation of R2T4 to the end of the payment period.*

In this approach, the requirement to complete the return of funds would be changed to the end of the payment period. This would address the issues with trying to determine student intent to withdraw and modules, in particular. Also, it could address the issue of requiring schools to take attendance in order to determine if a student has informally withdrawn. Grades, with the instructor providing the last day of attendance based on course work, could be the basis for determining the time of withdrawal.

<b>Organization</b>	<b>Pros</b>	<b>Cons</b>
<b>Students</b>	Would keep the funds they received for the payment period longer, rather than having to return them immediately if they dropped out before the 60% point.	May spend money they have to return later.
<b>Institutions</b>	Simplification and reduction in audit liability. Cost reduction because R2T4 for modules would be the same as for a full-semester course.	Collecting funds from students may be more difficult because of the delay.
<b>Federal Government</b>	Simplification and consistency of processes for aid management, rather than ones dependent on timing and intent to withdraw.	Takes longer to return funds.

## *3. Alternative: Use the current formula and order of return to funds, but do not return loan funds.*

Consider a regulated approach but require return of grant monies only, allowing loans to be repaid entirely by the student under the terms and conditions of the promissory note.

Federal regulations require borrowers to be notified on multiple occasions of their responsibility to repay funds borrowed. Loan proceeds disbursed to the borrower must be repaid following the terms and conditions of the signed promissory note(s). Under the current provisions, institutions must repay loan proceeds to the U.S. Department of Education on students who agree to a debt, incur a college liability, and did not complete the payment period, even though the college could not sell that seat to someone else. These are Federal funds, not institutional funds, under a contractual agreement between the student and the U.S. Department of Education. The institution remains responsible for ensuring the student has commenced attendance and met all requirements prior to the disbursement of those funds.

This would reduce the number of R2T4 returns to the U.S. Department of Education by the institutions. Colleges will be required to perform the calculations only if the funds that could have been disbursed or actually disbursed included grants. No requirement to create a calculation if only loans were disbursed to the student. The students are benefited by following a grace period to commence repayment of the loans. When a debt is owed to the college it is billed immediately.

The same formula in use today would be followed when returning funds except the removal of loans out of the equation altogether.

The current order to process returns of Title IV Funds is the following:

- Unsubsidized Direct Loans
- Subsidized Direct Loans
- Federal Perkins Loans
- Direct PLUS Loans
- Federal Pell Grants
- Federal Supplemental Educational Opportunity Grants (FSEOG)
- TEACH Grants
- Iraq and Afghanistan Service Grant

When performing an R2T4 calculation, we must retain the use of all aid awarded and disbursed as either aid that could have been disbursed or aid actually disbursed. Once a determination is made through the R2T4 calculation on which aid and how much aid must be returned, all aid to be returned deriving from the loan programs is ignored, and not returned by the institution. The student is notified reminding him/her of his total debt to the U.S. Department of Education. If the calculation results in grant aid to be returned by the institution, this action should trigger a return amount by the institution following current guidance.

Applying the same formula and order of return of funds to the equation will generate a reduction in the number of students who borrow and are eligible for grants that will end up repaying the grant funds to U.S. Department of Education. This will also reduce the amount of grant funds to be returned by the institutions. See the example below:

Example: Mary's institutional charges at Yes You Can Community College are \$2,000. She received a Subsidized Loan of \$1,750 and Pell grant of \$2,865. She earned 50% of her aid. Aid to be returned is \$2,307.50, but total institutional charges are less than this amount, so the amount to be returned by the institution is \$2,000. Following the current order of returns, \$1,750 would be covered by the Subsidized Loan, which the college will ignore, resulting in \$250 to be returned by the institution out of the Pell grant.



Organization	Pros	Cons
<b>Students</b>	Would mitigate the current problem of creating open balances due to the school having to return loan proceeds that would otherwise have covered the student's obligation to the school under the school's refund policies.	May run out of financial aid funds faster.
<b>Institutions</b>	Would mitigate the current problem of creating open balances due to the school having to return loan proceeds that would otherwise have covered the student's obligation to the school under the school's refund policies.	<p>Does not fix the timing issues with the current R2T4 process or the difficulty in calculating R2T4 with modules.</p> <p>At community colleges with low loan participation rates or no loan participation, the problem doesn't go away. Schools still end up with possible open balances because grant funds have to be returned. To provide some respite to this segment of the population, we recommend that all calculations are due at the end of the term as follow:</p> <ul style="list-style-type: none"> <li>• 45 days from the end of term to perform the R2T4 calculation as the determination date,</li> <li>• 60 days from this date to issue to return of funds to the U.S. Department of Education</li> </ul> <p>Some institutions may encourage loan borrowing.</p> <p>Potential problem for all schools: inviting back the old federal policy of a "fair and equitable" refund policy, and ED will explain what that means.</p>
<b>Federal Government</b>	Reduces/eliminates special processing for loan returns and subsequent servicing changes.	<p>Cash flows would change since loan funds would not be returned.</p> <p>Alternatively, the regulations could be changed to retain the current break on student returns of grant funds, the 50% protection. Once the R2T4 calculation is performed, if the calculation results in grant aid to be returned by the student, retain the clause permitting the 50% grant protection. This protection alleviates the student from repaying grant funds received.</p>

***4. Alternative: Move the determination of withdrawal and the calculation of R2T4 to the end of the payment period and use the current formula and order of return to funds, but do not return loan funds.***

Note: This is a combination of alternatives 2 and 3.

This approach has the same pluses and minuses as Alternatives 2 and 3, but it would do quite a bit to reduce the administrative burden associated with R2T4.

### III. Fix the Current Process Pending the Elimination or Refurbishment of R2T4.

This approach is simply a change to the existing policy. The goal here is to address certain aspects of the current R2T4 regulation, and find ways to increase compliance of the existing complexity of the regulation. What we are not able to address here is how to deal with regulations related to modules.

The R2T4 task force has re-listed the recommendations of the Reauthorization Task Force into groups. The first group of recommendation is aimed at getting the community engaged to look at and modify the existing laws and regulations through negotiated rulemaking. These recommendations are:

1. Direct ED to seek public input on ways to decrease the burden and complexity of R2T4 regulations and procedures within a set period of time after enactment, and to conduct a subsequent negotiated rulemaking session devoted solely to R2T4.
2. Require ED to report to Congress by a date certain, detailing ways in which R2T4 can be made less burdensome, including treatment of various program formats such as modules.

**R2T4 Task Force comment for 1 and 2:** For years R2T4 has been a source of frustration for many schools. Either the late processing of R2T4 or the improper processing of it has been on the top of the Department's list of things schools do consistently wrong. However, the only changes the Department has brought to this area in the last several years have made the process more complicated.

The cost to schools and students of R2T4 is financially staggering in a time when there is a push to get schools to operate more efficiently and cost effectively for their students. As regulations have piled upon regulations for this process, it is time to re-work the laws that created the regulations or create a whole new method of considering the funds the students have received when it is necessary for them to withdraw from the school.

In the last set of regulations there was little to no input from outside the Department. It is time the schools and other interested parties have their say in how this process works.

3. Restrict law and regulation to undergraduates. Leave treatment of graduate students to institution.

**R2T4 Task Force comment:** The vast majority of money returned for both graduates and undergraduates are loan funds. If the point is to not require graduate students to return funds because they are loans and inherently include a promise and mechanism to repay, why not extend that to all students? This would allow all students to benefit by a longer repayment period, rather than perhaps having to immediately repay the school funds returned to the Department.

4. Narrow the definition of schools that are required to take attendance: only if they are required to take attendance for all students in a given academic program throughout the entire payment period by the accrediting or state licensing agency. Allow schools that are not required to take attendance to use a documented last date of attendance or other academic activity for any student at the school's option.

**R2T4 Task Force comment:** This recommendation is in response to the R2T4 regulation that attempts to determine when a student left for the purposes of determining how many days of a term a student attended. This definition

only exists in regulation. Another approach to get rid of the attendance issue would be to allow schools to use only academic results if a student earned all their grades. Essentially, this would mean schools could wait until the end of the term to determine R2T4 and would not be required to take attendance to determine if a student was in class.

5. Continue to require that schools have an accessible, publicized withdrawal procedure that recognizes the student's withdrawal date as the date the student initiates that procedure. (The school continues to define what constitutes the beginning of the withdrawal process.) Eliminate the "intent to withdraw" rules. Eliminate rules concerning students rescinding their decision to withdraw, and leave that entirely up to school policy.

**R2T4 Task Force comment:** The same logic and issues as number 2 apply here. Regulation has gotten to the point where schools are required to determine a student's intent, even though the student has not begun the formal withdrawal process. Given the very small number of students who actually withdraw, the arbitrary nature of the 50 percent withdrawal date if the student unofficially withdraws, while at 60% attendance a student can keep all their aid, it seems very silly to be forcing schools through so many hoops to determine if a student is leaving or not.

6. For students who do not follow the school's official withdrawal procedure (mostly students who drop out without notifying the school), allow a school that is not required to take attendance to set the withdrawal date under its own defined policies. (Unofficial withdrawals would thus not be regulated by ED.) This would also allow the institution complete discretion to set the withdrawal date if the student could not follow official procedures because of illness, etc.

**R2T4 Task Force comment:** The R2T4 task force did not think this approach was realistic in the current regulatory environment. The recommendation is trying to get at the problem within the regulation to force schools to take attendance and to determine when a student is thinking of leaving. Regulation should not be allowed to impose processes that schools are not required to do nor should it force schools to determine a student's intent.

7. Follow the current modified pro-rata approach, but simplify the rules as follows: Establish weekly increments based on calendar time rather than the day-by-day calculation that excludes certain days under certain conditions. Fractions of weeks would be rounded up: attendance in any day of the week counts that week. Retain 60 percent as the point at which all aid is earned, but express it as attendance in 60 percent of the weeks (so that fractions count as a week). Until that point, for each week at least started by the student, aid is earned in proportion to the number of weeks constituting 60 percent (that would avoid the "cliff effect" currently seen).

**R2T4 Task Force comment:** The R2T4 task force does not recommend pursuing this as it does not substantially reduce complexity.

8. Restore authority for post-withdrawal disbursements to be at the discretion of financial aid administrators based on publicized institutional policy (i.e., not necessarily on a case-by-case basis; school can set parameters). Retain the rule that the school should ask the student first if a loan disbursement should be made, and extend that to Pell as well.

**R2T4 Task Force comment:** The R2T4 task force thinks this recommendation contradicts itself. Essentially it seems to be recommending the current status quo, dealing with post-withdrawal disbursements on a case-by-case basis.

9. Modify the assumption that Title IV aid is applied to institutional charges first. Allow aid that is specified for a particular cost of attendance (e.g., tuition) and that will not need to be returned under the source's rules to be deducted from institutional charges when determining the amount of unearned aid that must be returned by the institution.

**R2T4 Task Force comment:** The R2T4 task force does not think it is possible to implement this recommendation. It would require financial aid offices to determine the nature and rules around each type of aid a student receives and this would only complicate the process more, even if it could be done effectively.

10. Allow more time for schools to process R2T4 by increasing from 45 to 60 days the period of time the institution has to return funds.

**R2T4 Task Force comment:** The task force agrees with this recommendation.

#### PROPOSED CHANGES:

- a. Allow schools additional time to provide written notification to the student (or parent) of the opportunity to accept all or part of a post-withdrawal disbursement of Title IV loan funds, from within 30 days to 45 days of the school's determination that the student withdrew. (REFERENCE: 34 CFR 668.22(a)(5)(iii)(A).)
- b. Allow schools additional time to provide written notification of student's eligibility for a direct post-withdrawal disbursement of Title IV loan funds in excess of outstanding current (educationally related) charges, from within 30 days to 45 days of the school's determination that the student withdrew, (REFERENCE: 34 CFR 668.22(a)(5)(iii)(A).)
- c. Allow schools more time to provide notification to a student of grant overpayment, from within 30 days to 45 days of the date the school determined the student withdrew.
- d. Extend the timeframe for return of unearned Title IV funds to be as soon as possible but not later than 60 days after the date the school determined that the student withdrew.

#### REASON FOR PROPOSED CHANGES:

Due to the involvement of external entities for externship, or policies that require additional review of student coursework before determining that student is a withdrawal, the financial aid office may be forced to wait until these outside entities, or committees meet before actually determining that the student withdrew.

11. Amend the order of return language. Make the order of return subject to regulation, but specify TEACH Grant and loans first, with a directive to repay least advantageous loans first. Remove references to FWS.

**R2T4 Task Force comment:** The R2T4 task force agrees this is a very important change to make so that as changes to aid are made R2T4 stay in line.

# Reauthorization Task Force Recommendations Previously Accepted by Board, with Rationale

## Recommendations

1. Restrict law and regulation to undergraduates. Leave treatment of graduate students to institution.
2. Narrow the definition of schools that are required to take attendance: only if they are required to take attendance for all students in a given academic program throughout the entire payment period by the accrediting or state licensing agency. Allow schools that are not required to take attendance to use a documented last date of attendance or other academic activity for any student at the school's option.
3. Continue to require that schools have an accessible, publicized withdrawal procedure that recognizes the student's withdrawal date as the date the student initiates that procedure. (The school continues to define what constitutes the beginning of the withdrawal process.) Eliminate the "intent to withdraw" rules. Eliminate rules concerning students rescinding their decision to withdraw, and leave that entirely up to school policy.
4. For students who do not follow the school's official withdrawal procedure (mostly students who drop out without notifying the school), allow a school that is not required to take attendance to set the withdrawal date under its own defined policies. (Unofficial withdrawals would thus not be regulated by ED.) This would also allow the institution complete discretion to set the withdrawal date if the student could not follow official procedures because of illness etc.
5. Follow the current modified pro-rata approach, but simplify the rules as follows: Establish weekly increments based on calendar time rather than the day-by-day calculation that excludes certain days under certain conditions. Fractions of weeks would be rounded up: attendance in any day of the week counts that week. Retain 60% as the point at which all aid is earned, but express it as attendance in 60% of the weeks (so that fractions count as a week). Until that point, for each week at least started by the student, aid is earned in proportion to the number of weeks constituting 60% (that would avoid the "cliff effect" currently seen).
6. Restore authority for post-withdrawal disbursements to be at the discretion of financial aid administrators based on publicized institutional policy (i.e., not necessarily on a case-by-case basis; school can set parameters). Retain the rule that the school should ask the student first if a loan disbursement should be made, and extend that to Pell as well.
7. Modify the assumption that Title IV aid is applied to institutional charges first. Allow aid that is specified for a particular cost of attendance (e.g., tuition) and that will not need to be returned under the source's rules to be deducted from institutional charges when determining the amount of unearned aid that must be returned by the institution.
8. Allow more time for schools to process R2T4 by increasing from 45 to 60 days the period of time the institution has to return funds.
9. Amend the order of return language. Make the order of return subject to regulation, but specify TEACH Grant and loans first, with a directive to repay least advantageous loans first. Remove references to FWS.
10. Direct ED to seek public input on ways to decrease the burden and complexity of R2T4 regulations and procedures within a set period of time after enactment, and to conduct a subsequent negotiated rulemaking session devoted solely to R2T4.
11. Require ED to report to Congress by a date certain, detailing ways in which R2T4 can be made less burdensome, including treatment of various program formats such as modules.

## Background, Rationale, and Implementation Considerations

Under current law, a student who withdraws before completing the period for which he or she has received Title IV student aid funds is currently considered to have “earned” the right to those funds on a prorated basis. A student who has completed more than 60% (in time) of the payment period has earned 100% of aid that was or may still be disbursed. Up through the 60% point, aid is earned in proportion to the percentage of time enrolled as measured by the length of the entire payment period.

Thus, a student who was enrolled for 60% of the payment period earns 60% of aid, while a student who was enrolled 61% of time earns 100% of aid. A student who was enrolled even one day earns a portion of his or her aid, which must be disbursed or at least offered. Under current regulation, these calculations are performed in days for credit hour programs (with scheduled breaks of at least 5 days excluded) or in scheduled hours for clock hour programs.

The lynchpin of the calculation is determining the student’s withdrawal date. Schools must have a withdrawal process that students can easily access. A withdrawal date can be identified for students who follow those procedures, although there are complications even in that aspect of the rules.

Students who drop out without notifying the school are far more difficult to treat, unless the school takes attendance, which is a matter of academic purview unless an accrediting agency or state licensing agency requires it. The law differentiates between schools that are or are not “required to take attendance” in defining withdrawal date, but the Department has gone far beyond that simple distinction in defining what is meant by “required to take attendance.”

While the basic concept underlying the return of Title IV funds (R2T4) is quite straightforward, the details have become so complicated that it has become very burdensome to explain to students and to administer. Even the Department needs over 200 pages in the Handbook to describe and illustrate this process. Errors are virtually inevitable in so complex a set of rules. Further, given the wide range of program formats, individual student circumstances, and other factors, it is very difficult to address all scenarios that arise logically under a “one size fits all” highly regulated approach.

The law should lay out the basic requirements and parameters of an R2T4 policy, which schools must fill in but have some discretion over. The law should clearly identify those areas over which the institution has sole discretion.

Graduate students receive no Pell or subsidized loans. Institutional investment in graduate students is generally much higher, and selection for admission more rigorous. Thus, the law should address only undergraduates, and ED should not regulate R2T4 policy for graduate students.

An example of the proposed modifications to the pro-rata calculation of earned/unearned aid would be as follows. A semester runs from September 3, 2013, through December 13: 15 weeks by the calendar. A student earns all aid by remaining enrolled in 60% of the weeks in a payment period:  $0.6 \times 15 = 9$  weeks regardless of any breaks. The 9th week begins October 27. A student who withdraws anytime during the week of October 27 has earned all aid. For the 15-week semester, a student who withdraws any time during the first week earns 1/9th of aid. A student who withdraws anytime during the 8th week earns 8/9ths of aid.

Further discussion regarding the treatment of modules is needed. However, this level of detail should not be specified in law, but should be the subject of a dedicated negotiated rulemaking.