February 2004

GEN-04-03

Subject: Return of Title IV Aid

Summary: This letter provides additional guidance on the application of the Return of Title IV Aid requirements. The subjects addressed in this letter are:

- Title IV credit balance
- Title IV aid that could have been disbursed
- Verification not completed before withdrawal
- Treatment of a student who fails to receive a passing grade in any class
- Percentage of Title IV aid earned for withdrawal from a credit-hour nonterm program
- Date of the institution's determination that the student withdrew--Institutions that are required to take attendance
- Treatment of LEAP funds

Dear Colleague:

This letter is the second Dear Colleague letter that we are issuing in response to questions raised by members of the higher education community on the Return of Title IV Aid requirements of section 484B of the Higher Education Act of 1965, as amended (HEA) and §668.22 of the Student Assistance General Provisions regulations. The Return of Title IV Aid requirements were added to the HEA by the Higher Education Amendments of 1998 (Public Law 105-244, enacted October 7, 1998). These requirements prescribe how Title IV funds must be treated when a Title IV student aid recipient withdraws from an institution without completing the payment period or period of enrollment, as appropriate.

Although it is unlikely that all the situations addressed in this letter will occur at any one institution, we feel it is important to share the guidance with all institutions. In this way, we hope to encourage the consistent administration of the Title IV programs.

Under the statutory and regulatory provisions for the Return of Title IV Aid, certain determinations and computations are based upon either a payment period or a period of enrollment. For simplicity in this document, we use the term “period” to mean either a payment period or period of enrollment, whichever is appropriate. However, in those limited cases where the discussion must distinguish between the two types of periods, we use the precise term.

We urge you to review earlier guidance that we have provided on the Return of Title IV Aid requirements, including:

- Dear Colleague Letter GEN-00-24 (December 2000);
- Dear Colleague Letter GEN-98-28 (November 1998);

- The preamble to the Notice of Proposed Rulemaking (64 FR 43024, published on August 6, 1999);
- The preamble to the Final Regulations (64 FR 59016, published on November 1, 1999);
- The preamble to the Notice of Proposed Rulemaking (67 FR 51718, published on August 8, 2002);
- The preamble to the Final Regulations (67 FR 67048, published November 1, 2002); and
- Chapter 6, Volume 2, "Institutional Eligibility and Participation" in the *Federal Student Aid (FSA) Handbook*.

All of these references can be found on our Information for Financial Aid Professionals website at http://ifap.ed.gov.

This guidance is provided to assist schools with Return of Title IV Aid calculations and procedures that are made after the date of this letter. Schools are not expected to attempt to apply this guidance retroactively. For any student who withdrew prior to the release of this letter and its guidance, we expect that an institution would have complied with the requirements of the law, the regulations, and any prior guidance we have issued on the topics covered in this letter.

If you have questions on any of the information contained in this letter, please contact the FSA Customer Service Call Center. The Center staff is available Monday through Friday between the hours of 9:00 AM and 5:00 PM (Eastern Time) at 1-800-433-7327. After hours, calls are accepted by an automated voice response system. Callers leaving their name and phone number receive a return call the next business day. You may also FAX an inquiry to the Customer Service Call Center at (202) 260-4199, or e-mail one to fsa_customer_support@ed.gov.

Sincerely,

Sally L. Stroup
Assistant Secretary for
Postsecondary Education

Attachment

Attachment

Title IV Credit Balance

The Return of Title IV Aid provisions require a different treatment of a Title IV credit balance when a student withdraws than that required under the earlier "refund" provisions. This treatment applies only to the handling of a *Title IV* credit balance. For more information on the definition of a Title IV credit balance, please refer to §668.164(e) and Chapter 5, Volume 2, "Institutional Eligibility and Participation" of the *Federal Student Aid (FSA) Handbook*.

Previous guidance

The preamble to the final regulations implementing the Return of Title IV Aid requirements, published on November 1, 1999, provided guidance on the treatment of a Title IV credit balance when a student owes a grant overpayment as the result of a withdrawal. Page 59036 of the preamble states that:

> When a student owes a grant overpayment and there are funds available on the student's account as a credit balance, the institution would be expected to use those funds to apply toward repaying the student's grant overpayment. The actual amount of the grant repayment would still be determined under the return calculation by applying the 50 percent discount to the amount of unearned grant funds. Any funds left as a credit balance after satisfying the grant repayment would be handled in accordance with Subpart K-Cash Management of the Student Assistance General Provisions regulations.

The following guidance incorporates and expands on this guidance.

How to handle a Title IV credit balance under the Return of Title IV Aid requirements when a student withdraws

When a student withdraws during a period, a Title IV credit balance created during the period is handled as follows:

1. **Do not release any portion of a Title IV credit balance to the student nor return any portion to the Title IV programs prior to performing the Return of Title IV Aid calculation.** The institution must hold these funds even if, consistent with the 14-day credit balance payment requirement of §668.164(e), it would otherwise be required to release them.

2. **Perform the Return of Title IV Aid calculation including any existing Title IV credit balance for the period in the calculation as disbursed aid.**

3. **Apply any applicable refund policy (state, accrediting agency, institutional, etc.) to determine if doing so creates a new or larger Title IV credit balance.**

4. **Allocate any Title IV credit balance as follows:**

   A. Any Title IV credit balance must be allocated first to repay any grant overpayment owed by the student as a result of the current withdrawal. The institution must return such funds to the Title IV grant account within 14 days of the date that the institution performs the Return of Title IV Aid calculation.

   B. Within 14 days of the date that the institution performs the Return of Title IV Aid calculation, an institution must pay any remaining Title IV credit balance funds in one or more of the following ways:
      - in accordance with the cash management regulations to pay authorized charges at the institution (including previously paid charges that now are unpaid due to a return of Title IV funds by the institution--see Question 4);
      - *with the student's authorization*, to reduce the student's Title IV loan debt (not limited to loan debt for the period of withdrawal); or
      - to the student (or parent for a PLUS loan).

   C. If the institution cannot locate the student (or parent) to whom a Title IV credit balance must be paid, it must return the credit balance to the Title IV programs. The Department does not specify the order of return to the Title IV programs for a credit balance. We encourage institutions to make determinations that are in the best interest of the individual student.

An institution must determine the results of the application of its refund policy before allocating a Title IV credit balance. However, the institution is not required to actually complete its refund process (for example, by making a refund to a student) before completing the steps for allocating the Title IV credit balance.

In order to accommodate differences in institutional accounting and administrative processes, an institution is not required to actually apply the Title IV credit balance to the grant overpayment before applying the Title IV credit balance to other debts, as long as the grant overpayment is satisfied by the 14-day deadline. Also, an institution may use its own funds instead of the actual Title IV credit balance to satisfy any grant overpayment.

Although not included in the Return of Title IV Aid calculation, any Title IV credit balance funds from a prior period that are on the student's account when the student withdraws are included as Title IV funds for purposes of determining if a Title IV credit balance exists, and the final amount of any Title IV credit balance. As outlined above, the institution must use the final credit balance to satisfy first any current grant overpayment.

Q1. Why does the existing 14-day payment deadline for a credit balance not apply when a student withdraws?

A1. A student's withdrawal requires the institution to perform a Return of Title IV Aid calculation to determine, among other things, whether adjustments to the credit balance will occur. For this reason, the existing 14-day payment requirement must be placed on hold in order to determine the final amount of any Title IV credit balance. This hold is placed even if the amount of the Title IV credit balance turns out to be the same. The institution does not need the student's or parent's authorization to hold any Title IV credit balance that existed prior to the Return of Title IV Aid calculation beyond the original 14-day deadline while the institution determines the final amount of the credit balance.

Q2. Why does a new 14-day deadline for handling a Title IV credit balance begin after the institution performs the Return of Title IV Aid calculation?

A2. The new 14-day deadline is triggered by an institution's performance of the Return of Title IV Aid calculation in order to allow an institution time to appropriately apply the credit balance after it has been recalculated. The new 14-day deadline is based upon the date the institution performs the Return of Title IV Aid calculation and not on when the institution completes its own refund calculation, if any. However, in order to make a correct determination of the Title IV credit balance, the institution must take into account the results of both the Return of Title IV Aid calculation and any applicable refund policy.

Q3. How would the application of a refund policy create a new or larger credit balance?

A3. If the application of a refund policy decreases the amount of institutional charges assessed the student, the difference between the amount of Title IV funds on the student's account and allowable charges may increase, creating a new or larger credit balance.

For example, a student's original institutional charges are $2,000. The institution credits $2,000 in Title IV funds to the student's account to cover the institutional charges. When the student withdraws, no credit balance exists. As a result of the Return of Title IV Aid calculation, the institution must return $1,100 of the $2,000 in Title IV funds, leaving $900 in Title IV funds on the student's account. However, after applying the institution's refund policy, the institution determines that the revised institutional charges are only $300. No other allowable charges exist. Therefore, a Title IV credit balance of $600 now exists. Six hundred dollars is the amount by which the Title IV funds now on the student's account ($900) exceed the revised allowable charges ($300).

Q4. How is it possible for a student to have outstanding charges after a withdrawal if a Title IV credit balance existed on the student's account at the time he or she withdrew?

A4. A student may have outstanding charges even though the student withdrew with a Title IV credit balance because the institution chooses to charge the student to reimburse itself for the amount it is responsible for returning to the Title IV programs under the Return of Title IV Aid calculation.

<u>Title IV aid that could have been disbursed</u>

Guidance in "Dear Colleague" letter GEN-00-24 (December 2000) delineated two principles for the treatment of second or subsequent disbursements of FFEL or Direct Loans in Return of Title IV Aid calculations. The first principle provided that the amount of Title IV funds that could have been disbursed included second or subsequent disbursements of FFEL or Direct Loans for purposes of determining earned Title IV aid *only if the institution would not have been prohibited from making the disbursement on or before the day the student withdrew* (for example, if the loan funds were not disbursed because the institution chose to release loan funds in installments during the term, or if expected funds were not provided by the lender before the student's withdrawal). The second principle provided that a student could never receive as a post-withdrawal disbursement any amount of a second or subsequent FFEL or Direct Loan disbursement. This guidance also addressed the applicability of these principles to the 30-day delayed disbursement requirements for first installments of Stafford Loans under the FFEL and Direct Loan programs to first-time, first year undergraduate students.

Upon further consideration, we changed the **first principle** to provide that any undisbursed Title IV aid <u>for the period for which the return calculation is performed</u> is counted as aid that could have been disbursed for purposes of determining earned Title IV aid *regardless of whether the institution was prohibited from making the disbursement on or before the day the student withdrew*, so long as the conditions for late disbursements listed below are met prior to withdrawal. The conditions for a late disbursement in §668.164(g)(2) that must be met prior to the date the student becoming ineligible are:

- the Department processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official Expected Family Contribution (EFC) for the student (except in the case of a PLUS loan)[1];
- for an FFEL loan or a Direct Loan, the institution certified or originated the loan, as applicable; and
- for a Federal Perkins Loan or FSEOG award, the institution made the award to the student.

The **second principle** provides that an institution may not disburse as a postwithdrawal disbursement any Title IV funds the institution was prohibited from disbursing to the student on or before the student's withdrawal date. This principle remains the same.

This guidance would apply to:

- Second or subsequent disbursements of FFEL or Direct Loan funds for the period that an institution is prohibited from making unless the student has graduated or successfully completed the loan period (§668.164(g)(4)(ii));

[1] Final regulations published November 1, 2002 (67 FR 67048) changed this condition from "receipt of a SAR or ISIR with an official EFC" to "processing of a SAR or ISIR with an official EFC." The final regulations also eliminated the SAR/ISIR requirement for a late disbursement of a PLUS loan. These changes were effective July 1, 2003 or, if an institution chose to implement early, the date of the early implementation.

- For nonstandard term credit-hour programs where the terms are not substantially equal in length, credit-hour nonterm programs, and clock hour programs, second disbursements of FFEL and Direct Loans for the period that an institution is prohibited from making until the later of the calendar midpoint of the loan period, or the date that the student completes half of the academic coursework or clock hours (as applicable) in the loan period (§682.604(c)(7) or (8) or §685.301(b)(5) or (6));
- Disbursements of FFEL and Direct Loans to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study (§668.164(g)(4)(iii));
- Disbursements of a Federal Pell Grant funds to a student for whom the institution did not receive a valid SAR or a valid ISIR by the deadline date established by the Secretary in the Federal Register (§668.164(g)(4)(iv); and
- For clock hour or credit-hour nonterm programs, a disbursement of Federal Pell Grant funds for a subsequent payment in the period that an institution is prohibited from making until the student completes the payment period (§690.75(a)(3)).

For example, a student withdrew after completing 400 clock hours in a 900-clock hour program and before passing the midpoint in calendar time of the loan period. The loan period is the 900-clock hour academic year. The payment periods are 450 hours each. The Return of Title IV Aid calculation is done on a period of enrollment basis. The student was disbursed half of the FFEL or Direct Stafford loan and half of a Federal Pell Grant at the beginning of the first payment period and was scheduled to receive the other half in the second payment period. Because the student had not completed half of the clock hours and, for the loan, passed the midpoint in calendar time of the loan period, making the student eligible to receive the second installment of the loan and the Federal Pell Grant, the second disbursements were not made before the student withdrew. Under the previous guidance of Dear Colleague letter GEN-00-24, the second disbursements would not be included as aid that could have been disbursed because the institution was prohibited from making the second disbursements on or before the day the student withdrew (because the student had not completed the first payment period). Under this new guidance, the second disbursements *are* included as aid that could have been disbursed in the calculation of earned Title IV aid so that the amount of Title IV aid used in the calculation (and earned by the student) will be larger. Please note, however, the institution still may not make a post-withdrawal disbursement from the second scheduled disbursements because of the prohibition on making these disbursements.

Guidance on this change in procedures was provided in private letter guidance in May 28, 2002 and was also included in the *2002-2003 Federal Student Aid (FSA) Handbook*. An institution may have implemented, but was not required to implement, the change as of May 28, 2002. Therefore, an institution should not recalculate Return of Title IV Aid determinations for students who withdrew prior to the publication of this letter.

Q5. How does this guidance apply to the treatment of inadvertent overpayments when a student withdraws?

A5. This guidance has changed the procedures for handling inadvertent overpayments, although it does not change the results of the Return of Title IV Aid calculation.

Inadvertent overpayments are now included in the Return of Title IV Aid calculation as “aid that could have been disbursed” rather than as “aid that was disbursed.”

For purposes of calculating a Return of Title IV Aid under §668.22, an institution includes aid that was disbursed or that could have been disbursed as of the date of the institution's determination that the student withdrew. Previous guidance instructed institutions to include an inadvertent overpayment (a disbursement inadvertently made to a student after the student withdrew) as “aid that was disbursed.”

This policy was developed to save an institution from having to return Title IV funds before determining if the student earned some of those funds. This saves an institution the burden of returning funds and then possibly having to request that some of those funds, in turn, be sent back to the institution to be disbursed to the student as a post-withdrawal disbursement.

The decision to permit a school to hold an inadvertent overpayment while determining if the student was owed a post-withdrawal disbursement was not intended to affect the amount of aid a student would receive under the Return of Title IV Aid calculation. Only a student who meets the criteria for a late disbursement is entitled to keep funds disbursed as an inadvertent overpayment. The inadvertent overpayment did not create a separate basis to permit funds to be paid to a student’s account. So, if an inadvertent overpayment would not have been allowed as a late disbursement, the second principle of the above guidance would apply and neither the institution nor the student may retain any portion of the overpayment.

To address this, consistent with the above guidance, an institution must treat inadvertent overpayments as “aid that could have been disbursed,” rather than “aid that was disbursed.” If the inadvertent overpayment could not have been made as a late disbursement under the regulations, the institution must return the entire amount of the overpayment. If the overpayment could have been made as a late disbursement, the institution must return only the unearned portion of the inadvertent overpayment. In line with the original intent to ease administrative burden, an institution is not required to return the inadvertent overpayment immediately, but must return it within 30 days of the date of the institution's determination that the student withdrew (the timeframe for an institution’s return of Title IV funds under §668.22(j)(1)). An institution must return the inadvertent overpayment in accordance with the applicable regulations for returning overpayments.

For example, if such a disbursement would have been prohibited because the student had withdrawn and the disbursement would have been a late second or subsequent disbursement of an FFEL or Direct Loan, the funds must be returned because the student had not successfully completed the period of enrollment for which the loan was intended (§668.164(g)(4)(ii)).

As we did when this policy was first developed, we stress that institutions must comply with the Title IV program regulations that require an institution to only disburse Title IV, HEA program funds if the student is eligible to receive those funds. Institutions should be vigilant in adopting practices that avoid making such inadvertent overpayments. More than a limited number of occurrences of inadvertent overpayments may indicate impaired administrative capability and may lead to sanctions being imposed.

Verification not completed before withdrawal

The Department has received requests for additional information on the relationship between the Return of Title IV Aid, verification, and cash management requirements when a student who is selected for verification withdraws from an institution before completing the verification process. Each of the requirements establishes deadlines for taking actions that impact a student's receipt of Title IV aid. In applying the Return of Title IV Aid requirements to students selected for verification, several of these deadlines operate simultaneously. In the discussion that follows, the various requirements are summarized and guidance is provided on applying these requirements.

Return of Title IV Aid requirements
An institution has up to 30 days to return to the Title IV programs any unearned Title IV funds for which it is responsible (§668.22(j)) and, if applicable, send a notice to a student who owes a grant overpayment (§668.22(h)(4)(ii)). If, instead of a return of funds, a post-withdrawal disbursement is due the student or parent (for a PLUS loan), the institution must offer to the student or parent within the same 30-day period any amount of the post-withdrawal disbursement that is not credited to a student's account. In both instances, the 30 days are counted from the date of the institution's determination that the student withdrew.

However, the regulations provide more time for an institution to actually make any post-withdrawal disbursement—up to 120 days[2] from the date of the institution's determination that the student withdrew (§668.22(a)(4)(ii)(B)).

Verification requirements
A student's verification deadline for the Federal Pell Grant program is the deadline specified by the Secretary, and for the campus-based programs and subsidized FFEL and Direct Loan program funds, it is the earlier of the institution's verification deadline or the date(s) established by the Secretary (§668.53 and §668.60).

Cash management requirements
In accordance with §668.164(g)(2), a disbursement of Title IV funds may not be made to a student who became ineligible because the student is no longer enrolled or, for the FFEL and Direct Loan programs, is no longer enrolled at least half time unless, prior to the date the student became ineligible:

[2] Final regulations published November 1, 2002 (67 FR 67048) changed the deadline from "up to 90 days" to "up to 120 days." This change was effective July 1, 2003 or, if an institution chose to implement early, the date of the early implementation.

- the Department processed a Student Aid Report (SAR) or Institutional Student Information Record (ISIR) with an official Expected Family Contribution (EFC) for the student (except in the case of a PLUS loan)[3];
- for an FFEL loan or a Direct Loan, the institution certified or originated the loan, as applicable; and
- for a Federal Perkins Loan or FSEOG award, the institution made the award to the student.

The following rules apply when an institution is completing a Return of Title IV Aid calculation for a student subject to verification:

1. An institution must always complete a Return of Title IV Aid calculation in time to meet the 30-day Return of Title IV Aid deadlines;
2. Unless a student subject to verification has provided all required verification documents in time for the institution to meet the 30-day Return of Title IV Aid deadlines, the institution must include as aid disbursed or aid that could have been disbursed in the calculation only those Title IV funds not subject to verification;
3. If a student who failed to provide all required verification documents in time for the institution to meet the 30-day Return of Title IV Aid deadlines provides those documents prior to the verification deadline, the institution must perform a new Return of Title IV Aid calculation and make the appropriate adjustments.

Q6. What funds would be included in the Return of Title IV Aid calculation for a student who has withdrawn and has not provided all required verification documents in time for the institution to meet the 30-day Return of Title IV Aid deadlines noted above?

A6. The institution would include in the Return of Title IV Aid calculation only the Title IV aid that was not subject to the verification process. For a student who fails to provide all required verification documents, the only aid that may be included in the calculation are any PLUS or unsubsidized Stafford loan funds (verification is not required for receipt of these funds) for which the conditions of §668.164(g)(2) have been met (as noted above) prior to the student's loss of eligibility due to withdrawal.

Q7. How should an institution handle Title IV funds that were disbursed under the verification interim disbursement rules[4] to a student who has withdrawn and has not provided all required verification documents in time for the institution to meet the 30-day Return of Title IV Aid deadlines?

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[3] Final regulations published November 1, 2002 (67 FR 67048) changed this condition from “receipt of a SAR or ISIR with an official EFC” to “processing of a SAR or ISIR with an official EFC.” The final regulations also eliminated the SAR/ISIR requirement for a late disbursement of a PLUS loan. These changes were effective July 1, 2003 or, if an institution chose to implement early, the date of the early implementation.

[4] The regulations allow for an interim disbursement of Federal Pell Grant, Federal Perkins Loan, or FSEOG funds if an institution does not have reason to believe that the student's information is inaccurate prior to completing verification. Institutions are prohibited from disbursing any subsidized FFEL or Direct Loan funds to a student who has not completed the verification process. (§668.58)

A7. If a student fails to provided all required verification documents in time for the institution to meet the 30-day Return of Title IV Aid deadlines listed above, the institution must return any Title IV funds subject to verification that were disbursed to the student on an interim basis. This is because at this point in time the student has failed to establish eligibility for those Title IV funds affected by verification.

A student who has withdrawn and has not provided all required verification documents in time for the institution to meet the 30-day Return of Title IV Aid deadlines may still have an opportunity to complete verification and receive a post-withdrawal disbursement of the Title IV aid for which he or she is eligible.

Q8. What should an institution do if a student provides all required verification documents after withdrawing but before the verification submission deadline and in time for the institution to meet the 30-day Return of Title IV Aid deadlines?

A8. If a student provides all required verification documents before the verification submission deadline and in time for the institution to meet the 30-day Return of Title IV Aid deadlines, the institution must perform the Return of Title IV Aid calculation including all Title IV aid for which the student has established eligibility as a result of verification and for which the conditions of §668.164(g)(2) had been met prior to the student's loss of eligibility due to withdrawal. The institution must return any unearned funds or offer any post-withdrawal disbursement within 30 days of the date of the institution's determination that the student withdrew.

If, as a result of verification, the student's eligibility for Federal Pell Grant, FSEOG, and Federal Perkins funds has been reduced, all interim disbursements *for which the student was ineligible* must be repaid by the institution and only the reduced amount is included in the Return of Title IV Aid calculation.

Q9. If, before the verification deadline but after the institution has completed the Return of Title IV Aid calculation, a student provides all required verification documents, must the institution perform a new Return of Title IV Aid calculation?

A9. Yes. If a student subsequently provides all required verification documents by the verification deadline, the institution must perform a new Return of Title IV Aid calculation including *as funds that could have been disbursed* all Title IV aid for which the student has established eligibility based upon verification and for which the conditions of §668.164(g)(2) have been met prior to the student's loss of eligibility due to withdrawal.

If the institution is unable to meet the requirement to offer any amount of a post-withdrawal disbursement that is not credited to a student's account to the student (or parent for a PLUS loan) within 30 days from the date of the institution's determination that the student withdrew, the institution must offer the funds as soon as possible and should provide the student or parent with the minimum 14-day response period whenever possible (§668.22(a)(ii)).

Important: An institution must make any post-withdrawal disbursement that results from the subsequent Return of Title IV Aid calculation by the applicable deadline.

Treatment of a student who fails to receive a passing grade in any class

An institution must have a procedure for determining whether a Title IV aid recipient *who began attendance* during a period completed the period or should be treated as a withdrawal. We do not require an institution to use a specific procedure for making this determination.

At least one passing grade

If a student earns a passing grade in at least one course offered over an entire period, the institution may make the presumption that the student completed the course and, thus, completed the period.[5]

No passing grades

If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

For a student who unofficially withdrew from an institution that is not required to take attendance, the student's withdrawal date is either the last date of attendance at an academically-related activity or the midpoint of the period (§668.22(c)).

Alternatives for determining whether a student with no passing grades unofficially withdrew

In some cases, an institution may use its academic grading policy for awarding final grades to determine that a student who did not receive at least one passing grade nevertheless completed the period. An institution might have an official grading policy that provides instructors with the ability to differentiate between those students who complete the course but failed to achieve the course objectives, and those students who did not complete the course. Here are two examples:

1. Some institutions require instructors to report, for all students awarded a non-passing grade, the student's last day of attendance. An institution may use this

[5] Consistent with the guidance provided in GEN-00-24 (Question 4) for certain standard term-based programs comprised of a series of modules, if a student earns a passing grade in <u>at least one course</u> in one module within a term, that would otherwise take the entire length of the term to complete if courses were offered concurrently, the institution may make the presumption that the student completed the course and the student is not considered to have withdrawn during the term.

information to determine the withdrawal date for a student who did not officially withdraw, but received all “F” grades.

2. An institution may have a grading policy as follows:
F (*Failing*) Awarded to students who complete the course but fail to achieve the course objectives.

U (*Unauthorized Incomplete*) Awarded to students who did not officially withdraw from the course, but who failed to participate in course activities through the end of the period. It is used when, in the opinion of the instructor, completed assignments or course activities or both were insufficient to make normal evaluation of academic performance possible.

To serve as documentation that a student who received all ‘F’ grades had not withdrawn, such a grading policy would have to require instructors to award the ‘F’ (or equivalent grade) only to students who completed the course (but who failed to achieve the course objectives). In addition, the policy would have to require that instructors award an alternative grade, such as the ‘U’ grade in the example above, to students who failed to complete the course. If the system allows an instructor to indicate the date the student last participated in course activities, this date would be helpful if an institution chose to use attendance at an academically-related activity as a student's withdrawal date.

At a school using such a grading policy, if a student received at least one grade of ‘F’ the student would be considered to have completed the course and, like a student who received at least one passing grade, would not be treated as a withdrawal. A student who did not officially withdraw and did not receive either a passing grade or an ‘F’ in at least one course must be considered to have unofficially withdrawn. As noted above, when a student unofficially withdraws from an institution that is not required to take attendance, the institution may use either the student’s last date of attendance at an academically-related activity or the midpoint of the period as the student's withdrawal date.

An institution is not required to take class attendance in order to demonstrate attendance at an academically-related activity. (See the *FSA Handbook*, Chapter 6, Volume 2, "Institutional Eligibility and Participation" for more information on using a last date of attendance at an academically-related activity as a withdrawal date.)

Important: Compliance audits and program reviews may examine whether a school accurately assigns failing grades to students if the school uses its grading policy to determine whether a student with failing grades has unofficially withdrawn.

<u>Percentage of Title IV aid earned for withdrawal from a credit-hour nonterm program</u>

The regulations provide that the percentage of Title IV aid that is earned by the student is equal to the period completed by the student (except if that percentage is more than 60 percent, then the student is considered to have earned 100 percent of the Title IV aid). For any credit hour program, term based or non term based, the percentage of the period completed is calculated as follows:

$$\frac{\text{number of calendar days completed in the period}}{\text{total number of calendar days in the period}}$$

Scheduled breaks of at least five consecutive days and days in which the student was on an approved leave of absence are excluded from this calculation (§668.22(f)(1)(i) and (2)).

We recognize that in a credit-hour nonterm program, the ending date for a period and, therefore, the total number of calendar days in the period, may be dependent on the pace at which an individual student progresses through the program. Therefore, for a student who withdraws from a credit-hour nonterm program where the completion date of the period is dependent on an individual student's progress, an institution must project the completion date based on the student's progress as of his or her withdrawal date to determine the total number of calendar days in the period.

For example, a student is disbursed a Federal Pell Grant and a Stafford Loan for attending a 24 credit hour program at an institution which calculates Return of Title IV Aid on a payment period basis for the program. The student is expected to complete 12 credit hours each payment period, which the student is originally expected to complete in 15 weeks (105 days). The student completes the first payment period by completing 12 credit hours, the first half of the program, in 120 days (past the calendar midpoint of the original program length of 210 days). As a result, the student is eligible to receive the second disbursements of both his or her Federal Pell Grant and Stafford Loan. The student withdraws on day 53 of the second payment period. However, the student has completed only one-third of the work (4 credits) for the payment period. At his current pace of 4 credits earned every 53 days, the student is not scheduled to complete the additional 8 credit hours for another 106 days. At this rate, the student is not scheduled to complete the 12 credit hours of the second payment period until day 159. Therefore, the total number of days in the payment period is 159 for this student. The percentage of the payment period completed is 33.3 percent (53 days completed divided by 159 total days in the payment period).

For credit-hour nonterm programs where the student does not earn credits or complete lessons as he or she progresses through the program, the institution must have a reasonable procedure for projecting the completion date of the period based on the student's progress before withdrawal.

If the total number of calendar days in the period is not dependent on the pace at which a student progresses through a program (the completion date is the same for all students), the total number of calendar days in the period will be the same for all students.

<u>Date of the institution's determination that the student withdrew--Institutions that are required to take attendance</u>

Institutions are expected to have procedures to determine when a student's absence is a withdrawal. Institutions that are required to take attendance are expected to have a procedure in place for routinely monitoring attendance records to determine in a timely manner when a student withdraws. Except in unusual instances, at an institution that is required to take attendance, we would expect that the date of the institution's determination that the student withdrew would be no later than a week after the student's withdrawal date--the last date of academic attendance as determined by the institution from its attendance records (§668.22(b)(1)).

If a student provides notification to the institution of his or her withdrawal prior to the date that the institution normally would determine that the student withdrew, the date of determination is the date of the student's notification. If an institution follows a policy that states when absences will be treated as withdrawals, the date of determination would be no later than the date specified in the policy, as long as that date is not later than one week after the student's withdrawal date. For example, an institution with a procedure that provides that five consecutive unexcused absences will be treated as a withdrawal would never have a date of determination of withdrawal that is beyond the fifth unexcused absence.

<u>Treatment of LEAP funds</u>

The statute provides only one exception (Federal Work-Study) to the requirement that all Title IV funds are to be included in a Return of Title IV Aid calculation when a student withdraws. Therefore, an institution must consider all or a portion of a state grant, as specified below, to be Federal LEAP Program funds, including for purposes of the Return of Title IV Aid calculation, if the state agency provides information to the institution in writing prior to the date of the institution's determination that the student withdrew:

1. *Stating the dollar amount or percentage of a student's state grant that is part of the LEAP program.* If the state agency specifies the exact amount or percentage of LEAP funds included in an individual student's state grant, only the specified amount or percentage of the student's state grant up to $5,000 (the statutory maximum LEAP award) is considered LEAP funds.

2. *Identifying a specific student's state grant as containing an indeterminate amount of LEAP funds.* If the state agency identifies a specific student's state grant as containing LEAP funds but does not provide an exact amount or percentage, the entire amount of the grant up to $5,000 is considered LEAP funds.

> Example: A student receives a $7,000 grant, and the state notifies the school in writing that the grant includes an indeterminate amount of LEAP funds. $5,000 of the state grant is considered LEAP funds. Another student receives a $3,000 grant, but the state does not notify the school of its composition. The $3,000 grant is not considered to be LEAP funds.

3. *Identifying the percentage of LEAP funds in the entire amount of state grant funds provided to the institution.* If the state agency does not specify the amount of LEAP funds included in a student's individual grant but does specify the percentage of LEAP funds in the entire amount of state grant funds provided to the institution and the student meets the Title IV student eligibility requirements, the institution must apply this percentage to the individual student's total state grant to determine the amount of the grant up to $5,000 to be considered LEAP funds.

> Example: A Title IV eligible student receives an $8,000 state grant, and the state specifies that 25 percent of the State grant funds provided to the school are LEAP funds. $2,000 of the student's grant is considered LEAP funds. Another student receives a $3,000 State grant but the student is not Title IV eligible. None of the funds of this second student are considered LEAP funds.

4. *Stating that LEAP funds are included in all students' state grants.* If the state agency states that LEAP funds are included in all students' state grants but does not provide an exact amount or percentage, the entire amount of all grants up to $5,000 is considered LEAP funds.

If the Return of Title IV aid calculation results in an institution having to return unearned LEAP funds, the institution returns the funds in accordance with the guidance of the State agency. This guidance may include returning the funds to the state agency or reawarding the funds to other eligible students at the institution.

A student owing an overpayment of LEAP funds as a result of the calculation must repay the overpayment to the institution or to the Department (§668.22(h)(4)(i)). If the student repays the overpayment to the institution, the institution must return the funds to the state in accordance with the State agency's guidance.

If an institution refers a LEAP student overpayment to the Department, the Department considers the State agency to have paid to the student any Federal or state-matching funds for purposes of the LEAP program. For example, the funds would be reported as expended in the appropriate categories on the State agency's performance report. Of course, a state agency would have the option of considering the entire amount of LEAP funds referred to the Department to consist solely of funds from the State's Federal allotment if the State meets the LEAP matching requirements by disbursements of State-appropriated funds to other State grant recipients.

These policies also apply to the Special Leveraging Educational Assistance Partnership (SLEAP) Program except that there is no $5,000 maximum award.

Note that the Department does not require states to notify institutions of federal and state matching funds that are part of state grants.