

NASFAA's "Off the Cuff" Podcast – Episode 361 Transcript

OTC AskRegs Experts: Understanding the New R2T4 Regulations

Maria Carrasco:

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Hello, and welcome to another episode of "Off the Cuff". I'm Maria Carrasco with our communications team.

David Tolman:

I'm David Tolman with training and regulatory assistance.

Tonya Hsiung:

I'm Tonya Hsiung with training and regulatory assistance.

David Downing:

I'm David Downing, also with training and regulatory assistance.

Maria Carrasco:

David, it's so nice to see you and finally have you on "Off the Cuff." Welcome to your first episode.

David Downing:

Yeah, thanks, Maria. I'm excited to be here. I'm a longtime listener of "Off the Cuff," and I think I've been listening to it since it started years and years ago, so I'm excited to be here.

Maria Carrasco:

Oh, that's awesome. Yeah, I was looking at the numbers, and I think this is episode 361. So we've had over 360 episodes. That's crazy.

David Downing:

Oh, wow.

Maria Carrasco:

Yeah, it's nice to have the NASFAA U team. I know we have a lot to talk about, but we could start off with icebreaker. So summer is just around the corner. I'm a big movie fan. I have AMC A-List. I wanted to ask you guys, what summer movie are you guys looking forward to? David Tolman, do you want to kick us off?

David Tolman:

Okay. Well, it's not really summer next week, but the movie I've been looking forward to for a long time is based on a book called Three Bags Full. It's kind of a murder mystery solved by sheep, and so the movie is called Sheep Detectives. I think it was going to be called Three Bags Full: The Sheep Detectives, and then they just dropped it to The Sheep Detectives. That comes out next week, so great Mother's Day weekend. But yeah, from what I have... The book isn't really a murder mystery. I'm about a third of the way in. There is a murder mystery portion of it, but it's a little deeper. So I don't think it's going to be just... It's not going to be like a kid's movie. It is going to be appropriate to take kids to, I think, but I think they're going to be things in there for people like us as well.

Maria Carrasco:

That has Huge Jackman in it, right? Am I making that up?

David Tolman:

Yeah.

Maria Carrasco:

Nice.

David Tolman:

Briefly. In the book, he's dead on the first page, the first paragraph. So we'll see what they do with the movie.

David Downing:

Spoiler alert.

Tonya Hsiung:

Yeah. So I only know of two movies that are coming out, and one is this summer. The other, technically, I guess, is this fall, but I'm excited to see both. The first one, and I'm not ashamed to say this at all, is Toy Story 5, although I think I might be going to see it alone because my daughter is now 13. I don't know that she will be into the Toy Story movies anymore, but when she was a kid, we watched all the Toy Story movies, and I absolutely love them. So I'm going to try to convince her to go with me to see it, but I'm really excited because I loved all the Toy Story movies. I thought they were so fun. We watched them so many times, so I'm excited to see Toy Story 5.

David Tolman:

You tell her you're going to go to this movie, and you're going to enjoy it.

Tonya Hsiung:

That's right. And I think she would. I don't know. But she's at that age that who knows? I don't know if she'd like to or not. But the other one I'm actually really excited to see is Practical Magic 2. It comes out in September. The first one came out like 30 years ago. So I think I was in college when that happened, and I loved the first movie. I love the soundtrack for it. So I'm really, really excited to see the second one when it comes out, but it's in September, so I have to wait awhile.

Maria Carrasco:

I love Practical Magic, so I'm also very excited.

Tonya Hsiung:

Yeah.

David Downing:

Well, I guess I'll go next. I, Maria, am also an A-List AMC rewards member, so get to the movies quite a bit, but there's actually a lot of really good movies coming out or I'm excited for this summer, but I'm a big superhero fan for anyone that knows me or if you can tell by looking at decor in my office. So there's actually two superhero movies coming out this summer that I'm excited for. The first one is Supergirl: Woman of Tomorrow. It's kind of a... If anyone saw the new Superman movie that came out, it's the same Supergirl character that was briefly in that movie, so I'm excited for that. The other one is the new Spider-Man movie, the new Spider-Man: Brand New Day with Tom Holland. So I'm excited for both of those movies. But Toy Story 5 is also on my list too, Tonya.

Maria Carrasco:

No, great choices. I love Spider-Man. I'm also excited for that.

David Tolman:

So obviously, we're all kids at heart.

Maria Carrasco:

Yes.

David Downing:

Yes.

Tonya Hsiung:

Yeah.

Maria Carrasco:

I guess my pick, I'll say the Odyssey, the new Christopher Nolan movie. I remember reading the book in high school, and I kind of want to reread it again, but it looks really good. So I'm excited for that.

David Tolman:

I am excited about the summer movies this year. It's going to be some good ones.

Maria Carrasco:

Well, moving on to the financial aid portion of this podcast, I know we're talking about R2T4. David Tolman, I have to say your last name, could you tell us what we're talking about this week?

David Tolman:

Yeah. Well, the schedule of reductions for loans and legacy borrowing and all that, that is capturing most of the attention for regulations that go into effect on July 1st. In fact, looks like we might get some

final rules out soon on those, but one area that we just wanted to make sure was not overlooked is return of Title IV funds because there are some new regulations going into effect on those as well in five different areas. There's a new optional exemption for withdrawals and a new method of determining the length of a student's scheduled enrollment when doing the 60% calculation. Both of those rules go into effect and affect programs with modules. There's also three other provisions that are more strictly limited. For institutions that are required to take attendance, the 14-day deadline to determine that a student has withdrawn, stopped attending classes, it's been that way for a long time, so it's not a big change. It's just now in the regulations where previously, it hadn't been. And then, there's also a provision for prison education programs and leave of absence and clock-hour programs.

Maria Carrasco:

So let's start with the first one, optional exemption criteria for withdrawals. Can you explain what that is?

David Tolman:

Okay. Yeah. The optional criteria, the exemption criteria, might not be new to all schools because it's been eligible for early implementation since February of 2025. So some schools might be thinking, "Well, we're already doing this." But it's a new optional method for determining that, "Hey, the student seems to... They've dropped all their classes and would otherwise be treated as a withdrawn student and apply return of Title IV funds." But this is another exemption criteria that allows the school to treat the student as if they never set foot on campus like, "You've not seen me. You've never seen me before. This never happened." The school can waive R2T4 if they've done a few things for the student. And one is they've wiped the student's enrollment on the student's transcript, no classes. They have refunded all institutional charges for the period back to the student, and they've also returned all Title IV aid that was dispersed either to the student as a credit balance or to the student's account to pay off those institutional charges. If the student school does that, then they cannot charge the student for any balance owed resulting from returning funds.

Maria Carrasco:

It seems like this could result in the school returning a lot of funds that they can't hold the student responsible for. Let's bring David Downing into the conversation. Why would schools want to implement this withdrawal exemption?

David Downing:

Yeah, that's a really good question, Maria. And Tonya and I, actually, part of our role here at NASFAA is we teach our NASFAA U online courses. So we actually just finished a five-week R2T4 class, so obviously, this is a complicated topic that takes more than just a 20-minute podcast to explain, but I'll give you kind of the highlights of why a school would want to implement this new withdrawal exemption. So as David Tolman mentioned, this specific optional exemption was eligible for early implementation as early as February of 2025, so schools have been able to do this one for a little while now. It really helps out schools that have a generous refund policy, so if a school has an add/drop period where they refund 100% of the students' tuition when they drop a course within the first few days of class, for example, this might be an optional exemption that they might want to look into.

If they don't use this optional exemption, even if the school refunds all of the students' tuition and fees and all of that after they drop for a few days, they still have to perform an R2T4 calculation. So meaning if the student attends one day and you don't use this exemption, you still have to go through the entire

R2T4 process and perform the calculation. So the benefit of using this optional exemption is you don't have to do that. This is, again, as we mentioned, optional, and this is optional,. This exemption applies to all programs. If you use any of the NASFAA R2T4 decision trees that we have as resources on our website, they have all been updated with this optional exemption. It's right there on there as step one. So schools aren't required to use this exemption if they don't want to. They also have the choice of using this on a case-by-case basis, so meaning it doesn't have to be applied to all students, all withdrawals or all Title IV recipients. So just depending on the situation, it may be beneficial to use it for some students, not others.

It also provides flexibility and reduces the administrative burden and prevents unnecessary financial penalties on students who withdraw early. So meaning this is easier for the financial aid administrator because there's not the burden of doing the complicated R2T4 calculation, but it also benefits the student, so it allows them not to exhaust all of their aid eligibility. So they would have additional Pell or direct loan, and it also reduces the likelihood that the student's going to have a loan balance for a program that they may not finish because all of that aid's being returned back to the department. As I mentioned, R2T4 is a complex process, so it also decreases the institutional complexity around R2T4. So they don't have to do the R2T4 if they're applying this exemption. So because it is case by case and it is optional, schools really want to revisit their R2T4 policies and procedures to make sure that it's clearly defined on what they're doing and when they do it and that sort of thing.

Maria Carrasco:

So let's say a school has already completed an R2T4 calculation for a student who withdrew early in a semester. The student petitions the school to remove the grades and reverse tuition charges, those things that might have made the student eligible for the exemption. I guess I'd like to ask Tonya this. Can the school reverse the R2T4 calculation and apply the exemption?

Tonya Hsiung:

So the short answer to this is no. If the school has already processed the R2T4 calculation, then they cannot reverse it. In order to apply that exemption, they must apply the exemption prior to performing the R2T4 calculation. So while the school can go in and remove the grades, reverse the charges, they are permitted to do that, that R2T4 calculation still sits and they cannot reverse it.

Maria Carrasco:

What about satisfactory academic progress? Can or should the courses the student originally enrolled in count as credits attempted but not completed?

Tonya Hsiung:

So if the exemption is applied, if the school has applied the exemption, this is where it actually is going to benefit the student. The school will need to treat the student as if they've never attended. In order to do that, the school, not the school, but the courses should not impact the SAP calculation, so the quantitative or the qualitative part and the measurements of the SAP calculation. So the PACE or the GPA, that's not going to impact the student in their SAP calculations.

Maria Carrasco:

Thanks. And is there anything else schools should know about the withdrawal exemption?

David Tolman:

A lot of questions that have come in regarding this have to do with institutional charges. When we were discussing this, we thought, well, we could do a whole podcast on institutional charges. And so, we might post a link to an AskRegs article to get people started in researching institutional charges, but we wanted to focus on the return of Title IV funds aspect of this rule and not get caught up in what is and is not an institutional charge. And then, no other changes to withdrawal exemptions were made. So if a student has completed that 49% when you look at the modules that the students successfully completed or they've already completed halftime status when they drop or provided written confirmation, there's a few others, those have not changed at all.

Maria Carrasco:

Gotcha. Well, let's move on to the next change. Could one of you explain the new method for determining the student's scheduled enrollment period if they withdraw from modules?

David Tolman:

Yeah. So first, to define a module, that just means the students enrolled in at least one course that has a start and end date that is shorter than the length of the full semester or payment period. You might have students who are adding and dropping courses before they finally withdraw, and when the modules are involved, it's kind of hard to know what... For return of Title IV funds, they need to complete more than 60% of their scheduled enrollment period, but when modules have been added and dropped and so forth before withdrawing, what is that scheduled payment period? Right now, it's been complicated actually with factors such as whether or not the school has used a return of Title IV funds freeze date or the RFD and the types of aid that the student might have been eligible to receive. So did they receive a direct loan or was it only Pell Grant? So the new rules will try and streamline it and make it easier for both the school to implement and the student to understand the repercussions of a withdrawal.

Maria Carrasco:

Is this new method easier?

David Downing:

Well, I could take that one. So Maria, I think it depends on your definition of easier. Nothing's really easy when it comes to R2T4, but I would say that this new method does simplify things for schools and for students. So the scheduled enrollment for the student enrolled in modules includes only the modules that the student initiates attendance in. Starting July 1st, 2026, there is no more R2T4 funds freeze date, so that means you are no longer doing the R2T4 based on that freeze date. You are no longer doing that R2T4 if you don't use a freeze date based on the types of aid the student's eligible to receive. It is now simply based on their attendance in the module versus their enrollment throughout the payment period. So I think we have an example maybe to illustrate and kind of go through this and walk us through.

David Tolman:

Yeah. Let's look at an example. This is as close as we're going to get to a fictional Leopold and Sigmund story today. Let's say the school has three modules. Each are 30 days in length in their term, just to make it easy. The student was enrolled in all three modules and one class in each module, and the student completed the first module with a grade of A. So the student was in a good mood walking home from campus and joined some elementary school students in jump rope, but she got tangled in the rope

and broke her leg. The student sat out the first few days of the second module. She sat out. She didn't go and then decided there's going to be no way to catch up, so the student withdrew from the second and third module courses about 10 days in during the second module.

Yeah. So we'll say the student withdrew. She met none of the exemptions that we were talking about. So we're looking at the 60% calculation. The school now needs to determine whether the student completed more than 60% of the scheduled payment period. And the question is, what is the student scheduled payment period and what percentage of aid did the student earn? Tonya, who's our math expert, I'm going to let her explain this one.

Tonya Hsiung:

Yeah. I had to put on my math hat in order to get my brain ready to go to explain this, but we're talking about the rules as of July 1st. And so, what we want to do is only look at the modules that the student actually initiated attendance in, and that's the first module. Remember David Tolman said that the student didn't actually begin attendance in modules two or three, so we want to ignore the enrollment in the second and third module. So the student was enrolled, but never initiated attendance, and that's important here. So the student only initiated attendance and completed the first module. So we go back and we look, the first module was 30 days in length, so 30 days is our denominator. So because the student completed that module with an A, we know the student initiated attendance in that first module. So the student completed 30 days and that becomes our numerator. So we have 30 days over 30 days, and when you take 30 divided by 30, you get one or 100% of the scheduled enrollment.

Maria Carrasco:

So does that student get to keep all of their aid?

Tonya Hsiung:

So we know that the student completed the period and will have earned 100% of their aid, so they get to keep their aid after performing mandatory aid recalculations.

Maria Carrasco:

What are those mandatory recalculations?

Tonya Hsiung:

So the mandatory recalculations means that the school will need to recalculate the student's Pell Grant to reflect only the one course that she initiated attendance in. Now, a Pell Grant recalculation is required even when the students don't withdraw, so those policies still apply. That hasn't changed, and that concept also applies to the TEACH grant. The loans are different. The student can keep the loan if they're enrolled at least halftime when the loan was dispersed. So if that loan dispersed in module one when the student was enrolled at least half-time and she initiated attendance in at least one class, then she can keep the loan. After that, the student would be able to keep all of those direct loan funds. However, remember that since the student did not begin attendance in modules two or three, there is a mandatory recalculation of that Pell Grant from 75% enrollment intensity, because she was enrolled in three modules, down to a 25% enrollment intensity Pell Grant.

David Tolman:

Okay. And Tonya, let's adjust this scenario just a bit to help illustrate this. So the student still completed module one with their A, and they attended two days of module two. And then, as she was walking home, she had that jump rope incident. So the student withdrew into two days into module two.

Maria Carrasco:

I suppose that starting attendance in module two makes a big difference?

Tonya Hsiung:

Well, it's only a few days, but in this case, it would make a big difference. So if the student initiated attendance in module two, that's going to change your numbers. So what it would do is module two... Remember each of those modules was 30 days. So what that's going to do is it's going to add another 30 days to your denominator so that your scheduled enrollment instead of 30 days with just module one will now be 60 days with modules one and two since the student initiated attendance in both modules one and module two. But the numerator will still be the 30 days from module one plus the two days that she attended in module two. So you have 32 days divided by 60 days, and when I do the calculation, that comes out to be 53.3%.

Maria Carrasco:

And that's less than 60%, so now, the student will owe the money back?

Tonya Hsiung:

That's correct. So the student will have earned 53.3%, but they still have a larger enrollment intensity Pell Grant, and they'll earn 53.3% of the direct loan. Remember, in that first example, the student would have that mandatory Pell recalculation from 75% to a 25% enrollment intensity, as I mentioned. But since the student began attendance in module two, the student would keep more of the federal Pell Grant at a 50% enrollment intensity, but since the student didn't earn more than 60% of their aid, they would have to return funds unlike the first example where they actually earned 100% of their aid.

Maria Carrasco:

Gotcha. So this goes into effect July 1st, 2026. Is that the date of withdrawal, date the office calculates R2T4, payment periods that start after July 1st? David Downing, could you maybe answer that?

David Downing:

Yeah, that's another really great question, especially since a lot of schools are about to start their summer terms, they might be wondering that same exact thing. So with the implementation of all of these new R2T4 rules, it goes into effect on July 1st, 2026. It applies to the withdrawal date, meaning that even if the school is performing the R2T4 calculation after July 1st, 2026, if that withdrawal date is prior to July 1st, they are going to use the old rules. If the withdrawal date is on or after July 1st, 2026, they're going to use the new rules. So that could mean a different treatment for students enrolled in summer. They might be in the same exact program. They might be in the exact same classes. It all is tied to that withdraw date.

Maria Carrasco:

Okay. So let's say a student is enrolled in the summer and they withdrew before July 1st. The program performs an R2T4 calculation and the student returns for a later module in the summer, then withdraws again this time after July 1st. What policy does the school use?

David Downing:

That's another really great question, and this question came up a lot in our class that I mentioned we just finished teaching. So again, it depends on when that withdrawal takes place. So in this scenario, Maria, the student originally withdrew prior to July 1st. So in their first withdrawal, the school is going to use the original or the current rules for R2T4, which take into account if the school uses an R2T4 funds freeze date or not, which also, if they don't use a freeze date, it includes the types of aid and their scheduled enrollment. So in that specific scenario, we're going to assume that the school couldn't have foreseen that the student would come back, so they perform the R2T4.

They use the old rules or current rules as of today, and we assume the student didn't provide them written confirmation of future attendance. So they are a withdrawal. They perform the R2T4 calculation. But now, the student comes back for that second module. So what happens when a student returns for a future module in the same payment period, the school undoes the R2T4 and restores the Title IV aid. But then, if they withdraw again, and now, the second time that withdrawal date is after July 1, 2026, the school is going to use the new rules because again, that withdrawal is taking place after July 1, 2026.

Maria Carrasco:

Got it. Thanks, David. What are the other changes to these regulations that aid folks might need to be aware of?

David Tolman:

Yeah. So we've spent a lot of time talking about the first two that impact programs with modules. May spend a little bit of time, well, on the 14-day determination. So at schools that are required to take attendance, schools need to be able to make a determination that the student has withdrawn if the student stops attending class. So if the student stops attending and you're at an attendance taking institution, then you know the student is perhaps withdrawing. And so, that will prompt a withdrawal, that 14 days. So it's not really a change, but that 14 days has never been in regulation before now, and now, it's in regulation. So it previously was just sub-regulatory guidance, but the importance of that 14 days is within that 14 days, that kicks off the timeline, the 30 days for completing the calculation, 45 days for returning funds. So not a big change, it's just official now.

Maria Carrasco:

Do regulations require a school to procedurally withdraw the student from their classes if the student stops attending?

David Tolman:

No, it doesn't. So if the student stops attending within that 14-day period, the school would have to, on the financial aid sides, start all the processes for return of Title IV funds, but they don't actually have to calculate or withdraw the student administratively from their classes. So hopefully, they're using that time to try and contact the student and learn their intent, but there is that extra burden on schools that are required to take attendance. Then, a couple of the other changes, again, we'll have some links to these changes. One is specific to prison education programs and leaves of absence, so a very specific area.

For other non-term and clock-hour programs, if a student is granted a leave of absence, then they have to be able to return at the exact same point in the program in which they left, resume classes. So that's why leave of absence is typically a non-term or clock-hour method. But in prison, things will happen outside of both the student and the school's control, such as lockdowns and transfers. So the change that's specific to prison education programs is if a student goes on a leave of absence, they do not need to resume at the same point that they were when they left, unlike every other student in a leave of absence.

And then, the last one is a clock-hour program. There are a couple of methods for determining the scheduled period that the student was scheduled to have been completed as well as the days that they did complete. There's a payment period method. There's a cumulative method. The payment period method will be the only one that can be used starting July 1st, and it's also similar to the others that go into effect on July 1st is for withdrawals that take place on or after July 1st. So you really only need to pay attention to this if, one, you are a clock-hour program and you do not use the payment period method, but you use the cumulative method. It's going to be generally more impactful for students who are enrolled in the second payment period within an academic year.

Maria Carrasco:

Awesome. Are there resources available to schools who want to research this topic more?

David Tolman:

Yeah, there are. Unlike all the other changes, it seems like we're waiting for federal registers to publish and final rules to come out. They have been final for quite a while with return of Title IV funds, but we will list them all in the show notes. I'll provide those to you, Maria, so you can get those posted. Also, David Futrell and Michelle Thompson in training and regulatory assistance did a webinar in March talking in detail about these changes, all five of them. So we'll include that as well. The webinar is a good site to go to.

Maria Carrasco:

Awesome. Well, thank you so much, David. And thanks to the NASFAA U team, Tonya and David Downing for joining us. I always learn so much during these episodes, and thank you for listening to another episode of "Off the Cuff." We'll be back with a new episode real soon.