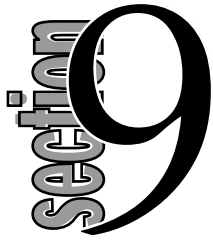


## Archived Information



# Applying for and Maintaining Participation in the SFA Programs

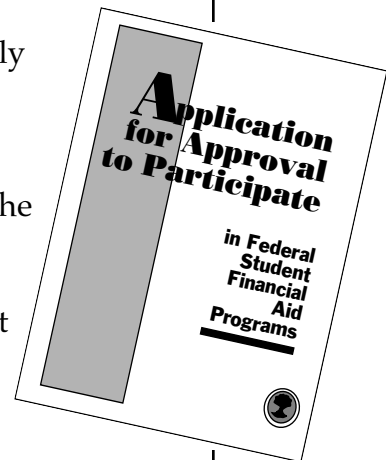
In this section, we will discuss how and when a school applies for approval to participate in any Student Financial Assistance (SFA) Program. We also will discuss changes that can affect a school's participation, how and when to report these changes, responsibilities that a school must fulfill when leaving the SFA Programs, changes to the Department's approach to oversight, and reasons the Department may take corrective actions and institute sanctions against a school.

### APPLYING TO PARTICIPATE

To participate in any of the SFA Programs—the Pell Grant Program, the Federal Direct Loan Program, the Federal Family Education Loan (FFEL) Program, and the campus-based programs (Federal Supplemental Educational Opportunity Grant [FSEOG], Federal Work-Study [FWS], and Federal Perkins Loan)—a school must be approved and certified by the Department.

To apply for institutional participation, a school must request an *Application for Approval to Participate in Federal Student Financial Aid Programs* (Application) from the Department's Institutional Participation and Oversight Service (IPOS):

U.S. Department of Education  
Institutional Participation and Oversight Service  
P.O. Box 44805  
L'Enfant Plaza Station  
Washington, DC 20026-4805  
Telephone: 202-260-3270



The school must then complete and return the Application to the Institutional Participation and Oversight Service, along with photocopies of requested documents.

In evaluating the school and deciding whether to approve or deny the request to participate in any SFA Program, the Department examines the Application and accompanying submissions. In addition, for schools that are participating or have participated in the SFA Programs, the Department will examine a school's audits and program reviews. The Department also will check to see if a school has submitted all the required financial statements and compliance audits. The Department may request additional materials (such as school catalogs or copies of contracts with third-party servicers) and ask additional questions.

The Department uses this input to examine three major factors about the school: institutional eligibility, administrative capability, and financial responsibility. Each of these subjects is discussed in detail in Section 1 and Section 2.

**When to  
complete an  
Application**

A school submits a *fully completed* application to the Department when it

- ◇ wishes to be approved for the first time (*initial certification*) to participate in the SFA Programs;
- ◇ undergoes a change in ownership, a conversion to a nonprofit institution, or a merger of two or more institutions (referred to collectively as a "change in ownership or structure" for the remainder of the section) and wishes to participate in the SFA Programs;
- ◇ wishes to be reapproved (*recertification*) to participate in the SFA Programs;
- ◇ wishes to be designated as an "eligible institution" under the Higher Education Act of 1965, as amended (HEA), so that its students may receive deferments under the SFA Programs, or so that the school may apply to participate in federal HEA programs other than the SFA Programs; or
- ◇ wishes to be reinstated to participate in the SFA Programs.

Each of these five circumstances will be discussed later in this section.

Revisions to the Application in 1996 clarified and streamlined school application procedures and simplified the form's appearance. The Department also added a way to complete the application data electronically, if a school wishes to do so.

Other new aspects of the revised application follow:

- ◇ To fully complete an Application, a school does not need to fill out every section—only sections of the application that apply to the school.
- ◇ A school is asked for the name of the accrediting agency that provides its institution-wide accreditation. If more than one accrediting agency provides institution-wide accreditation, the school must designate the one it wishes the Department to use in determining the school's eligibility and continued eligibility. A school must list accrediting agencies for individual educational programs **only** if it does not have an institution-wide accrediting agency.
- ◇ A school is asked about general percentage levels for telecommunications and/or correspondence courses, students enrolled under ability-to-benefit provisions, and incarcerated students. If the answers are higher than mandated thresholds, the Department will be in touch with the school's contact person to ask if the school wants to apply for a waiver. (The waiver is not requested when filling out the Application.)
- ◇ Only one authorized signature, from a top school official, is required.
- ◇ A glossary provides specific definitions for many of the words and phrases used in the application, such as "regular student" and "award year."

***New aspects  
of  
Application***

The Application is divided into 13 sections, plus a glossary at the end.

This Section...	Is for...
A through D	General questions about the school.
E and F	Questions about educational programs and locations that the school wishes to be eligible for SFA Programs.
G	Questions about telecommunications and/or correspondence (tele/corr) courses, students enrolled under ability-to-benefit provisions, and incarcerated students.
H	Schools that are initial applicants, schools with a change in ownership or structure, and schools seeking reinstatement.
I	Foreign institutions, including foreign graduate medical schools.
J	Questions about third-party servicers that perform any function relating to the school's SFA Programs.
K	Questions about the school's administrative capability and financial responsibility.
L	The school's President/CEO/Chancellor to sign.
M	A checklist of copies of documents that must be included, as applicable. <sup>1</sup>
Glossary	Specific definitions of terms used in the application.

If a school has questions, it is encouraged to contact the Institutional Participation and Oversight Service.

<sup>1</sup>These include the school's current letter of accreditation; valid state license or other state authorization; and, in some cases, audited financial statements, a default management plan and, for a school undergoing a change in ownership, an audited balance sheet showing the financial condition of the school at the time of the change in ownership.

An application with missing information or materials that are still to come is considered incomplete. The time frames for submitting a fully completed application depend on a school's current status:

- ◇ A school seeking initial certification to participate in the SFA Programs may submit an Application to the Department at any time.<sup>2</sup>
- ◇ A school that undergoes a change in ownership or structure and wishes to participate in the SFA Programs must notify the Department no later than 10 calendar days after the change occurs. If this date falls on a weekend or a federal holiday, the notification may be no later than the next business day. After the school receives its state and accrediting agency approvals, it submits the Application together with photocopies of the approvals. See page 3-213 for more information on changes in ownership or structure.
- ◇ A school seeking to be recertified to continue to participate in the SFA Programs should submit an Application before the expiration date listed in its Program Participation Agreement (PPA). If the school submits its fully completed application to the Department *no later than 90 calendar days before* its PPA expires, its eligibility to participate in the SFA Programs continues until its application is either approved or not approved. This is true even if the Department does not complete its evaluation of the application before the PPA's expiration date. (For example, if a school's PPA expires on June 30 and it submits its Application by April 1, the school remains certified during the Department's review period—even if the review period extends beyond June 30.) If the 90th day before the PPA's expiration falls on a weekend or a federal holiday and the school submits its application no later than the next business day, the Department considers the application to be submitted 90 days before the PPA expires. If the school's application is not received at least 90 days before the PPA expires or is not materially complete, the school's PPA will expire and the SFA Program funding will cease.
- ◇ A school that wishes to apply to become an eligible institution so that its students may receive deferments under federal student loan programs, or so that it may participate in federal HEA programs other than the SFA Programs, may submit an Application to the Department at any time.

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<sup>2</sup>In the case of a proprietary institution and a postsecondary vocational institution, there is an eligibility requirement that the school must have been providing continuous postsecondary instruction for at least two consecutive years before it can participate in the SFA Programs. This is known as the Two-Year Rule. (See Section One.)

- ◇ A school that voluntarily left the SFA Programs may seek to be reinstated at any time. A school that was terminated from the SFA Programs or that left because it was about to be terminated or otherwise sanctioned generally must wait two years (24months) before applying for reinstatement.

The Department considers the date of submission to be the postmark date *or* a delivery service's or courier's written verification or printout of the shipping date.

An Application sent by mail should be sent to the Department address listed earlier in this section. An Application sent by overnight mail/ courier delivery service should be sent to

U.S. Department of Education  
Institutional Participation and Oversight Service  
7th and D Streets, SW  
GSA Building, Room 3522  
Washington, DC 20407

***Paper,  
electronic, or  
smart disk  
submission***



The Department provides the Application to a school in both paper and electronic (disk) versions. To complete the Application electronically, the school uses the electronic database disk and returns the disk to the Department. Disk features include pop-up windows, a help function, a searchable glossary, edit checks, and printing capability.

In 1997, the Department will introduce a "smart disk" version of the Application, which can be operated in DOS or Windows. The smart disk has links that help the school move through the Application to those sections and items they need to complete, and allows schools to answer questions in any order. The smart disk also includes help screens, a list of accrediting agencies, and validation routines that check for accuracy and complete data. In addition, the Department plans to make the Application available on the Department's home page on the World Wide Web. More information will be provided to schools in the coming months.

For all versions of the Application, the Department recommends that the school keep a copy of its application (and supporting documents) and retain proof of the date when it submitted the Application. The completed version of the Application—paper, electronic, or smart disk—is sent to the Department. With all versions, the school must submit the *paper* page containing the original authorizing signature of the school's President/ Chief Executive Officer (CEO)/ Chancellor.

Following submission of an Application, the Department will contact the school if it has additional questions about the application. Generally, this will be within 90 days of the Department receiving an application. Depending on the outcome of its review, the Department either will send a school copies of the PPA to sign (and further instructions) *or* notify it that its application is not approved.

During the Department's application review period, a school's status is as follows:

- ◇ If a school has never been certified (and it is seeking initial certification), it will not be considered certified during the Department's review period.
- ◇ If a school has a change in ownership or structure, its participation in the SFA Programs stops. The institution may not award SFA Program funds beginning on the date that the change becomes effective until it receives a new PPA signed on behalf of the Secretary of Education. (Exceptions for unpaid commitments of SFA Program funds are discussed on page 3-215).
- ◇ If a school is certified (and it is seeking recertification), it will remain certified during the Department's review period if it submitted its application during the correct time frame described earlier in this section.
- ◇ If a school has never been an eligible institution under the HEA, it will not be considered eligible during the Department's review period.
- ◇ If a school once participated in the SFA Programs but no longer does so, it will not be considered certified during the Department's review period.

If the Department approves a school's application, the Department sends the school two copies of a PPA (see Section 2). The PPA includes the date on which the school's eligibility to participate expires. The school must sign and return both copies of the PPA to the Department. The Department then sends the school an Eligibility and Certification Approval Report (ECAR) and the school's copy of the PPA, signed and dated on behalf of the Secretary. The ECAR contains the most critical of the data elements that form the basis of the school's approval and also a list of the highest level of offering, any nondegree program or short-term programs, and any additional locations that have been approved for the SFA Programs. Both of these forms must be kept available to be reviewed by auditors and Department officials, including the SFA Program reviewers.

**Status  
following  
submission**

**School's  
status during  
Department  
review**

**PPA & ECAR**

**Effective  
date for  
participation**

The date the PPA is signed on behalf of the Secretary is the date the school may begin SFA Program participation. (Currently, there are additional steps that must be taken for participation in the Direct Loan Program. For more information, see Chapter 11.) Pell Grant and campus-based program disbursements to students may begin in the *payment period* that the PPA is signed on behalf of the Secretary. FFEL and Direct Loan program disbursements may begin in the *loan period* that the PPA is signed on behalf of the Secretary. The Department's Program Systems Service and regional offices are notified, as well as state guaranty agencies, that the school is approved to participate in the SFA Programs.

### **PRECERTIFICATION TRAINING REQUIREMENT**

Before a school may participate in any SFA Program for the first time, it must send two representatives (an administrative official and a financial aid representative) to a basic precertification training workshop offered by the Department. The Department also requires a school that has undergone a change in ownership or structure to attend the training.

Note: The Application now allows a school to select the SFA Program(s) it wishes to participate in and opt not to participate in others. If the school later decides that it would like approval to participate in SFA Programs in addition to the ones indicated on its submitted Application, it is required to send representatives to precertification training again. This is because the law requires that training must take place before each first-time approval to participate in an SFA Program is granted. However, if the school's designated representatives attended the Department's required precertification training within the last year, rather than attend training again the school may request that the Department conduct an on-site review. An on-site review may be granted at the Department's discretion.

The five-day precertification workshop provides a general overview of the SFA Programs and their administration. It does not cover fiscal and accounting procedures in detail; the Department offers fiscal officer training separately.

- ◇ The attending administrative official must be the school's CEO for a for-profit school; nonprofit schools may send another official designated by the CEO. The administrative official must attend at least the first two days of the workshop.
- ◇ The attending financial aid representative must be the person designated by the school to be responsible for administering the SFA Programs. The financial aid representative must attend all five days of the workshop.
- ◇ If the school uses a consultant to administer its financial aid, the consultant must attend the training as the school's financial aid representative. Because the school ultimately is responsible for proper SFA Program administration, the Department strongly recommends that a financial aid employee from the school attend the training as well.

A school affected by this precertification training requirement will receive notification of the requirement, a schedule of workshops, and registration instructions along with an Application. The school will not be approved to participate in the SFA Programs until the training requirement is met.

The regulations allow schools to meet the precertification requirement by sending the specified individuals to other training programs that are approved by the Department. However, at this time no precertification training programs other than the Department's have been approved.



In certain cases, rather than granting full approval to participate, the Department may grant a school conditional approval to participate in the SFA Programs (for up to three complete award years). Referred to as “provisional certification” in the law, this approval is granted at the Department’s discretion.

***Provisional certification***

The Department will, if it approves the school, offer provisional certification to a school that allowed its PPA to expire and reapplied to participate in the SFA Programs after its approval to participate ended. (Note: If a school applying for recertification meets the submission deadlines detailed in the introduction to the Application, its PPA remains in effect until the Department either approves or does not approve the application.) If the Department grants a provisional certification, the PPA details the provisions of the certification.

***Expired PPA***

Other times provisional certification may be granted are when

- ◇ a school is applying to participate for the first time (if approved, it will be provisionally certified for up to one complete award year),
- ◇ a participating school is reapplying because it has undergone a change in ownership or structure (see the discussion that follows),
- ◇ a participating school whose participation has been limited or suspended (or that voluntarily agrees to this provisional status) is judged by the Department to be in an administrative or financial condition that might jeopardize its ability to perform its responsibilities under its PPA,
- ◇ a participating school’s accrediting agency loses its Departmental approval (it may be provisionally certified for no more than 18 months after the agency’s loss of approval),
- ◇ a school is determined not to be financially responsible but has met other requirements and has accepted provisional certification, or
- ◇ a school that is reapplying for certification has a high default rate.

If the Department determines that a school with provisional certification cannot meet its responsibilities under its PPA, the Department may revoke the school’s participation in the SFA Programs. The Department will notify the school of such a determination in a notice that states the basis and consequences of the determination. The notice is sent by

***Revoking provisional certification***

certified mail (or other expeditious means); the revocation takes effect on the date the Department mails the notice.

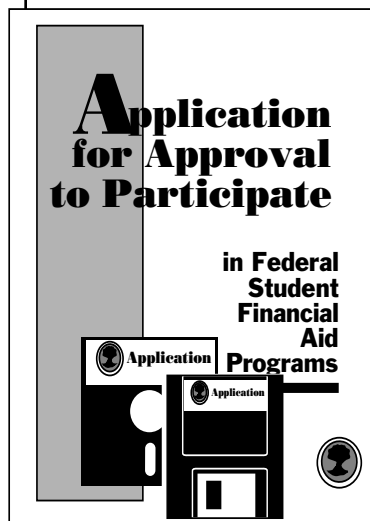
The school may request a redetermination of the revocation by submitting, within 20 days of receiving the notice, written evidence (filed by hand delivery, mail, or fax) that the finding is unwarranted. A Department official will review the request and notify the school by certified mail of his or her decision. If the Department official determines that the revocation is warranted, the school may not apply for reinstatement for 18 months after the revocation or after the expiration of any debarment/suspension action, whichever is later.

### **Recertification**

A participating school that wishes to continue to participate in the SFA Programs is required to apply to renew its certification approval (recertification) before the expiration date in its current PPA. All schools participating in the SFA Programs at the time the 1992 reauthorization of the HEA were required to apply for recertification by July 23, 1997. A school is responsible for monitoring the expiration date on its PPA and submitting an application for recertification at least 90 days before the PPA expires. See page 3-207 for information on time frames for submitting a recertification application.

### ***WHEN TO SUBMIT A FULLY COMPLETED APPLICATION***

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There are five circumstances when a school that wishes to participate in SFA Programs must submit a fully completed Application to the Department:

- ◇ initial certification,
- ◇ change in ownership or structure,
- ◇ recertification,
- ◇ designation as an “eligible institution,” and
- ◇ reinstatement

Other types of changes require a school to *notify* the Department (see page 3-219).

### **Initial Certification**

A school must submit a fully completed Application the first time it wishes to participate in one or more SFA Programs.

## Change in Ownership or Structure

A school must submit a fully completed Application following a change in ownership, a conversion to a nonprofit institution, or a merger of two or more schools (referred to collectively as a “change in ownership and structure”). In these cases, the law states that the PPA signed by the former owner automatically expires on the date when the change takes place, and the school’s SFA participation ends. The school retains its default rates and other administrative capability factors; if it is a proprietary institution or postsecondary vocational institution, it does not, however, need to meet the Two-Year Rule.

The Department must be notified of the change within 10 days and, if the school wishes to reestablish its eligibility to participate in one or more SFA Programs, an Application must be submitted and approved.<sup>3</sup> Notification of changes in ownership or structure must be made to

U.S. Department of Education  
Institutional Participation and Oversight Service  
Accreditation and Eligibility Determination Division  
Initial Participation Branch  
600 Independence Avenue, SW  
Washington, DC 20202-5244  
FAX: (202) 260-3605

A change in ownership and control occurs when a person or corporation obtains new authority to control a school’s actions, whether the school is a proprietorship, partnership, or corporation. The most common example of this change in controlling interest is when the school is sold to a new owner.

***Change in  
controlling  
interest***

Control of a school can change in other ways, too. For instance, a school can convert from a for-profit to a nonprofit institution (or vice versa). This is a change in tax status. A school’s control may change when two or more schools merge or one school divides into several schools. A school’s control also changes in situations where a school transfers a significant amount of stock to another person or corporation or when a school transfers its assets or liabilities to another corporation (including related corporations under the same ownership).

A change in ownership and control of a corporation that is neither closely held nor required to be registered with the Securities Exchange Commission (SEC) occurs when a person who has or acquires an ownership interest acquires both control of at least 25% of the total outstanding voting stock of the corporation *and* managing control of the corporation.

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<sup>3</sup>As discussed previously in this section, a school undergoing a change in ownership or structure if approved will be provisionally certified by the Department for up to three years.

(For a more detailed list of the types of circumstances that signify a change in ownership or structure, see 34 CFR 600.31.)

**Owner's death or retirement**

However, a school does not automatically have to submit a fully completed Application to the Department when a change in ownership and control is caused by the owner's death or retirement and ownership transfers to a family member<sup>4</sup> or to a person with ownership interest who has been involved in the management of the school for at least two years preceding the transfer. In these situations, the school must notify the Department of the change and provide any supporting information requested by the Department.

The law requires that a school must report to the Department the identity of every owner or person directly or indirectly holding 25% or greater interest in the school.

**Changes in ownership interest must be reported to the Department; 25% threshold**

The school must report any change in ownership interests whenever

- ◇ an owner acquires a total interest of 25% or greater,
- ◇ an owner who held 25% or greater interest reduces his or her interest to less than 25%, or
- ◇ an owner of 25% or greater interest increases or reduces his or her interest but remains the holder of at least 25% ownership interest.

Because of these reporting requirements, even though transferring ownership interest through death or retirement may be excluded from being considered a change in ownership resulting in a change of control, the resulting change in percentage(s) of ownership interests must be reported to the Department.

**Reporting**


A school must report any changes that result in an individual or owner (including a corporation or unincorporated business entity) acquiring the ability to substantially affect the actions of the school. Such a change must be reported within 10 days of the change; a school owned by a publicly traded corporation must report the change within 10 days after the corporation learns of the change. All schools are subject to these requirements, which are enforced during the institutional participation approval process, program reviews, and audit process.

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<sup>4</sup>A family member is defined as a parent, sibling, spouse, child, spouse's parent, spouse's sibling, or child's spouse.

An individual or corporation has the ability to substantially affect the school's actions when he or she or it

- ◇ personally holds, or holds in partnership with one or more family members, at least a 25% ownership interest in the school,
- ◇ personally represents (with voting trust, power of attorney, or proxy authority), or represents in partnership with one or more family members, any individual or group holding at least a 25% ownership interest in the school,
- ◇ is the school's chief executive officer (or other executive officer) or a member of the school's board of directors, or
- ◇ is the chief executive officer (or other officer) for any entity that holds at least 25% ownership interest in the school, or is a member of the board of directors for such an entity.

 **Ownership Interest**—A share of the legal or beneficial ownership or control of the school or parent corporation, or a right to share in the proceeds of the operation of the school or parent corporation.

The regulations [34 CFR Part 600.30(e) and 668.15(f)] include examples of ownership interest as an interest as tenant, joint tenant, or tenant by the entirety, a partnership, and an interest in a trust. The regulations specifically exclude from the term the proceeds of the operation of a mutual fund that is regularly and publicly traded, an institutional investor, or a profit-sharing plan that covers all employees (except that voting rights of employee stock plans may be attributed to anyone having authority to vote those shares).

To ensure that its SFA Program participation isn't jeopardized, a school must report an ownership change (including the name[s] of the person[s] involved) to the Department. On receiving the notification, the Department will investigate and notify the school whether a change in ownership resulting in a change of control has occurred that will require the school to submit a fully completed Application if it wishes to participate in the SFA Programs.

If a school is changing control, the former owner(s) must notify the Department about the change and the date it occurs. This must be at the same time that the owner notifies the school's accrediting agency, but no later than 10 days after the change occurs. (If the former owner fails to notify the Department, the new owner is responsible for doing so.) The current owner also should notify the appropriate state agency that licensed or approved the school.

**Steps to be taken by former owners**

**Payments to eligible students**

Before the change in ownership or structure takes place, the former owner should make sure that all students receive any SFA payments already due them for the current payment period and that all records are current and comply with federal regulations. If the school needs additional funds for its students for the current payment period, it should request them and disburse them to all eligible students before the change takes place.

The school loses its approval to participate in the SFA Programs when the change takes place. Generally, a school may

- ◇ use Pell Grant or campus-based funds that it has received or request additional Pell Grant or campus-based funds from the Department to satisfy any unpaid commitment made to a student from the date the school's participation ended until the scheduled completion date of the *payment period*, and
- ◇ credit a student's account with the proceeds of a second or subsequent disbursement of a FFEL Stafford or a Direct Loan to satisfy any unpaid commitment made to the student under the FFEL Stafford or Direct Loan Program from the date participation ends until the scheduled completion of that *period of enrollment*. (The proceeds of the first disbursement of the loan must have been delivered to the student or credited to the student's account prior to the end of the participation.)

The school should notify all new students that no federal aid funds can be disbursed until the school's eligibility is established and a new PPA signed by the Department is received.

The school may not award the SFA Program funds beginning on the date that the change becomes effective. If the school's new owner(s) wish the school to participate in one or more of the SFA Programs, the school must submit a fully completed Application to the Department. A school may not submit an Application until the transfer is complete, but many transfers involving schools eligible for SFA participation are complete except that they are contingent upon the school retaining its eligibility for the SFA Programs. Provided such a transfer is final in all other aspects and the transfer in ownership and control has taken place, it is considered complete and the new owner can proceed with the application process.

**Steps to be taken by new owners**

The new owner should request that the former owner provide copies of the school's existing ECAR, refund policy, default management plan, program reviews, audited financial statements (for at least the two most recently completed fiscal years), compliance audits, and an audited balance sheet showing the financial condition of the institution at the time of the change. The new owner will need this information to receive approval to participate.

Accompanying the application must be audited financial statements for the school's two most recently completed fiscal years, an audited balance sheet showing the financial condition of the school at the time of the change, and a default management plan. Each participating school must demonstrate financial responsibility independently. If the entity that has acquired the school is an ongoing entity (partnership or corporation), the school must also submit completed audited financial statements of the acquiring entity for the last two consecutive fiscal years. (For information on financial responsibility and submitting audited financial statements, see Section 2.)

The school also must submit proof that its accreditation is continued under the new ownership or control, along with a photocopy of its state legal authorization under the new ownership.

The school may not award SFA Program funds until it receives a PPA signed on behalf of the Secretary. (As discussed earlier in this section, the school may, at the Department's discretion, be eligible for provisional certification.)

If the new owner(s) acquired the school or if the school is the result of a merger of two or more former schools, the new owner is liable for any debts from the former owner's SFA Program administration. The new owner accepts liability for any federal funds that were given to the school but that were improperly spent before the date the change in ownership or structure became effective. The new owner must also abide by the refund policy for students enrolled before the date the change became effective and must honor all student enrollment contracts signed before the date of the change.

As mentioned earlier, the school retains its current and past cohort default rates and must implement any requirements associated with those rates. In fact, cohort default rates calculated for fiscal years prior to the change in ownership may affect the school's SFA participation. A school with a change in ownership or structure may be denied approval to participate in the SFA Programs on the basis of current default rates. Regardless of the level of the school's cohort default rate, the new owner must submit a new default management plan with the Application.

Although a separate financial aid compliance audit is not required when there is a change in ownership or structure, the new owner may choose to have the accounts audited before they are closed out. Any questions about SFA accounts or close-out procedures can be answered by the Department's Financial Management Specialists for the Pell Grant, campus-based, Direct Loan, or FFEL program. The new owner also should check with the Department's appropriate case management team for information on whether the school owes any Department liabilities

***Accepting liabilities & refund policy***

***Effect of cohort default requirements***

***Audits & close-out procedures***

resulting from program reviews or audits. See Chapter 1 for phone numbers.

Before the date of purchase, the new owner should make sure that all students have received their SFA Program award payments for payment periods and periods of enrollment that began before the date of purchase, that all SFA Program accounts have been closed out, and that all related reports have been filed properly.

Once the Department determines that a school that has undergone a change in ownership or structure is eligible to participate in the SFA Programs, a new ECAR and signed PPA will be sent and appropriate offices will be notified that the school is certified to participate under the new ownership. The school may begin disbursing the SFA Program funds in the payment period or loan period (as applicable) in which the new PPA is signed on behalf of the Secretary.

### **Recertification**

A school that wishes to continue participating in the SFA Programs must submit a fully completed Application requesting recertification 90 days prior to the expiration date on its current PPA or the Department otherwise notifies it that recertification is necessary. See page 3-207 for more information on time frames for submitting a recertification application.

Although in the past most PPAs did not have expiration dates, this changed with the 1992 reauthorization of the HEA. It is now a statutory requirement that every four years a school must be reapproved (recertified) to participate in the SFA Programs.

### **Designation as an Eligible Institution**

A school must submit a fully completed Application requesting this certification category when it wishes to be designated as an eligible institution under the HEA but does not wish to participate to the point of awarding federal financial aid funds.

A school may request this type of limited designation so the school's students may receive deferments under federal student loan programs or so the school may apply to participate in HEA programs other than the SFA Programs.

To meet the requirements for its students to defer student loan payments and to take part in other HEA programs, the school is required to be approved as an eligible institution—it is not actually required to award



SFA funds. (See Section 1 for information on what constitutes an eligible institution.)

## Reinstatement

A school must submit a fully completed Application requesting reinstatement when it wishes to participate again in one or more SFA Programs after voluntarily or involuntarily leaving the SFA Programs.

A school that voluntarily left one or more SFA Programs (and did not leave because of action about to be taken by the Department) may apply for reinstatement at any time.

A school that the Department terminated from participating in one or more SFA Programs (or that left one or more SFA Programs because it was about to be terminated or sanctioned) has a waiting period before it may apply to be reinstated.

**Required  
reporting**

**CLARIFICATION**

## SUBSTANTIVE CHANGES AND HOW TO REPORT THEM

A school is required to report changes to certain information on its approved Application. Some of these changes require the Department's written approval before the school may disburse the SFA Program funds, others do not (see the chart below and on the next page).

### Changes That Require the Department's Written Approval

(The number in parentheses refers to the number of the question on the Application.)

#### All Schools

- ◇ Change in accrediting agency (#15)
- ◇ Change in state authorizing agency (#17)
- ◇ Change in institutional structure (#18)
- ◇ Change in educational programs outside of the scope of current approval (#26)
- ◇ Addition of nondegree programs outside of the scope of current approval (#27)
- ◇ Change from or to clock hours or credit hours (#27)
- ◇ Addition of a location (#30)
- ◇ Change to the SFA Programs for which the school is approved (accrediting agency and state authorizing agency approvals not required) (#37)

#### For-profit Schools Only

- ◇ Change in the type of ownership (#22)
- ◇ Change in ownership (#24)

## Changes That Do Not Require the Department's Written Approval

### All Schools

- ◇ Change to name of school (school must send copies of accrediting agency and state authorizing agency approvals) (#2)
- ◇ Change to the name of a CEO, President, Chancellor (#10)
- ◇ Change to the name of the chief fiscal officer, financial officer (#11)
- ◇ Address change for a principal location (#29)
- ◇ Address change for other locations (#30)
- ◇ Change to the school's third-party servicers that deal with the SFA Program funds (#58)

### Private nonprofit and for-profit schools only

- ◇ Change to the Board of Directors (but not trustees) (#20)

### Foreign schools only (including foreign medical schools)

- ◇ Change to postsecondary authorization (#42)
- ◇ Change to degree authorization (#43)
- ◇ Change to program equivalence (#44)
- ◇ Change to program criteria (#45)
- ◇ Change to U.S. administrative and/or recruitment offices (#46)

### Foreign medical schools only

- ◇ Change to facility at which school provides graduate medical instruction (#47)
- ◇ Change to authorizing entity (#48)
- ◇ Change to approval of authorizing entity (#49)
- ◇ Change to length of program (#50)
- ◇ Change to programs located in the United States (#51)

### **Notification in 10 days**

When one of these changes occurs, the school must report the change and the date of the change to the Department, through a letter on school letterhead, within 10 calendar days of the change. In addition, a school must include

- ◇ the school's 8-digit Office of Postsecondary Education Identification (OPE ID) number and 9-digit Employer Identification Number in the letter,
- ◇ the portion of the Application containing changed information and any required documentation, and
- ◇ Section L of the Application containing the original signature of the appropriate person.

In addition, for a change requiring written approval from the Department (unless otherwise noted) and for some changes that do not require written approval from the Department (noted on chart), a school must obtain approval from the appropriate accrediting agency and state authorizing agency. The school must submit a copy of the agency approval to the Department as part of its notification.

Notifications of changes in ownership or structure must be made to the Institutional Participation and Oversight Service at the address on page 3-213.

All other notifications must be sent by regular mail to

U.S. Department of Education  
Institutional Participation and Oversight Service  
P.O. Box 44805  
L'Enfant Plaza Station  
Washington, DC 20026-4805

or by courier or overnight mail to

U.S. Department of Education  
Institutional Participation and Oversight Service  
Room 3522  
7th and D Streets, SW-GSA Building  
Washington, DC 20407

If a change occurs in an Application item not listed in one of the two charts, the school must update the information when it applies for recertification. However, if a school closes or files for bankruptcy, the school must notify the Department within 10 calendar days of either event by sending a letter on the school's letterhead that indicates the date the school closed or plans to close, or the date the school filed for bankruptcy, as appropriate.

When the Department is notified of a change, if further action is needed, it will tell the school how to proceed, including what materials and what additional completed sections of the Application need to be submitted. If a school has questions about changes and procedures, it should contact the Institutional Participation and Oversight Service.

**Notification  
of school  
closure or  
bankruptcy**

After receiving the required materials (and depending on the circumstances), the Department will evaluate the change(s) and either approve or deny the change and notify the school.

### **Adding Locations or Programs**

The ECAR that the Department sends to the school lists the educational programs and locations that are eligible. (The eligibility of a school and its programs does not automatically include separate locations and extensions.) If, after receipt of the ECAR, a school wishes to add a location at which at least 50% of an educational program is offered, it must notify the Department. Upon receipt of this notice, the Department will either confirm the program's eligibility without requiring an application or will instruct the school to apply for an eligibility and certification determination. (A school that is adding a location must be able to show the Department that the location is properly accredited and licensed by the state.)

For a location to be added, it must meet all institutional eligibility requirements as described in Sections 1 and 2 , *except* the Two-Year Rule. Each site must be legally authorized. To apply for a determination of eligibility for an added location, the school must send the Department the required application sections, a copy of the accrediting agency's notice certifying that the new location is included in the school's accredited status, and a copy of the state legal authorization from each state in which the school is physically located.

The Department will review the information, and will evaluate the school's financial responsibility, administrative capability, and eligibility. Depending upon the circumstances, the Department may conduct an on-site review. If it approves the additional location, a revised ECAR or Acknowledgment Notice will be issued. The location is eligible as of the date of the Department's determination. The Department may require a recertification application and a new PPA, in which case the school may disburse funds to students enrolled at that location only after both the school and the Secretary have signed the new PPA. The Department will send the school a revised ECAR.

Note that if a proprietary institution or a postsecondary vocational institution attempts to acquire a closed school (or any locations of a closed school) as an additional location, and that closed school owes SFA refunds or liabilities that are not being properly repaid, the acquiring school must either assume responsibility for those liabilities or wait two years for that additional location to become eligible. (This applies to *any* acquisition of the closed school's assets, even an indirect acquisition.) The acquiring school will also receive a recalculated default rate because the acquiring

school assumes the default rate of the closed school (or any additional locations of the closed school).

If a school adds an educational *program* after receiving its ECAR, there are two cases in which the school itself may determine the program's eligibility:

- ◇ the added program leads to an associate, bachelor's, professional, or graduate degree (and the school has already been approved to offer programs at that level); or
- ◇ the added program is at least 8 semester hours, 12 quarter hours, or 600 clock hours in length and prepares students for gainful employment in the same or related recognized occupation as an educational program that the Secretary already has designated as an eligible program at the school.

Before the school may determine these programs to be eligible and disburse funds to enrolled students, the school must have received both the required state and accrediting agency approvals.

Note, however, that if the school's self-determination of eligibility for an educational program is found to be incorrect, the school is liable for all SFA Program funds received for the program and all SFA Program funds received by or for students enrolled in that program.

**In all other cases**, the eligibility of an added educational program must be determined by the Department before the SFA Program funds can be awarded. The school must submit the required Application sections and a copy of approval of the new program from its accrediting agency and state authorizing agency. The Department will evaluate the new program and the school. If it approves the additional program, a revised ECAR or Approval Notice is issued for the school, and the school is eligible as of the date of the Department's determination. The school may begin to disburse the SFA Program funds to students enrolled in that program. (For more on program eligibility, see Section 1.)

The law mandates percentages of telecommunications and/or correspondence courses, students enrolled under ability-to-benefit provisions, and incarcerated students at a participating school. If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Application (which deal with enrollment thresholds in these areas), the school must notify the Department. The Department will advise the school of its options, including whether the school might be eligible for a waiver. (For more information, see Section 1.)

***Two cases when a school may make its own program-eligibility determinations***

***The Department must approve all other added programs***

***Waivers***

**Changes in accreditation**

If a school decides to change accrediting agencies, it must notify the Institutional Participation and Oversight Service when it begins the process of obtaining accreditation from the second agency. As part of this notice, the school must submit materials relating to its prior accreditation, and materials demonstrating a reasonable cause for changing its accrediting agency. If a school fails to properly notify the Department, the Department will no longer recognize the school's existing accreditation.

If a school decides to become accredited by more than one institutional accrediting agency, it must submit to the Institutional Participation and Oversight Service (and to its current and prospective agency) the reasons for accreditation by more than one agency. This submission must be made when the school begins the process of obtaining the additional accreditation. If a school obtains additional accreditation and fails to properly submit to the Department its reasons for the additional accreditation, the Department will not recognize the school's accredited status with either agency.

If a school becomes accredited by more than one agency, it must notify the Institutional Participation and Oversight Service of which agency's accreditation the school will use for the purpose of determining the school's institutional eligibility for the SFA Programs.

**REQUIREMENTS WHEN A SCHOOL CEASES TO BE AN ELIGIBLE INSTITUTION**

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**Situations triggering loss of eligibility**

A school loses its eligibility to participate in the SFA Programs when it no longer meets the requirements of 34 CFR Part 600, certain requirements of Part 668 or when the Department terminates the school under Subpart G of the General Provisions. Examples of situations that trigger loss of eligibility to participate include

- ◇ excessive student-loan cohort default rates,
- ◇ loss of accreditation,
- ◇ loss of state licensure,
- ◇ the PPA expires or is terminated by the Department,
- ◇ provisional certification is revoked by the Department,
- ◇ the school closes or stops providing educational instruction (for a reason other than a normal vacation period or as a result of a natural disaster), and
- ◇ the school files a petition for bankruptcy.

In general, a school that ceases to be eligible must notify the Institutional Participation and Oversight Service within 30 days of its loss of eligibility to participate in the SFA Programs. Requirements for notifying the Department are in 34CFR600.40.

When a school loses its institution-wide accreditation, the Department generally may not certify or recertify that school to participate in any SFA Program for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause or a school has voluntarily withdrawn under a show cause or suspension order. If a school wishes to be reinstated, it must submit a fully completed Application to the Department.

The Department will not recertify a school that has lost its institution-wide accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. (The school may not be recertified on the basis of accreditation granted by a different accrediting agency during the two-year period.) Similarly, if a school voluntarily withdrew from accreditation during the last two years under a "show cause" or suspension order, the Department will not recertify unless the original order is rescinded by the accrediting agency.

Other exceptions:

- ◇ If the Department determines that loss of institution-wide accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation; and
- ◇ If a school's institution-wide accrediting agency loses its Department recognition, the school has up to 18 months to obtain new accreditation.

Note that it is possible for accreditation to be withdrawn from one of the programs at a school without affecting the accreditation (and eligibility) of other programs at the school.

#### **REQUIREMENTS WHEN A SCHOOL'S SFA PARTICIPATION ENDS**

A school may stop participating in the SFA Programs voluntarily or it may be required to leave involuntarily. In either situation, there are required close-out procedures to follow.

#### **Voluntary Withdrawal from SFA Participation**

A school may voluntarily withdraw from participating in one or all of the SFA Programs. This might be for any number of reasons. For instance, a

***Loss of accreditation***

***Exceptions***

school might wish to withdraw from the Perkins Loan Program to work on lowering high student-loan cohort default rates. To withdraw from one or all of the SFA Programs, the school must notify the Department in writing at the general address for the Institutional Participation and Oversight Service (see page 3-203). For more information on these requirements and procedures, contact the appropriate case management team. Note: A school that withdrew voluntarily (for instance, to lower its default rate) can request to participate again without the waiting period required for a school that was terminated from the program involuntarily or withdrew voluntarily while under a show cause or suspension order.

Withdrawing from the SFA Programs while under a termination order or other sanction—or to avoid being placed under them—is not considered voluntary withdrawal.

### **Involuntary Withdrawal from SFA Participation**

#### ***Situations triggering loss of participation***

A school's participation ends in the following circumstances:

- ◇ The school closes or stops providing instruction (for a reason other than normal vacation periods or as a result of a natural disaster that directly affects the school or its students). Note: If the school closes its main campus or stops providing instruction on its main campus, its loss of eligibility includes all its locations and programs.
- ◇ The school loses its eligibility.
- ◇ The school's participation is terminated under Subpart G.
- ◇ The school's period of participation expires or the school's provisional certification is revoked.
- ◇ The school's PPA is terminated or expired.
- ◇ The school's cohort default rate exceeds the limit.

If a school ceases to provide educational instruction in all programs, the school should make arrangements for its students to complete their programs. If the school chooses to enter into a formal teachout arrangement, the school should contact the appropriate case management team for guidance.



When a school's participation in an SFA Program ends—for whatever reason—the school must immediately notify the Department and comply with the following minimum requirements:

- ◇ *Within 45 days* of the effective ending date of participation, submit to the Department all financial reports, performance reports and other reports required by each appropriate SFA Program regulation, as well as a dated letter of engagement for an audit by an independent public accountant (IPA) of all SFA funds received under the program(s). The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.
- ◇ Report to the Department on the arrangements for retaining and storing (for the remainder of the appropriate retention period described in 34 CFR 668.24) all records concerning the school's management of the appropriate SFA Programs. (See Section 7.)
- ◇ Tell the Department how the school will provide for collecting any outstanding SFA Program student loans held by the school.
- ◇ Refund students' unearned tuition and fees. (See Section 4.)

In addition, a school that closes must refund to the federal government or, following written instructions from the Department, otherwise distribute any unexpended SFA funds it has received (minus its administrative cost allowance, if applicable). The school must also return to the appropriate lender(s) any loan proceeds the school received but has not disbursed to students. If the school's participation in the State Student Incentive Grant (SSIG) Program ends, the school must inform the state and follow the state's instructions.

If a school's participation ends during a payment period (or enrollment period for FFEL Programs), but the school continues to provide education in the formerly eligible program until the end of the payment or enrollment period, the school may

- ◇ use the SFA Program funds in its possession to satisfy unpaid Pell Grant or campus-based program commitments made to students for that payment period or for previously completed payment periods before the school's participation ended. (The school may request additional funds from the Department to meet these commitments.)
- ◇ satisfy any unpaid FFEL commitments made to students for that period of enrollment by delivering subsequent FFEL

***When participation ends***

***Additional close-out procedures***

disbursements to the students or by crediting them to the students' accounts (if the first disbursement already was delivered or credited before the school's participation ended).

- ◇ use the SFA Program funds in its possession to satisfy unpaid Direct Loan commitments made to students for that period of enrollment before participation ended by delivering subsequent Direct Loan disbursements to the students or by crediting them to their accounts (if the first disbursement already was delivered or credited to the students' accounts before the school's participation ended). The school may request additional funds from the Department to fulfill this commitment.

Contact the Department's appropriate regional office staff for guidance in fulfilling these requirements and responsibilities.

### *CASE MANAGEMENT*

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Case management is the Department's new approach to oversight of schools that participate in the SFA Programs. Case management is designed to provide the Department with a thorough picture of a school's overall compliance through the use of Case Teams.

Case Teams are composed of both regional and Washington, DC staff from the Department. Each team is assigned a portfolio of schools. The team is responsible for all oversight functions for the schools in its portfolio. These functions include audit resolution, program reviews, financial statement analysis, and recertification. Each school is assigned a Case Manager who leads the team in its evaluation of that school. The entire team will evaluate information on the school from a variety of sources to identify any compliance problems at the school. The team can then assess potential risk to the SFA Programs and determine appropriate action. Once appropriate actions are decided upon, the Case Manager assigned to the school ensures that the recommended actions are taken.

Case Teams will collect and review information on a school from many sources including, but not limited to

- ◇ applications for recertification,
- ◇ financial and compliance audits,
- ◇ state agencies,
- ◇ accrediting agencies and licensing boards,

***Utilizes  
information  
from many  
sources***

- ◇ student complaints, and
- ◇ Department databases.

Actions that a case team may decide to take include, but are not limited to

- ◇ initiating recertification or provisional certification,
- ◇ initiating a program review,
- ◇ establishing liabilities,
- ◇ developing a strategy for providing technical assistance,
- ◇ transferring the school to the reimbursement payment method (see Section 3),
- ◇ requiring a letter of credit, and
- ◇ referring the school for an enforcement action.

Actions do not always have to be negative. For example, the case team can recommend a school for participation in the Quality Assurance Program (see Section 6.)

The Department will use a system of risk analysis to identify schools with the greatest need for oversight. The Department will use the analysis of various Department data systems to generate a risk score for a school. This will enable the Department to target resources to those schools that present the highest risk to the government.

Case management is beneficial to schools also because a school can contact one team that will have all information on the school available in one place. (For a list of contact phone numbers for the regional case management teams, see Chapter 1.)

### ***CORRECTIVE ACTIONS AND SANCTIONS***

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Sanctions include emergency actions, fines, limitations, suspensions, and terminations. The Department will sanction any school that

- ◇ violates the law or regulations governing the SFA Programs, its PPA, or any agreement made under the law or regulations; and/or

***Possible actions taken by the Department***

***Sanctions***

- ◇ substantially misrepresents the nature of its educational programs, its financial charges, or its graduates' employability. (For details on misrepresentation, see Section 8.)

Similarly, the Department may also sanction a third-party servicer that performs functions related to the SFA Programs. Further, the Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all schools or servicers has violated any of the SFA Program requirements or has been suspended or debarred from program participation. (See Section 2.)

***Actions due to program violations or misrepresentation***

If it appears that a school has violated the SFA Program requirements, the Department may allow the school to respond to the problem and indicate how it will correct it. If this informal approach fails to correct the situation, or if the school has repeatedly violated the law or regulations, the Department may take emergency action, fine the school, or initiate a limitation, suspension or termination of SFA Program participation.

In addition, the Department has the authority to terminate a school or program that no longer meets the eligibility criteria given in Section 1. For details on steps that a school should follow in any of these situations, see Subpart G of the General Provisions regulations and Section 600.41 of the Institutional Eligibility regulations.

***Emergency action***

The Department may take emergency action to withhold SFA funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the Department official must determine that

- ◇ the school is misusing federal funds,
- ◇ immediate action is necessary to stop this misuse, and
- ◇ the potential loss outweighs the importance of using established procedures for limitation, suspension, and termination.

The school is notified by registered mail (or other expeditious means) of the emergency action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all SFA Programs and prohibits the school from disbursing SFA funds or certifying FFEL applications. The action may not last more than 30 days unless a limitation, suspension, or termination proceeding is initiated during that period. In that case, the emergency action is extended until the

proceeding, including any appeal, is concluded. The school is given an opportunity to “show cause” that the action is unwarranted.

The Department may fine a school up to \$25,000 for each statutory or regulatory violation. (The Department first notifies the school of its intent to fine so the school can, if it chooses, request a hearing.) If the school is proven guilty of the violation(s), it may appeal to the Department for a compromise on the amount of the fine(s) imposed at the hearing. In determining the amount owed by the school, the Department will consider the school’s size and the seriousness of its violation or misrepresentation. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months, even if it changes ownership.

***Fine***

Under a limitation, a school agrees to abide by certain specific conditions or restrictions as it administers SFA funds; by doing so, it is allowed to continue participating in the SFA Programs. A limitation lasts for at least 12 months. If the school fails to abide by the limitation’s conditions, a termination proceeding may be initiated.

***Limitation***

A suspension removes a school from participation in the SFA Programs for a period not to exceed 60 days (unless a limitation or termination or proceeding has begun). A suspension action is used when a school can be expected to correct an SFA Program violation in a short time.

***Suspension***

A termination ends a school’s participation in the SFA Programs. A school that has violated the law or regulations governing the SFA Programs, its PPA, or any other agreement made under SFA regulations and was terminated from participating in the SFA Programs generally may not apply to be reinstated for two years (24 months). In some circumstances (such as termination of provisional certification), a school may apply after 18 months. This waiting period is required even if the school changes ownership during that period. A school that substantially misrepresented the nature of its educational programs, its financial charges, or the employability of its graduates, may not be reinstated for at least three months, even if it changes ownership.

***Termination***

As part of any fine, limitation, suspension, or termination proceeding, the Department may require a school to take corrective action. This may include making payments to eligible students or repaying illegally used funds to the Department. In addition, the Department may offset any funds to be repaid against any benefits or claims due the school.

***Corrective action; repaying funds***

As mentioned previously, a school requesting reinstatement in the SFA Programs must submit a fully completed Application to the Department and demonstrate that it meets the standards in Subpart B of the General

***Possibility of reinstatement***

Provisions (discussed in Section 1). As part of the reinstatement process, the school must show that the school has corrected the violation(s) on which its termination was based, including repaying all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. The Department may approve the request, deny the request, *or* approve the request subject to limitations (such as granting the school provisional certification). If the Department approves the reinstatement request, the school will receive a new ECAR and enter into a new PPA.