
Volume 2

School Eligibility and Operations

Table of Contents

Introduction	2-1
Chapter 1—Institutional Eligibility	2-3
Type and Control	2-3
The three types of eligible institutions	2-3
Institutional control	2-3
<i>Graphic, Types and Control of Eligible Institutions</i>	2-4
Basic Criteria for Eligible Institutions.....	2-5
Legal Authorization by a State	2-5
Authorization to operate postsecondary educational programs	2-6
<i>Graphic, How different types of schools meet state authorization requirements</i>	2-7
State complaint process	2-7
Accreditation.....	2-8
Alternatives to regular accreditation.....	2-8
Primary accreditor.....	2-8
Dual accreditation	2-8
Admissions Standards	2-9
High school diploma	2-9
Recognized equivalent of a high school diploma.....	2-9
Homeschooled students and compulsory school attendance	2-10
Preparatory programs for students without a high school diploma or equivalent.....	2-10
“Two-Year” Rule for New Proprietary or Vocational Schools.....	2-11
Factors Leading to Loss of Eligibility	2-12
Limitations	2-12
Bankruptcy or crimes involving FSA programs	2-12
Participating in the TEACH Grant Program	2-13
Applying as an Eligible Nonparticipating School.....	2-13
Withdrawal Rates.....	2-14
The Program Participation Agreement	2-15
Purpose and scope of the PPA	2-15
Beginning to disburse funds when first signing the PPA.....	2-15
Expiration or termination of the agreement.....	2-15
<i>Graphic, Selected Provisions of the PPA</i>	2-16

Chapter 2—Program Eligibility, Written Arrangements, & Distance Education	2-19
Determining Program Eligibility	2-19
Basic Types of Eligible Programs	2-20
Eligible programs at an institution of higher education	2-20
Eligible programs at a proprietary or postsecondary vocational institution	2-21
<i>Graphic, Completion and Placement Rates for Short-Term Programs</i>	2-22
Programs Leading to Gainful Employment	2-22
Programs offered by for-profit institutions	2-23
Programs offered by public and private non-profit institutions	2-23
State requirements and program length	2-23
Certification requirements for GE programs	2-24
Additional Eligibility Requirements	2-25
Educational programs eligible for TEACH Grants	2-25
Programs for students with intellectual disabilities	2-26
ESL programs	2-27
Competency-based education programs	2-27
Types of CBE programs	2-29
Apprenticeships	2-31
Study-abroad programs	2-32
Types of study-abroad programs	2-32
Flight school programs	2-33
Written Arrangements Between Schools	2-33
Consortium agreement	2-34
Contractual agreement	2-35
Distance Education & Correspondence Study	2-36
Distance education	2-36
Correspondence courses	2-37
Clock-Hour/Credit-Hour Conversions	2-38
Definition of a clock hour	2-38
Definition of a credit hour	2-38
Clock-credit hour conversions in determining program eligibility	2-39
Credits approved by state and accrediting agencies	2-40
Out-of-class student work	2-41
<i>Graphic, Conversion Case Study</i>	2-42
 Chapter 3—FSA Administrative & Related Requirements	 2-45
Administrative Requirements for the Financial Aid Office	2-45
Consistency of information and conflicting information	2-45
<i>Graphic, Conflicting Information Between 2016–2017 and 2017–2018</i>	2-47
<i>Graphic, Sources of Conflicting Information</i>	2-48
<i>Graphic, Examples of Conflicting Information</i>	2-49
OIG referrals	2-50
Coordinating official	2-50
Counseling	2-51
Adequate staffing	2-51
System of checks and balances	2-51
Ownership, Employees, and Contractors	2-52

Debarment of school owners or staff.....	2-52
Certifying current or prospective employees or contractors	2-53
Lower-tier covered transactions.....	2-54
Crimes involving FSA program funds.....	2-54
Code of conduct	2-55
Compensation for serving on an advisory board.....	2-55
Contracts with Third-Party Servicers	2-56
Requirements of a third-party servicer contract	2-57
Excluded functions	2-58
Excluded entities.....	2-58
Incentive Compensation Prohibition	2-59
<i>Graphic, Table 1 : Activities covered by prohibition on incentive compensation.....</i>	2-60
<i>Graphic, Table 2 : Types of payments covered by prohibition on incentive compensation.....</i>	2-61
<i>Graphic, Table 3: Definitions</i>	2-62
Required Electronic Processes	2-63
<i>Graphic, Summary of Electronic Processes</i>	2-64
Information for Financial Aid Professionals (IFAP)	2-65
Minimum system requirements	2-65
Sharing Information with NSLDS, Federal Loan Servicers, and Guarantors.....	2-66
Reporting student enrollment data to NSLDS	2-66
Updating borrower information at separation	2-67
Sharing information about delinquent/defaulted borrowers	2-67
Financial aid history and transfer monitoring.....	2-68
Satisfactory Academic Progress (SAP)	2-69
Basic elements of an SAP policy	2-69
Provisions for U.S. Armed Forces Members & Families	2-70
In-state tuition rates for active duty service members and family attending public institutions	2-70
Readmission of service members.....	2-70
<i>Graphic, Readmission of Service Members—Additional Information</i>	2-73
Executive Order 13607: Principles of Excellence	2-74
Chapter 4—Audits, Standards, Limitations, & Cohort Default Rates	2-75
FSA Audit Requirements for Schools	2-75
Timing of Audit Submissions	2-76
Simultaneous FSA audit submissions.....	2-76
Submission dates for FSA audits.....	2-76
Waivers of requirement for an annual FSA audit	2-77
<i>Graphic, Qualifying for and Effects of Waivers.....</i>	2-79
Standards & Guidelines for FSA Audits.....	2-80
Audited financial statement requirement	2-80
FSA compliance audits	2-80
Single Audit Act (A-133 audit) guidelines.....	2-81
Exemptions	2-81
FSA consolidated statements	2-82
90/10 Revenue Test.....	2-82
<i>Graphic, Counting revenues for the 90/10 rule</i>	2-84

Audit & Audit Review Process	2-86
Having the audit performed	2-86
Review of FSA audit submissions	2-86
Access to records	2-87
<i>Graphic, ez-Audit</i>	2-87
Audits for Third-party Servicers	2-88
Demonstrating Financial Responsibility	2-89
Financial responsibility for public schools	2-89
Financial responsibility for proprietary or private nonprofit schools	2-90
Standards for Financial Responsibility	2-91
Composite score	2-91
Refund reserve standards	2-91
Returning funds in a timely manner	2-91
Compliance thresholds for timely return of funds	2-92
Letter of credit required when funds are not returned in a timely manner	2-92
Exceptions to the letter of credit requirement	2-93
Current in debt payments	2-93
<i>Graphic, Calculating A Composite Score</i>	2-94
Alternatives to the General Financial Standards	2-96
Letter of credit alternative for new schools	2-96
Letter of credit alternative for participating schools	2-96
Zone alternative	2-97
Provisional certification for schools not meeting standards	2-98
Provisional certification for schools where persons or entities owe liabilities	2-99
Past Performance and Affiliation Standards	2-100
Past performance of a school	2-100
Past performance of persons affiliated with a school	2-100
Limitations	2-101
Limitation on students admitted without a high school diploma or equivalent	2-102
Incarcerated student limitation and waiver	2-102
Correspondence course and correspondence student limitation	2-103
<i>Graphic, Calculating the Percentages</i>	2-104
Cohort Default Rates	2-105
Time frames for cohort default rates	2-105
Consequences of high cohort default rates	2-106
Default prevention and management plan	2-107
Default prevention and management plan for new schools	2-107
Debt-to-earnings (D/E) Rates for GE Programs	2-108
Calculation of D/E rates	2-109
Exclusions	2-111
Draft rates and challenges	2-111
Outcomes of the D/E rates measure	2-112
Transition period calculation	2-112
Appealing final rates	2-113
Using a survey to get earnings data	2-113
Using a state-sponsored data system for earnings data	2-113
Timing of an appeal	2-114
Consequences of failing and zone rates	2-114

Chapter 5—Updating Application Information	2-117
Recertification	2-117
Change in Ownership	2-118
Changes at public institutions	2-118
Change in ownership that results in a change of control, structure, or governance	2-118
Change in ownership for closely held corporations	2-119
Change in ownership for publicly traded corporations	2-120
Change in ownership for corporations that are not closely held or registered with the SEC.....	2-120
<i>Graphic, Preaquisition Review.....</i>	2-121
Changes in Ownership Interest and 25% Threshold	2-121
Steps to be Taken During A Change in Ownership	2-123
Steps to be taken by former owners	2-123
Steps to be taken by prospective owners.....	2-123
Accepting liabilities and responsibility for return of funds	2-124
Payments to eligible students.....	2-124
Temporary Approval for Continued Participation	2-125
Reporting Substantive Changes.....	2-127
Approval required from accreditor and state agency.....	2-127
Notification of school closure or bankruptcy	2-127
Changes to Location, Branch, or Campus.....	2-128
Eligibility of additional locations.....	2-128
Reporting a new location	2-129
Applying for approval of a new location	2-129
Changing the status of a campus or branch	2-130
Changes to Educational Programs.....	2-130
Adding a program—when a school may make eligibility determinations.....	2-130
All other program additions must be reported to the Department and approved before FSA program funds can be awarded	2-131
Updating a program.....	2-131
Changes in Accreditation	2-132
Change in institution-wide accreditation	2-132
Changing to accreditation by more than one institution-wide accrediting agency	2-133
Loss of accreditation	2-133
Changes to Third-Party Servicers.....	2-134
<i>Graphic, Changes Requiring Written Approval From the Department.....</i>	2-135
<i>Graphic, Changes That Do Not Require the Department’s Written Approval</i>	2-136
<i>Graphic, Foreign School Reporting on the E-App.....</i>	2-137
<i>Graphic, Other Changes Reported on the E-App.....</i>	2-137
<i>Graphic, Documentation Required for Approval of a Branch Campus</i>	2-138
Chapter 6—Consumer Information and School Reporting.....	2-139
Availability of Information	2-139
Notice to enrolled students	2-139
Web dissemination	2-140
Availability of employees for information dissemination purposes	2-141

General Student Disclosures	2-142
Financial assistance available to students	2-142
Information about the school’s academic programs, costs, facilities, and policies.....	2-143
Academic programs.....	2-143
School costs.....	2-143
Withdrawal procedures, refunds, and return of aid.....	2-144
Accreditation and licensure.....	2-144
Disability	2-144
FSA eligibility for study abroad	2-144
Transfer of credit policies	2-144
Contact information.....	2-145
Penalties and institutional policies on copyright infringement	2-145
<i>Graphic, Sample Statement of penalties for copyright infringement</i>	<i>2-145</i>
Student activities.....	2-146
Student body diversity.....	2-146
Net price calculator	2-146
The Financial Aid Shopping Sheet.....	2-146
Completion, Graduation, Transfer, Retention, and Placement Rates	2-147
Retention, placement, and post-graduate study.....	2-148
Disclosures and Gainful Employment Programs	2-148
Disseminating information about gainful employment programs.....	2-150
Updating GE disclosure requirements	2-150
Program webpages.....	2-150
Promotional materials.....	2-150
Direct distribution to prospective students	2-151
Campus Crime and Safety Information.....	2-152
Crime log	2-152
<i>Graphic, Definitions Related to Crime Reporting</i>	<i>2-153</i>
<i>Graphic, Required Contents of Annual Campus Security and Fire Safety Reports.....</i>	<i>2-154</i>
Crimes to be reported.....	2-156
Reported crimes must be recorded	2-156
<i>Graphic, Sample Statement of Availability.....</i>	<i>2-157</i>
Fire log	2-157
Annual submission of campus security and fire safety statistics	2-158
Distributing security and fire safety reports to enrolled students and current employees ..	2-158
Disseminating reports to prospective students and employees.....	2-159
Missing persons procedures	2-159
Emergency response and evacuation	2-160
Timely warning and emergency notification.....	2-161
Drug and Alcohol Abuse Prevention.....	2-162
Information to be included in drug prevention materials for students and employees.....	2-162
Distribution of materials to all students and employees	2-162
Drug and alcohol abuse prevention program	2-163
Drug-Free Workplace requirements for Campus-Based schools	2-163
Information about Athletics.....	2-164
The EADA Report	2-164
Completion and graduation rates for student athletes.....	2-165
Textbook Information.....	2-167

Loan Counseling	2-168
Entrance counseling	2-168
Exit counseling	2-169
Providing borrower information at separation	2-169
Counseling methods	2-169
<i>Graphic, DL Entrance Counseling—Required Elements</i>	<i>2-170</i>
<i>Graphic, DL Exit Counseling—Required Elements</i>	<i>2-171</i>
TEACH GRANT exit counseling	2-172
Counseling for correspondence and study-abroad students	2-172
Providing additional information	2-173
Financial literacy	2-173
At-risk students	2-173
Private Education Loans.....	2-174
Disclosures required for private education loans	2-174
Self-certification form for private education loans	2-175
Schools as private lenders	2-175
Preferred lender lists	2-176
Preferred lender disclosures.....	2-177
Use of institution and lender name	2-177
Misrepresentation	2-178
<i>Graphic— Misrepresentation Regulations</i>	<i>2-179</i>
Reporting on Foreign Sources & Gifts.....	2-180
Who must report.....	2-180
Timing and content of submission.....	2-180
Information to be reported	2-180
Alternative reporting.....	2-182
Anti-Lobbying Provisions	2-182
Prohibition on use of FSA funds	2-182
Campus-Based disclosure	2-183
Voter Registration	2-183
Chapter 7—Record Keeping, Privacy, & Electronic Processes.....	2-185
Required Records	2-185
Records related to school eligibility	2-185
Records relating to student eligibility	2-186
Fiscal records	2-186
Loan program records	2-187
Record Retention Periods.....	2-188
<i>Graphic, Summary of Record Retention Requirements</i>	<i>2-189</i>
<i>Graphic, Minimum Record Retention Periods</i>	<i>2-190</i>
Record Maintenance	2-191
Acceptable formats.....	2-191
Special requirements for SARs and ISIRs.....	2-191
Examination of Records	2-192
Location.....	2-192
Cooperation with agency representatives.....	2-192

Privacy of Student Information Under FERPA	2-193
Students' and parents' rights to review educational records under FERPA.....	2-194
Prior written consent to disclose the student's records.....	2-194
Disclosures to school officials	2-195
Disclosures to government agencies	2-196
Disclosures in response to subpoenas or court orders.....	2-196
Documenting the disclosure of information	2-197
<i>Graphic, FERPA Responsibilities and Student Rights</i>	<i>2-198</i>
<i>Graphic, HIPAA (Privacy of Health Records) and FERPA</i>	<i>2-198</i>
Higher Education Act Data Use Limitations	2-199
<i>Graphic, Guidance on the Use of Financial Aid Information for Program Evaluation and Research</i>	<i>2-199</i>
The E-Sign Act and Information Security.....	2-200
Obtaining voluntary consent for electronic transactions	2-200
Safeguarding confidential information in electronic processes	2-201
Establishing and maintaining an information security program.....	2-201
Protecting student information	2-202
Preventing Copyright Violations.....	2-203
<i>Graphic, FTC Standards for Safeguarding Customer Information.....</i>	<i>2-204</i>
 Chapter 8—Program Reviews, Sanctions, & Closeout	 2-205
Program Reviews by the Department	2-205
Scope of the review	2-206
Location of the review.....	2-206
Notification of the review.....	2-206
<i>Graphic, School Participation Division</i>	<i>2-207</i>
Department obligations.....	2-208
Entrance and exit/status conference	2-208
Written report.....	2-209
Final Program Review Determination (FPRD)	2-209
<i>Graphic, Accrediting Agency Role</i>	<i>2-210</i>
Corrective Actions and Sanctions	2-211
Sanctions.....	2-211
Criminal penalties	2-211
<i>Graphic, Corrective Actions and Sanctions</i>	<i>2-212</i>
Closeout Procedures (When FSA Participation Ends)	2-213
Involuntary withdrawal from FSA participation.....	2-213
Closeout procedures	2-214
Unpaid commitments and loss of program eligibility	2-214
Teach-out plan.....	2-215
Closure of a branch or location.....	2-215
Loss of eligibility or withdrawal from the Direct Loan Program	2-215
<i>Graphic, End of FSA Participation</i>	<i>2-216</i>