



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
Accreditation Group

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TO: Executive Directors and Presidents:

FROM: Herman Bounds Jr.
Director
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SUBJECT: Changes of Ownership

The Department has recently issued guidance on changes of ownership involving institutions under separate ownership whereby an institution is acquired and realigned as an additional location of another institution. This guidance can be found at the following link: [Updated Guidance for Changes in Ownership](#).

This type of restructuring is often referred to as a “merger” by the Department, institutions, accrediting agencies and state authorizing agencies. The Department has in the past allowed these transactions to occur without treating them as changes of ownership (“CIO”) subject to the requirements of 34 C.F.R. § 600.20(g) and (h), even though the restructuring is effectuated by the types of transactions that are described in 34 C.F.R. § 600.31(d) as constituting a change of ownership. The result was a single-step transaction, whereby an institution changed ownership and simultaneously became an additional location of another institution.

The Department has revised its approach to these kinds of transactions to protect students, to ensure that institutions have sufficient financial strength following a CIO to meet the Department’s financial responsibility requirements and that they remain administratively capable. For the acquired institution to continue participating in programs authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq (“Title IV, HEA programs”) following the CIO, it must receive approval of the CIO by its accrediting agency, as well as the applicable state authorizing agencies as required by 34 C.F.R. § 600.20(h)(3)(ii) and (iii). The CIO would also be subject to the acquiring institution’s accrediting agency’s substantive change policies as required by 34 C.F.R. § 602.22(a)(1)(ii)(G).

Accordingly, the Department is processing these types of transactions in two steps. First, it is processed as a CIO of the acquired institution. The acquired institution must submit the documents required by 34 C.F.R. § 600.20(g)(2) and (h)(3), and any additional documents and information the Department requests for its review. After the submissions are complete, the

Department needs time to review the documentation to make its determination on the change of ownership and to issue the Provisional Program Participation Agreement (“PPPA”). The Department’s regulations at 34 C.F.R. § 600.20(h)(3)(ii) and (iii) require state and accrediting agency approval of the CIO by the accrediting agency of the institution that is being acquired. Also, the PPPA cannot be issued until audited financial statements and an audited same day balance sheet (or statement of financial position) are submitted, reviewed, and approved by the Department. There are COVID-19 waivers currently in effect, and the time it takes for the Department’s review of the first step of the transaction may be extended if institutions take advantage of those waivers.

Once the first step of the process (including compliance with 34 C.F.R. § 600.20(g) and (h)) is completed and the PPPA is issued, the acquiring institution may apply for the realignment of the acquired institution, whereby the acquired institution relinquishes its OPEID and becomes an additional location of the acquiring institution. Once the realignment is approved in the second step, the acquired institution ceases to be a separate institution under the Department’s regulations.

Until both steps are complete, Title IV funds continue to be processed separately for each institution. Separate state and accrediting agency approvals must be maintained during this period, and additional state and accrediting agency approvals are required for the second step.

There have been several recent situations where institutions have been notified in advance about the two-step process, but accrediting agencies have continued the process of “merging” the institutions in their systems and ending separate accreditation and/or degree-granting authority as of the date of the CIO, or within some defined period after the transaction closes.

This puts schools at risk of losing eligibility for Title IV aid if separate accreditation is terminated before the Department approves both the CIO and the additional location application. The Department reminds accrediting agencies that when two institutions under separate ownership plan to engage in this type of transaction, the transaction must be evaluated in the first instance under the acquired institution’s accrediting agency’s substantive change policies for changes in ownership and control as required by 34 C.F.R. § 602.22(a)(1)(ii)(B).

Alternately, some transactions are more properly processed as a closure of one institution with its campus being acquired by the other institution, which would be subject to the acquiring institution’s accrediting agency’s substantive change policies to address the requirements of 34 C.F.R. § 602.22(a)(1)(ii)(G) and (H). This approach is suited to situations where the student body of the to-be-acquired campus has gotten smaller, new enrollments are limited or have ceased or a teach-out is planned, and the institution acquiring the campus will be installing its own faculty and curriculum on the acquired campus. Institutions taking this approach are advised that the requirements of 34 C.F.R. § 600.20(c)(1)(iii)(expansion of scope), 34 C.F.R. § 668.26 (closure requirements), 34 C.F.R. § 600.32 (additional locations), and 34 C.F.R. § 685.214 (closed school loan discharges) may also apply.

Please respond to Adrienne Walker at Adrienne.Walker@ed.gov to confirm receipt of this correspondence. My staff and I are available, as always, to respond to any questions you may have.