

# ***Change in Status and Evasion***

*Chapter*  
**2.4**

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# Change in Status and Evasion

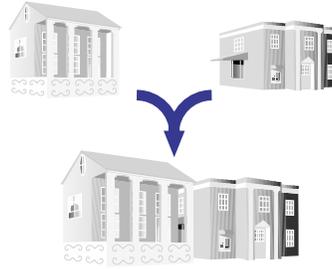
34 CFR 668.184  
34 CFR 668.188

## What is a change in status?

There are three types of change in status for cohort default rate purposes:

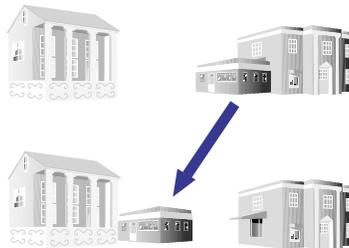
### ❖ Acquisition or Merger of Schools.

The first type of change in status occurs when one of two things happens: either one existing school acquires another existing school (acquisition of schools) or two existing schools combine to form one new school (merger of schools).



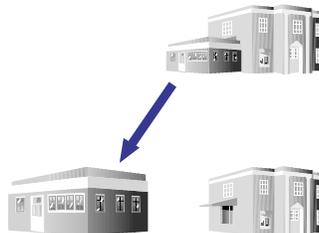
### ❖ Acquisition of Branches or Locations.

The second type of change in status occurs when an existing school acquires a branch or location of another school. This type of change in status results in one expanded school and one former parent school.



### ❖ Branches or Locations Becoming Schools.

The third type of change in status occurs when a branch or location of an existing school becomes an independent new school. This type of change in status results in one new school and one former parent school.



A campus or other entity is considered a school for cohort default purposes if it has its own OPE ID.

**How does a school's change in status affect the school's cohort default rate?**

A school involved in a merger, acquisition, or other change in status should be aware that the change may affect the application and calculation of its cohort default rates and that certain sanctions may be applicable to the school after the change in status. After a change in status, cohort default rates are applied to a school according to the type of change in status. Figure 2.4.1 outlines the cohort default rate effects of various types of changes in status.

**Figure 2.4.1**

Effect on Cohort Default Rates for Various Types of Changes in Status

CHAPTER 2.4 - Change in Status and Evasion

Type of Change in Status	Historical Cohort Default Rates for the New School	Subsequent Three Year Cohort Default Rates for the New School	Fourth Year and Subsequent Year Cohort Default Rates for the New School	Cohort Default Rates for the Former Parent School
Acquisition or Merger of Schools	The new school's historical cohort default rates will be the cohort default rates of the school involved in the change in status that has the highest total number of borrowers entering repayment in the two most recent cohort fiscal years for which cohort default rates have been published.	The new school's cohort default rates are determined by including all the applicable borrowers from each school involved in the acquisition or merger in the cohort default rate calculation.	The new school's cohort default rates are determined by including all the applicable borrowers from each school involved in the acquisition or merger in the cohort default rate calculation.	The former parent school no longer exists.
Acquisition of Branches or Locations	The expanded school's historical cohort default rates will be the cohort default rates of the acquiring school.	The expanded school's first three cohort default rates published after the date of the change in status will be calculated using all the applicable borrowers from both the acquiring school and the school from which the branch or location was acquired, including all of its locations.	The expanded school's fourth cohort default rate published after the date of the change in status and the cohort default rates in subsequent cohort fiscal years will be calculated using only the applicable borrowers from the acquiring school.	The former parent school's cohort default rates are not affected by the change in status.
Branches or Locations Becoming Schools	The new school's historical cohort default rates will be the cohort default rates of the former parent school.	The new school's first three cohort default rates published after the date of the change in status will be calculated using all the applicable borrowers from both the new school and the former parent school, including all of its locations.	The new school's fourth cohort default rate published after the date of the change in status and for cohort default rates in subsequent cohort fiscal years will be calculated using only the applicable borrowers from the new school.	The former parent school's cohort default rates are not affected by the change in status.

Because different cohort default rates may be applied to a school as a result of a change in status, the school's eligibility may be jeopardized as a result of a change in status. All schools contemplating a change in status should submit a letter to Default Management at the U.S. Department of Education (the Department) before making the change. The letter should

- ❖ explain the proposed change in status,
- ❖ include the details of the change in status (for example, if the change is part of a teach-out), and
- ❖ request guidance regarding the consequences, if any, the change in status will have on the school's cohort default rate and the school's Title IV program eligibility.

The school should send a copy of the letter to Case Management and, if appropriate, to the school's Direct Loan Schools Relations contact. See Chapter 2.5, "Department Offices and Addresses," for Case Management and Direct Loan Schools Relations addresses.

Default Management will send a written response indicating how the historical, current, and future cohort default rates will be calculated based on the proposed change in status. Schools can use this response to evaluate whether the change in status will be beneficial or detrimental to the schools involved in the change.

If a school decides to change its status, the school must submit an application to report the change and request approval for the change for Title IV program purposes. For more information on submitting a change request, visit

<http://www.eligcert.ed.gov>

Once a change in status occurs, any of the schools whose cohort default rates are affected by the change in status can request a loan record detail report for any of the other schools whose borrowers are included in its cohort default rates as a result of the change in status. See Chapter 2.3, "Loan Record Detail Report," for information on requesting a loan record detail report. Further, after a change in status, a school may submit a challenge, adjustment, or appeal based on the data for another school's borrowers, under the same requirements that would be applicable to the other school, if the loans for those borrowers affect the school's cohort default rate.

Under certain circumstances, a school involved in a change in status may be required to assume the sanctions of another school involved in the change in status if the change is considered an attempt to evade cohort default rate sanctions.

**What types of actions are considered attempts to evade cohort default rate consequences?**

A school has attempted to evade cohort default sanctions if all the following conditions are met:

- ❖ The eligible school and the school subject to sanction are both parties to a transaction that results in change of ownership, change in control, merger, consolidation, acquisition, change of name, change of address, location becoming a freestanding school, purchase or sale, transfer of assets, assignment, change of identification number, contract for services, addition or closure of one or more locations or branches or educational programs, or any other change in whole or in part in the school's structure or identity.
- ❖ Before the change occurred, one of the schools involved in the change in status was subject to a sanction based on its cohort default rate.
- ❖ Following the change in status, the eligible school offers an educational program at substantially the same address at which the sanctioned school had offered an educational program before the change.
- ❖ There is a commonality of ownership or management between the eligible school and the sanctioned school, as the sanctioned school existed before the change. A commonality of ownership or management exists if, at each school, the same person, or a member of that person's family, directly or indirectly holds or held a managerial role or has or had the ability to substantially affect the school's actions.

All schools contemplating a change in status should submit a letter to Default Management before making the change. The letter should

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- ❖ include the details of the change in status (for example, if the change is part of a teach-out), and
- ❖ request guidance regarding the consequences, if any, the change in status will have on the school's cohort default rate and the school's Title IV program eligibility.

The school should send a copy of the letter to Case Management and, if appropriate, to the school's Direct Loan Schools Relations. See Chapter 2.5, "Department Offices and Addresses," for Case Management and Direct Loan Schools Relations addresses.

Default Management will determine if the change in status is considered an attempt to evade cohort default rate consequences and will send a written response indicating if the eligible school will be subject to sanction and, if so, the scope and duration of the sanction. If a school that is already subject to sanction combines with another school, the new school has the same challenge, adjustment, and appeal options as the school that was subject to sanction before the change in status. That is, if the school that was subject to sanction before the change in status had exhausted all means of challenge, adjustment, and/or appeal, the new school has no challenge, adjustment, and/or appeal rights. If the school that was subject to sanction before the change in status did not exhaust all means of challenge, adjustment, and/or appeal, the new school may request a challenge, adjustment, and/or appeal, but only under the same time frames and other requirements that were applicable to the sanctioned school.

