Institutional Eligibility

This chapter discusses the three types of institutions that are eligible to participate in the Federal Student Aid (FSA) programs. If circumstances change and a participating school no longer qualifies as an eligible institution, it must notify the Department and carry out the closeout procedures described in Chapter 12 of this Volume.

A school that wishes to participate in the FSA programs must demonstrate that it is eligible to participate before it can be certified for participation. A school must apply to and receive approval from the Department of its eligibility to participate. Some schools apply only for a designation as an eligible institution (they do not seek to participate) so that students attending the school may receive deferments on FSA program loans, or be eligible for the HOPE/Lifetime Learning Scholarship tax credits or other non-FSA programs that require that the school be FSA-eligible. The same application is used to apply for both eligibility and certification for participation (see Chapter 2).

THE THREE DEFINITIONS OF ELIGIBLE INSTITUTIONS

The regulations governing institutional eligibility define three types of eligible institutions—insitutions of higher education, proprietary institutions of higher education, and postsecondary vocational institutions. Under the three definitions, a school is eligible to participate in all the FSA programs provided the school offers the appropriate type of eligible program (see chart on next page). This section covers the key elements of the three definitions, giving special attention to those requirements that affect the definition of an eligible program.

Although the criteria for the three types of institutions differ somewhat, the definitions are not mutually exclusive. That is, a public or private nonprofit institution may meet the definition of more than one type of eligible institution.

INSTITUTIONAL CONTROL

The control of an institution distinguishes whether the institution is public or private, nonprofit or for-profit. Under the institutional definitions, an institution of higher education or a postsecondary vocational institution can be either public or private, but is always nonprofit. A proprietary institution of higher education is always a private, for-profit institution.

CHAPTER 1 HIGHLIGHTS

Three definitions of eligible institutions
- institution of higher education
- proprietary institution of higher education
- postsecondary vocational institution

Basic requirements
- Legal authorization by a state
- Accreditation (and alternatives)
- Admissions standards (high school diploma, recognized equivalent, homeschooling)

Additional institutional eligibility factors
- 90/10 Rule
- Correspondence courses/students limitation
- Incarcerated students limitation
- Limitation on students admitted without HS diploma or equivalent
- Bankruptcy
- Crimes involving FSA funds

Foreign schools eligible for FFEL programs

Related information
- Applying to participate, New School Guide
- Closeout procedures, Volume 2, Chapter 12
- Eligible program—Volume 2, Chapter 2
- Eligibility of ability-to-benefit students, home-school students, and correspondence students—Volume 1, Chapter 1.

Assessing your school’s compliance

To assess your school’s compliance with the provisions of this chapter see the FSA Assessment module for “Institutional Eligibility” at:
ifap.ed.gov/qahome/qaassessments/institutionalelig.html
### Type and Control of Eligible Institutions

<table>
<thead>
<tr>
<th>Institution of Higher Education</th>
<th>Proprietary Institution of Higher Education</th>
<th>Postsecondary Vocational Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>A public or private nonprofit educational institution located in a state</td>
<td>A private, for-profit educational institution located in a state</td>
<td>A public or private nonprofit educational institution located in a state</td>
</tr>
</tbody>
</table>

**Program offered:**

1. Associate, bachelor’s, graduate, or professional degree, or
2. At least a two-year program that is acceptable for full credit toward a bachelor’s degree, or
3. At least a one-year training program that leads to a degree or certificate (or other recognized educational credential) and prepares students for gainful employment in a recognized occupation.

**Proprietary Institution of Higher Education**

Program offered: must provide training for gainful employment in a recognized occupation, and must meet the criteria of at least one category below.

1. Provides at least a 15-week (instructional time) undergraduate program of 600 clock hours, 16 semester or trimester hours, or 24 quarter hours. May admit students without an associate degree or equivalent.
2. Provides at least a 10-week (instructional time) program of 300 clock hours, 8 semester or trimester hours, or 12 quarter hours. Must be a graduate/professional program, or must admit only students with an associate degree or equivalent.
3. Provides at least a 10-week (instructional time) undergraduate program of 300–599 clock hours. Must admit at least some students who do not have an associate degree or equivalent, and must meet specific qualitative standards. Note: These programs are eligible only for FFEL and Direct Loan participation.

“Two-Year Rule” (applicable to proprietary and postsecondary vocational institutions) — Legally authorized to give (and continuously has been giving) the same postsecondary instruction for at least two consecutive years.

Special rule (applicable to proprietary institutions) — Derives no more than 90% of its revenues from FSA funds.

### Changes to institutional eligibility

The Higher Education Opportunity Act makes several changes to the definitions of an eligible institution.

The HEOA amends the definition of “institution of higher education” —

- to allow institutions to enroll homeschooled students who do not have a high school diploma or GED as regular students,
- to permit eligible institutions to dually enroll secondary students as regular students, and
- to allow the Department to approve the eligibility of institutions that offer a degree that is acceptable to a graduate or professional degree program (but do not offer a bachelor’s degree or a two-year degree).

The definition of “proprietary institution” has been amended to include institutions that provide a program leading to a baccalaureate degree in liberal arts. (The program must have been provided since January 1, 2009 and the institution must have been accredited by a recognized regional accreditation agency or organization since October 1, 2007, or earlier.) See DCL 08-12 for interim guidance on the definition of “liberal arts,” pending negotiated rulemaking.

HEOA section 101(a)(1) and 102(d)(1) HEA section 102(a) and 102(b)

Effective date: July 1, 2010
ELIGIBLE INSTITUTION

To be eligible, an institution must adhere to the following requirements:

- It must be legally authorized by the state where the institution offers postsecondary education to provide a postsecondary education program,
- It must be accredited by a nationally recognized accrediting agency or have met the alternative requirements, if applicable, and
- It must admit as a regular student only individuals with a high school diploma or its recognized equivalent, or individuals beyond the age of compulsory school attendance in the state where the institution is located.

These requirements are discussed in the following sections.

LEGAL AUTHORIZATION BY A STATE

With the exception of foreign schools, an eligible institution under any of the three definitions must be located in a state. Generally, the determining factor is the physical location of the main campus or place of instruction.

To qualify as an eligible institution under any of the three institutional definitions, a school must be legally authorized by the state in which it offers an educational program to provide the program. The state’s legal authorization is the legal status granted to a school through a charter, license, or other written document issued by an appropriate agency or official of the state in which the school is located. It may be provided by a licensing board or educational agency. In some cases, the school’s charter is its legal authorization.

A school must have evidence that it has the authority to operate in a state at the time of the school’s certification to participate in the FSA programs. For more information on applying for participation in the FSA programs, see the New School Guide (to be available in Spring 2009).

ACCREDITATION

Generally, a school must be accredited or preaccredited by a nationally recognized accrediting agency or association (both referred to here as agencies) to be eligible. The procedures and criteria for recognizing accrediting agencies are found in Chapter 12.

Except as provided below, a school must be accredited by an agency that has the authority to cover all of the institution’s programs. An agency such as this is referred to as the school’s primary accrediting agency. A school can have only one primary accreditor.
A school may also be accredited by one or more programmatic accrediting agencies. A programmatic accrediting agency is one that accredits only individual educational programs that prepare students for entry into a profession, occupation, or vocation.

If a school is seeking to change primary accreditors it must first provide the Department (and the agencies) all materials documenting the reasons and causes for making the change. (Information on changes in accreditation can be found in Chapter 5.)

**Alternatives to regular accreditation**

The law provides two statutory alternatives to accreditation by a recognized accrediting agency. First, a public, or private nonprofit institution may be preaccredited by an agency or association that has been approved by the Department to grant such preaccreditation. Second, public postsecondary vocational educational institutions may be eligible for FSA funds if accredited by a state agency that the Department determines to be a reliable authority.

**Primary accreditor**

The primary accreditor typically is an accrediting agency whose scope is institution-wide rather than only programmatic. A participating institution must advise the Department which accrediting agency it wants to serve as its primary accrediting agency for the purpose of FSA eligibility. If a school offers only programs of a singular nature, the school’s primary accreditor may be an agency that accredits only those specific educational programs.

**Dual accreditation**

If a school is accredited by two agencies at the same time, the school must designate which agency’s accreditation will be used in determining institutional eligibility for FSA funds and must inform the Department via the E-App. Further, the school must provide to the Department (and to both agencies) all materials documenting the reasons and causes for dual accreditation before the school adds the additional accreditation. See Chapter 5 for more on changes in accreditation and loss of eligibility.
ADMISSIONS STANDARDS

An eligible institution may admit as regular students only persons who have a high school diploma or its recognized equivalent, or persons who are beyond the age of compulsory school attendance in the state in which the school is located. (Admissions standards also play a role in student eligibility, as discussed in Volume I, Chapter 1.)

High school diploma

Unless required by its accrediting or state licensing agency, the school is not required to keep a copy of a student’s high school diploma or GED (the recognized equivalent of a high school diploma, see below). Rather, the school may rely on the student’s certification (including that on the FAFSA) that he or she has received the credential and a copy of the certification must be kept on file. This certification need not be a separate document. It may be collected on the school’s admissions application. The school may also require the student to provide supporting documentation.

Recognized equivalent of a high school diploma

Generally, a recognized equivalent of a high school diploma is either a GED or a state certificate (received after the student has passed a state-authorized test) that the state recognizes as being equivalent to a high school diploma. However, the Department recognizes that there are special cases:

- If a student has successfully completed at least a two-year program that is acceptable for full credit toward a bachelor’s degree, the student’s academic transcript is considered equivalent to a high school diploma.
- A student without a high school diploma who is seeking enrollment in a program of at least the associate degree level, and who has excelled academically in high school and met formalized written admissions policies of the school, is also considered to have the equivalent of a high school diploma.

Criteria for ability-to-benefit and homeschool students

To be eligible for FSA funds, students who are beyond the age of compulsory attendance but who do not have a high school diploma or its recognized equivalent must meet ability-to-benefit criteria or meet the student eligibility requirements for a student who is home-schooled. (For more information on this student eligibility requirement, see Volume I, Chapter 1.)

For purposes of student eligibility, a student who does not have a high school diploma or equivalent is eligible to receive FSA funds if the student completes a secondary school education in a homeschool setting that is treated as a home school or private school under state law (see Volume I, Chapter 1 for student eligibility rules). However, a student must be enrolled in an eligible institution to receive FSA funds, and an eligible institution may admit as regular students only...
Homeschooling example
If your state requires children to attend school until age 17, you may admit as a regular student a homeschooled student who completes the secondary curriculum at age 16 if your state would not consider the student truant and would not require that student to go back to high school, or continue a homeschool education until age 17.

Limitation on students admitted without HS diploma or equivalent
A school that admits students who do not have a high school diploma nor its recognized equivalent has some additional considerations. A waiver of this limitation is possible for some schools. See the discussion under Limitation on students without HS diploma or equivalent.

“TWO-YEAR” RULE
To be eligible as a proprietary institution or a postsecondary vocational institution, a school must be legally authorized to give (and have continuously been giving) the same postsecondary instruction for at least two consecutive years prior to its application. The educational program(s) offered must remain substantially the same in length and subject matter, except for changes made because of new technology or requirements of other federal agencies. A school subject to the two-year rule may not award FSA funds to a student in a program that is not included in the school’s approval documents.

If a school is subject to the two-year rule, during the school’s initial period of participation in the FSA programs the Department will not approve additional programs that would expand the institution’s eligibility. An exception would be considered if the school demonstrates that the program has been legally authorized and continuously provided for at least two years prior to the date of the request.

A branch campus of an eligible proprietary institution or postsecondary vocational institution seeking status as a main campus or freestanding institution is subject to the two-year rule. A branch campus must be designated as such by the Department for two years after certification as a branch campus before the branch can seek certification as a main or freestanding school.

An additional location must obtain approval from the Department to become a branch campus. A branch campus then must operate as a branch campus for two years (satisfy the two-year rule) before it may be considered for status as a freestanding institution. Time as an additional location of an eligible proprietary institution or postsecondary vocational institution does not count toward the two-year rule.
ADDITIONAL INSTITUTIONAL ELIGIBILITY FACTORS

An otherwise eligible institution becomes an ineligible institution if the school violates, among other requirements—

- the correspondence course limitation or the correspondence student limitation,
- the incarcerated student limitation, or
- the 50% limit on students without a high school diploma or equivalent.

In addition, a school is not eligible if it (or its owner) files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving FSA program funds. A school that becomes ineligible because of one of these factors must immediately stop awarding FSA program funds and must comply with the requirements in 34 CFR 668.26 for a school that has lost its FSA participation. For more information on requirements when a school’s FSA participation ends, see Chapter 12.

**Demonstrations of compliance**

All of the limitation requirements and the 90/10 Rule involve certain percentage calculations that are performed by the school either to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. For each of the tests enumerated above, a calculation performed by the school must be attested to by the independent auditor who prepares the school’s audited financial statement or its FSA compliance audit (for more information on audits, see Chapter 12). If a school’s initial or previous calculation was in error, the auditor’s report must be part of the audit workpapers and must include a recalculation. The auditor’s attestation report must indicate whether the school’s determinations (including any relevant waiver or exception) are accurate. Requirements for demonstrating compliance with the 90/10 Rule are discussed below.

For each of the limitation requirements, the school must notify the Department (via Section G of the E-App) of the school’s failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued waiver, as applicable. The school’s notification must occur by July 31 following the end of an award year. A school that fails to meet any of these requirements loses its eligibility to participate in any FSA program as of the last day of the most recent award year for which the school failed to meet the requirement.

If a school loses its eligibility because it failed to meet one or more of the limitation requirements, the school cannot regain eligibility until it can demonstrate that it was in compliance with all of the limitation requirements for the most recently completed award year. Once this has occurred the school may apply to regain its eligibility. In addition, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.
If a school becomes ineligible because it files for bankruptcy, or if the school, its owner, or its CEO is responsible for a crime involving FSA program funds, the school must notify the Department of the change within 10 days. The loss of eligibility is effective as of the date of the bankruptcy, or the date the school or individual pleads to or is found responsible for the crime, as applicable. A loss of eligibility for these two reasons is permanent. The institution’s eligibility cannot be reinstated.

Correspondence course and correspondence student limitation

In general, a school does not qualify as eligible to participate in the FSA programs if, for the latest complete award year—

- more than 50% of the school’s courses were correspondence courses (correspondence course limitation).

(This limitation does not apply to a school that mainly provides vocational adult education or job training (as defined under Sec. 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act).)

- 50% or more of the school’s regular enrolled students were enrolled in correspondence courses (correspondence student limitation).

This limitation may be waived for a school that offers a two-year associate degree or four-year baccalaureate degree program if the school demonstrates to the Department that in that award year, the students enrolled in its correspondence courses receive no more than 5% of the total FSA program funds received by all of the school’s students in the award year.

For additional information on the effects of correspondence courses and students on institutional eligibility, see chapter 8.

Incarcerated student limitation

A school is not eligible for FSA program participation if, in its latest complete award year, more than 25% of its regular students are incarcerated. A public or private nonprofit school can ask the Department to waive this limitation (see sidebar for details). If granted, the waiver is effective as long as the public or private nonprofit school continues to meet the waiver requirements each award year. For information on the eligibility of incarcerated students for FSA assistance, see Volume 1, Chapter 1.

Limitation on students admitted without HS diploma or equivalent

Unless a school provides a four-year bachelor’s degree program, or a two-year associate degree program, the school will not qualify as an
eligible institution if, for its latest complete award year, more than 50% of its regular enrolled students had neither a high school diploma nor its equivalent.

If a public or private nonprofit institution exceeds the 50% limit because it serves significant numbers of these students through contracts with federal, state, or local government agencies, the Department may waive the limitation.

The waiver will only be granted if no more than 40% of the public or private nonprofit regular students not served through contracts with federal, state, or local government agencies to provide job training do not have a high school diploma or its equivalent. If granted, the waiver may be extended in each year the public or private nonprofit school continues to meet the requirements. The public or private nonprofit school’s calculation must be attested to by an independent auditor.

Bankruptcy

A school is not an eligible institution if the school, or an affiliate of the school that has the power, by contract or ownership interest, to direct or cause the direction of the management of policies of the school, files for relief in bankruptcy or has entered against it an order for relief in bankruptcy.

Crimes involving FSA program funds

In order to safeguard FSA funds, schools are prohibited from having as principals or employing or contracting with other organizations that employ individuals who have engaged in the misuse of government funds. Specifically, a school must not knowingly—

1. employ in a capacity that involves the administration of the FSA programs or the receipt of funds under those programs, an individual who has been convicted of, or has pled nolo contendere or guilty to, a crime involving the acquisition, use, or expenditure of federal, state, or local government funds, or has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds;

2. contract with a school or third-party servicer that has been terminated from the FSA programs for a reason involving the acquisition, use, or expenditure of federal, state, or local government funds, or that has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds; or

3. contract with or employ any individual, agency, or organization that has been, or whose officers or employees have been:

Incarcerated student defined

An “incarcerated student” is a student who is serving a criminal sentence in a federal, state, or local penitentiary, prison, jail, reformatory, work farm, or other similar correctional institution (does not include detention in a halfway house, home detention, or weekend-only sentences).

Waiver of incarcerated student limitation

→ For a public or private nonprofit school offering only two-year or four-year programs that lead to associate or bachelor’s degrees, the waiver applies to all programs offered at the school.

→ However, if the public or private nonprofit school offers other types of programs, the waiver would apply to any of the school’s two-year associate degree programs or four-year bachelor’s degree programs, and also to any other programs in which the incarcerated regular students enrolled have a 50% or greater completion rate. (The calculation of this completion rate is specified in Section 600.7(e)(2) of the Institutional Eligibility regulations and must be attested to by an independent auditor.)

→ A nonprofit school may request the waiver using the E-App, by answering the questions in “Section G” and explaining in “question 69.”

(see http://www.eligcert.ed.gov).

Incarcerated student limitation cite

34 CFR 600.7(a)(1)(iii) and 600.7(c)
FOREIGN SCHOOLS ELIGIBLE FOR FFEL PROGRAMS

In general, by law, a foreign school can participate in the FFEL programs if the foreign school is comparable to an institution of higher education (as defined earlier in this section) and has been approved by the Department. Additionally, the regulations set out specific requirements for foreign medical schools and foreign veterinary schools.

APPLYING AS AN ELIGIBLE NONPARTICIPATING SCHOOL

Some schools choose to establish their eligibility for FSA programs but elect not to participate in them, because designation as an eligible institution qualifies a school or its students to apply to participate in non-FSA programs, such as the HOPE and Lifetime Learning Tax Credit. In addition, only students attending eligible institutions qualify for in-school deferments of payments on their federal education loans.

A nonparticipating eligible institution wishing to be designated an eligible nonparticipating institution may submit an E-App to the Department at any time. The application must be materially complete.

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. After completing its review, if a school’s application has been approved, the Department will send an electronic notice to the president and financial aid officer notifying them that the school is eligible and that its approval letter and ECAR must be printed and maintained. If the school’s application has not been approved, the Department will notify the school and explain why.