Abstract: This paper analyzes the impact of an exogenous policy shock caused by the Balanced Budget Act of 1997 on the likelihood of closure and ownership conversion in the nursing home industry. Using merged data from Medicare Cost Reports and the Online Survey Certification and Reporting (OSCAR) system, separate multinomial probit models are estimated for not-for-profit (NFP) and for-profit (FP) facilities to determine the probability that facilities convert or close. Estimation results indicate that NFPs that convert to FP benefited from the new market structure and FPs divest facilities that are unprofitable because of the BBA by selling them to NFPs. In the case of closures, the factors that determine closure are similar for NFPs and FPs. These results suggest that when facilities are struggling for survival both NFPs and FPs may implement similar strategies, but when both firms benefit from policy change, facilities could behave differently.