

### Federal Perkins Loan Program—Part E

#### Federal Perkins Loan Issue 1: Authorization for Federal Perkins Loan Program [Section 461(b)(1)]

**Recommendation:** Increase the authorization level for the Federal Perkins Loan Program.

**Rationale:** The Federal Perkins Loan Program allows participating institutions the flexibility of offering needy students low-interest loans to meet their educational needs. Annually the need for funds exceeds the allocation.

Current HEA Law	NASFAA Proposed Statutory Language
Section 461(b) AUTHORIZATION OF APPROPRIATIONS.— (1) For the purpose of enabling the Secretary to make contributions to student loan funds established under this part, there are authorized to be appropriated \$250,000,000 for fiscal year 1999 and such sums as may be necessary for each of the 4 succeeding fiscal years.	Section 461(b) AUTHORIZATION OF APPROPRIATIONS.— (1) For the purpose of enabling the Secretary to make contributions to student loan funds established under this part, there are authorized to be appropriated <del>\$250,000,000</del> <b>\$300,000,000</b> for fiscal year <del>1999</del> <b>2005</b> and such sums as may be necessary for each of the 4 succeeding fiscal years.

**Federal Perkins Loan Issue 2: Allocation of Funds Institutional Assistance Account [Section 462 new subsection (j)]**

**Recommendation:** Allow schools that wish to terminate participation in the Federal Perkins Loan Program the opportunity to continue to collect outstanding loans; use the collections to establish a federal endowment fund; and to use the proceeds from that endowment for Federal SEOG or Federal Work-Study awards to students.

**Rationale:** For many years schools have received a minimal amount of new money for the Federal Perkins Loan Program (based on available appropriations and the funding formula), and rely on repayment funds to lend to new borrowers. Some schools may find that the needs of their students may be satisfactorily met through Stafford Loans but that need still exists for FSEOG and FWS.

Under current provisions, should a school determine that they no longer wish to participate in the Federal Perkins Loan Program it must assign all of its loans to the U.S. Department of Education and return the federal share of the cash balance in the fund.

Under this recommendation, a school that terminates participation in the Federal Perkins Loan Program would be allowed the option to collect its outstanding loans, retain the funds to establish a Federal SEOG/FWS endowment, and use the proceeds from the endowment solely for FSEOG and/or FWS awards. Schools would maintain a vested interest in the collection of the loans issued, and a vested interest in keeping collection costs down. Schools would have an incentive to invest the endowment funds at rates equal to or greater than the current 5 percent interest rate. [Currently schools are required to lend out the repaid funds as soon as possible] The earnings from the fund would expand the amount of federal grant and work-study funds for students without any additional federal appropriations. Since these schools would no longer qualify for an annual federal Perkins allocation, increased FCC would be available to those schools that wish to remain in the Federal Perkins Loan Program. The federal government would not have to expand its collection operations to absorb reassigned loans.

Current HEA Law	NASFAA Proposed Statutory Language
No comparable section.	<p><b>Add a new Section 462(j) VOLUNTARY TERMINATION OF PARTICIPATION. (1) An eligible institution, except a postsecondary institution subject to the provisions of section 462(e)(3), shall have the authority to voluntarily cease participation under this part.</b></p> <p><b>(2) An institution voluntarily ceasing participation under this part shall—</b></p> <p><b>(A) notify the Secretary of its intent to cease participation</b></p>

	<p>under procedures established by the Secretary; and (B) comply with such procedures established by the Secretary.</p> <p><b>(3) An institution that ceases participation under this part shall—</b></p> <p><b>(A) not be eligible for five years for an allocation under section 462, unless the institution reestablishes its eligibility utilizing the normal eligibility procedures under this part after termination of participation in this part and after establishment of an institutional assistance endowment account; and,</b></p> <p><b>(B) notwithstanding any other provision of this title such an institution, without payment or reimbursement to the Secretary, establish an institutional assistance endowment account with the proceeds from interest or capitol or both from such account used for the purpose of providing—</b></p> <p><b>(i) grants made under the provisions of subpart 3 of part A of this title; or</b></p> <p><b>(ii) work assistance under the provisions of part C of this title.</b></p> <p><b>(4) An institutional assistance endowment account shall be the student loan fund established under this part consisting of all payments made under this part to the institution and all collections from loans made under this part. Notwithstanding any provision of this Act, the Secretary shall make no claim for funds in an institutional assistance account.</b></p>
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**Federal Perkins Loan Issue 3: Federal Perkins Loan Limits [Section 464(a)(2)]**

**Recommendation:** Increase the Federal Perkins Loan annual undergraduate maximum to \$7,000 and \$10,000 for graduate/professional students with stepped increases in 2007 and 2009 paralleling our recommendations for the Part B and D loan programs. In addition, increase the cumulative undergraduate graduate/professional limits to reflect these increases.

**Rationale:** Raising the annual and aggregate limits would allow participating schools additional flexibility in matching need-based programs to the specific needs of their students. By increasing the limits, schools would have a greater ability to help the neediest students limit their educational borrowing to just one loan program. This recommendation would also eliminate the differential annual limits and the intermediate (2-yr) cumulative limit and parallel our recommendations for increases in the Part B and D loan programs.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 464. TERMS OF LOANS.                      (a) TERMS AND CONDITIONS.—(1) Loans from any student loan fund established pursuant to an agreement under section 463 to any student by any institution shall, subject to such conditions, limitations, and requirements as the Secretary shall prescribe by regulation, be made on such terms and conditions as the institution may determine.                      (2)(A) Except as provided in paragraph (4), the total of loans made to a student in any academic year or its equivalent by an institution of higher education from a loan fund established pursuant to an agreement under this part shall not exceed—                      (i) \$4,000, in the case of a student who has not successfully completed a program of undergraduate education; or                      (ii) \$6,000, in the case of a graduate or professional student (as defined in regulations issued by the Secretary).                      (B) Except as provided in paragraph (4), the aggregate unpaid principal amount for all loans made to a student by institutions of higher education from loan funds established pursuant to agreements under this part may not exceed—                      (i) \$40,000, in the case of any graduate or professional student (as</p>	<p>Section 464. TERMS OF LOANS.                      (a) TERMS AND CONDITIONS.—(1) Loans from any student loan fund established pursuant to an agreement under section 463 to any student by any institution shall, subject to such conditions, limitations, and requirements as the Secretary shall prescribe by regulation, be made on such terms and conditions as the institution may determine.                      (2)(A) Except as provided in paragraph (4), the total of loans made to a student in any academic year or its equivalent by an institution of higher education from a loan fund established pursuant to an agreement under this part shall not exceed—                      (i) <del>\$4,000</del> <b>\$7,000</b>, in the case of a student who has not successfully completed a program of undergraduate education; or                      (ii) <del>\$6,000</del> <b>\$10,000</b>, in the case of a graduate or professional student (as defined in regulations issued by the Secretary).                      (B) Except as provided in paragraph (4), the aggregate unpaid principal amount for all loans made to a student by institutions of higher education from loan funds established pursuant to agreements under this part may not exceed—                      (i) <del>\$40,000</del> <b>\$85,000</b>, in the case of any graduate or professional</p>

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<p>defined by regulations issued by the Secretary, and including any loans from such funds made to such person before such person became a graduate or professional student);</p> <p>(ii) \$20,000, in the case of a student who has successfully completed 2 years of a program of education leading to a bachelor's degree but who has not completed the work necessary for such a degree (determined under regulations issued by the Secretary), and including any loans from such funds made to such person before such person became such a student; and</p> <p>(iii) \$8,000, in the case of any other student.</p>	<p>student (as defined by regulations issued by the Secretary, and including any loans from such funds made to such person before such person became a graduate or professional student);</p> <p>(ii) <del>\$20,000</del> <b>\$35,000</b>, in the case of a student who has successfully completed 2 years of a program of education leading to a bachelor's degree but who has not completed the work necessary for such a degree (determined under regulations issued by the Secretary), and including any loans from such funds made to such person before such person became such a student; and</p> <p>(iii) <del>\$8,000</del>, <b>\$14,000</b> in the case of any other student.</p>
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**Federal Perkins Loan Issue 4: Regaining Title IV eligibility after default [Section 464(b)]**

**Recommendation:** Allow a defaulted borrower who voluntarily makes all past and currently due payments to regain eligibility for all Title IV programs.

**Rationale:** Currently a defaulted Perkins borrower who voluntarily makes all past and currently due payments regains eligibility only for Perkins Loans. This is inconsistent with all other provisions relating to regaining eligibility and makes administration of the programs unnecessarily complicated. It is also illogical to allow a previously defaulted borrower to regain eligibility for another loan but not for work or grants.

Current HEA Law	NASFAA Proposed Statutory Language
Section 464(b) DEMONSTRATION OF NEED AND ELIGIBILITY REQUIRED.—(1) A loan from a student loan fund assisted under this part may be made only to a student who demonstrates financial need in accordance with part F of this title, who meets the requirements of section 484, and who provides the institution with the student’s drivers license number, if any, at the time of application for the loan. A student who is in default on a loan under this part shall not be eligible for an additional loan under this part unless such loan meets one of the conditions for exclusion under section 462(g)(1)(E).	Section 464(b) DEMONSTRATION OF NEED AND ELIGIBILITY REQUIRED.—(1) A loan from a student loan fund assisted under this part may be made only to a student who demonstrates financial need in accordance with part F of this title, who meets the requirements of section 484, and who provides the institution with the student’s drivers license number, if any, at the time of application for the loan. A student who is in default on a loan under this part shall not be eligible for <del>an</del> additional <del>loan aid</del> <b>part title</b> unless such loan meets one of the conditions for exclusion under section 462(g)(1)(E).

**Federal Perkins Loan Issue 5: Perkins Loan Interest Rate [Section 464(c)(1)(D)]**

**Recommendation:** Maintain the interest rate for the Federal Perkins Loan program at the current level.

**Rationale:** NASFAA believes the current rate is appropriate.

<b>Current HEA Law</b>	<b>NASFAA Proposed Statutory Language</b>
Section 464(c)(1)(D) shall provide that the loan shall bear interest, on the unpaid balance of the loan, at the rate of 5 percent per year in the case of any loan made on or after October 1, 1981, except that no interest shall accrue (I) 1 prior to the beginning date of repayment determined under paragraph (2)(A)(i), or (II) 1 during any period in which repayment is suspended by reason of paragraph (2);	<b>Retain unchanged current provision.</b>

**Federal Perkins Loan Issue 6: Forbearance [Section 464(e)]**

**Recommendation:** Delete the words "upon written request."

**Rationale:** Borrowers are not required to submit written requests for forbearance under the Federal Stafford Loan Programs. This same provision should also be available to Federal Perkins Loan borrowers.

<b>Current HEA Law</b>	<b>NASFAA Proposed Statutory Language</b>
Section 464(e) FORBEARANCE.—The Secretary shall ensure that, upon written request, an institution of higher education shall grant a borrower forbearance of principal and interest or principal only, renewable at 12-month intervals for a period not to exceed 3 years, on such terms as are otherwise consistent with the regulations issued by the Secretary and agreed upon in writing by the parties to the loan, if—	Section 464(e) FORBEARANCE.—The Secretary shall ensure that, <del>upon written request,</del> an institution of higher education shall grant a borrower forbearance of principal and interest or principal only, renewable at 12-month intervals for a period not to exceed 3 years, on such terms as are otherwise consistent with the regulations issued by the Secretary and agreed upon in writing by the parties to the loan, if—

**Federal Perkins Loan Issue 7: Cancellation of Loans for Certain Public Service [Section 465]**

**Recommendation:** Retain these benefits.

**Rationale:** Current cancellation benefits are incentives, which encourage graduates to enter into low-wage professions that provide benefits to society at large.

<b>Current HEA Law</b>	<b>NASFAA Proposed Statutory Language</b>
<b>SEC. 465. CANCELLATION OF LOANS FOR CERTAIN PUBLIC SERVICE. CANCELLATION OF PERCENTAGE OF DEBT BASED ON YEARS OF QUALIFYING SERVICE.—(1)</b> The percent specified in paragraph (3) of this subsection of the total amount of any loan made after June 30, 1972, from a student loan fund assisted under this part shall be canceled for each complete year of service after such date by the borrower under circumstances described in paragraph (2). Etc. etc. etc.	<b>Retain unchanged current provision.</b>