



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

Justin Draeger
President and CEO
NASFAA
1801 Pennsylvania Avenue, NW, Suite 850
Washington, DC 20006

Dear Justin,

Thank you for your letter dated June 12, 2017, regarding the wind-down of the Federal Perkins Loan (Perkins) program. Under the Perkins Loan Extension Act of 2015 (Extension Act), the authority of schools to make new Perkins Loans expires on September 30, 2017. You had several questions on the U.S. Department of Education's (Department's) plans for an orderly wind-down of the Perkins program.

In your letter, you referred to the "dissolution" of the Perkins program. It is important to clarify that the expiration of the authority to make new Perkins Loans does not constitute the "dissolution" of the Perkins program. The Perkins program will continue to exist for as long as there are outstanding Perkins loans in repayment. There will not be a final close-out of the Perkins program until all outstanding Perkins Loans are paid in full or otherwise fully retired.

The Extension Act amended section 466(a) of the Higher Education Act of 1965 (HEA), to require each Perkins Loan program participating institution to return to the Department the Federal share of the institution's Perkins Loan Revolving Fund (Perkins Fund) with the expiration of the authority of institutions to make Perkins loan disbursements. Since institutions are permitted to make subsequent disbursements to eligible borrowers through June 30, 2018, the Department will begin collecting the Federal share of institutions' Perkins Funds following the submission of the 2019 – 2020 Fiscal Operations and Application to Participate (FISAP), which is due October 1, 2018.

The process we will use to determine the Federal share of the Perkins Loan Revolving Fund that must be returned to the Department and the institutional share which must be removed and returned to the institution will be similar to the Excess Liquid Capital (ELC) process the Department currently has in place in accordance with HEA section 466(c). It is important to note that the ELC process, and therefore the upcoming Perkins Fund asset distribution process, accounts for changes in the Institutional Capital Contribution (ICC) matching requirements that have occurred over time as well as any overmatching by the institution. We will also take into consideration any Federal Capital Contribution (FCC) that had been previously returned by the institution to the Department and any ICC that was previously returned to the institution.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202
www.ed.gov

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

The asset distribution process will not take into account interest earned specifically on an institution's short-term loans to the Fund. Any interest earned on amounts deposited in the Fund, including interest on short-term loans to the Fund, is combined with all sources of income and deposited in an institution's revolving fund in accordance with 34 CFR 668.163(c) and 674.8(a). An institution will receive its proportional share of earned interest, which includes interest on short-term loans to the Fund, as part of the asset distribution process

We will not take into consideration any unreimbursed cancellation amounts in determining the institutional share of the Perkins Loan Revolving Fund to be returned to the institution under the asset distribution process pursuant to section 465(b) of the HEA, which prohibits the use of funds appropriated for FCC from being used for cancellation reimbursement.

In your letter, you indicated that you believe schools will be required to liquidate their Perkins Funds due to the wind-down of the Perkins Loan Program. There is no such requirement. Schools may continue to service their Perkins Loans (or contract with a third-party servicer for servicing) after the expiration of the authority to make new Perkins Loans. As is currently the case, schools may continue to assign both **non-defaulted and defaulted** Perkins loans to the Department at any time. Institutions that choose to continue servicing their outstanding Perkins Loan portfolios must continue to service these loans in accordance with the Perkins Loan program regulations in 34 CFR 674, and must also continue to report on their outstanding loan portfolio on a FISAP to the Department annually.

Institutions that choose to liquidate their Federal Perkins Loan portfolio should submit an intent to liquidate electronically using the eCampus-Based System (eCB). Institutions should refer to the Assignment and Liquidation Guide located on the Information for Financial Aid Professionals (IFAP) website at <https://ifap.ed.gov/cbpmaterials/attachments/PerkinsAssignmentandLiquidationGuide.pdf>.

The audit requirements for schools that voluntarily choose to liquidate will not change due to the wind-down of the Perkins Loan program. Since all Perkins schools will not be leaving the program simultaneously, there is no need to extend the 45-day deadline for submitting a letter of audit engagement after a school's participation in the Perkins program ends.

You had several recommendations with regard to assignment of Perkins Loans to the Department. You recommended that schools should:

- Be allowed to assign loans to the Department at any point in time
- Be allowed to continue to assign individual loans, e.g., defaulted loans, to the Department without assigning all outstanding loans
- Retain their right to a share of collections by the Department, since the institutions are not leaving the program voluntarily
- After assignment, receive their share of the continuing collections from the Department on a reasonable, published schedule

As noted above, schools will continue to be allowed to assign loans to the Department at any time. A school may choose to assign individual loans, either defaulted or non-defaulted, without assigning all of the school's outstanding loans. However, after a loan is assigned to the Department, the school loses all right, title, and interest in the loan, and will receive no portion of amounts collected on the loan by the Department.

You also recommend that when schools choose to continue servicing their outstanding loans, schools:

- Be allowed to subtract collection costs and other related administrative expenses from the Federal share remitted to Department
- Be subject to a reasonable schedule for remitting the Federal share of the continuing collections the Department

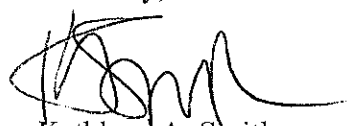
Schools may not subtract collection costs from the Federal share remitted to the Department. As noted above, schools that choose to continue servicing their outstanding Perkins Loan portfolios must continue to service these loans in accordance with the Perkins Loan program regulations in 34 CFR 674. Schools may charge certain collection costs incurred by the school and not repaid by the borrower to the Fund in accordance with 34 CFR 674.47(e). A school must account for collection costs on its annual FISAP submission to the Department.

Also, an administrative cost allowance cannot be charged against an institution's Perkins Loan Revolving Fund because institutions will no longer be advancing funds to students under the Perkins Loan program after June 30, 2018.

The Department will provide more information in the distribution of the assets of institutions' Perkins Loan Revolving Funds, including deadlines, prior to the October 1, 2018 FISAP submission deadline. If you have questions about the information in this letter, please contact either Brian Smith at brian.smith@ed.gov or Tamy Garofano at tamy.garofano@ed.gov.

I hope that this information is helpful to you.

Sincerely,



Kathleen A. Smith
Acting Assistant Secretary