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Perkins Revolving Loan Fund Expiration: What Now?

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In 1965, the U.S. Congress passed the *Higher Education Act* (HEA), authorizing multiple federal aid programs to provide financial assistance to individuals pursuing higher education and to the institutions they attend. The HEA included the federal Perkins loan program, which provides low-interest loans to qualified undergraduate, graduate, and professional students.

Congress has reauthorized the HEA multiple times over the last several decades, with the last comprehensive reauthorization occurring in 2008. Ultimately, Congress extended many HEA programs through 2016 as it prepared to amend programs and update attached policies. Since then, the majority of the programs in the HEA are no longer explicitly authorized. However, institutions rely on the implicit authorization that comes with receiving new appropriations. The Perkins loan program has not received appropriations in several years, leaving the program without authorization or appropriation. On Sept. 30, 2017, the Perkins loan program expired when the Senate blocked efforts to extend it, potentially affecting hundreds of thousands of recipients and the universities and colleges they attend.

How Does the Perkins Loan Program Expiration Affect Students and Institutions?

Supporters of Perkins loans warn that students will struggle to afford the additional costs associated with college enrollment, such as housing, food, and transportation. In addition, private debt plans with costlier funding terms will burden students who might not qualify for loans from public lenders. With estimates of more than 500,000 students using Perkins loans to help pay for higher education, the implications are potentially constraining for students and institutions alike.

Major Areas Affected by Perkins Loans Expiration

The expiration of Perkins loans will affect many groups of students and institutions. Major areas to consider include the following:

New Loans

- Graduate students are no longer able to receive new loans effective Sept. 30, 2016.
- Undergraduate students are no longer able to receive new loans subsequent to Sept. 30, 2017.

Subsequent Disbursements

- Graduate students could have received subsequent disbursements of a Perkins loan if the eligible student received a disbursement before Oct. 1, 2016, for the 2016-2017 award year.
- Undergraduate students may receive subsequent disbursements through June 30, 2018, if the eligible student received a disbursement before Oct. 1, 2017, for the 2017-2018 award year.
- No Perkins loan disbursements will be permitted after June 30, 2018.

Distribution of Assets

- Collection of the federal share of Perkins loans will begin after submission of the Fiscal Operations Report and Application to Participate (FISAP) that is due Oct. 1, 2018.
- The institutional share must be removed and returned to the institution at the time of liquidation.

- The process of determining the federal share will be similar to the excess liquid capital process, which will account for:
 - Institutional capital contributions (ICCs)
 - ICCs previously returned to the institution
 - Loans from the institution to the Perkins loans pool
 - Previously returned federal capital contributions
- Unreimbursed cancellation amounts will not be taken into consideration.
- The Department of Education will release additional information regarding distribution of assets prior to the Oct. 1, 2018, FISAP submission deadline.

Loan Servicing

- Institutions are not required to liquidate or assign loans to the Department of Education and may continue to service existing Perkins loans themselves or through a third-party administrator under current federal guidelines.
 - Institutions must continue to report on outstanding loans annually using the FISAP.
 - Institutions may not charge an administrative cost allowance to the Perkins loan program after June 30, 2018.

Assignment of Loans

- Institutions may assign either or both nondefaulted and defaulted loans to the Department of Education at any time. However, once assigned, the institution forfeits all rights and title of the loan without recompense for ICCs or institutional loans to the loan pool.
- Institutions electing to liquidate can do so by submitting an intent to liquidate electronically via the eCampus-Based system.

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Liquidation Steps

Guidance regarding the liquidation process continues to be updated as the end of the Perkins loan program nears, and institutions should always use the most recent guidance. Currently, Perkins loan liquidation involves eight primary steps:

- **Step 1:** Notify the Department of Education of the intent to begin liquidation.
- **Step 2:** Notify borrowers that their Perkins loans are being assigned to the Department of Education.
- **Step 3:** Assign all outstanding, open Perkins loans to the Department of Education within 45 days following notice of intent.
- **Step 4:** Reimburse the loan fund or pool for Perkins loans that cannot be assigned to the Department of Education.
- **Step 5:** Update Perkins loans records in the National Student Loan Data System.
- **Step 6:** Complete Perkins loans closeout audit.
- **Step 7:** Remit the federal share of the remaining Perkins loan cash assets to the Department of Education.
- **Step 8:** Complete final FISAP data.

Next Steps Moving Forward

As the Perkins loan program comes to a close, institutions should create a committee to develop a plan for the closeout phase of the program. The majority of institutions are not expected to liquidate until short-term loans to the pool have been repaid and the costs to service existing loans exceed the amount of ICCs that the institution will recover from loan repayments.

In the meantime, some institutions may want to consider replacing the Perkins loan program with another program and to explore the various ways in which such a program could be funded. An endowed, revolving loan fund or a scholarship program designated for recipients who previously met Perkins loan requirements are two specific replacement options institutions could consider. Other institutions may prefer to wait to see the outcome of the *Promoting Real Opportunity, Success, and Prosperity Through Education Reform Act* (PROSPER Act), the HEA reauthorization bill currently moving through the House of Representatives.

As congressional and administration leaders continue to explore legislative options related to the reauthorization of the HEA, institutions will need to continue exploring funding options that will meet the needs of students now and in the future.

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