

Chapter 5

Perkins Loan Billing, Collection, and Default

When a Perkins Loan enters repayment, your school must follow the due diligence requirements of Subpart C of the Perkins regulation ([34 CFR 674.41-50](#)). You must afford a borrower maximum opportunity to repay a Federal Perkins Loan. Specific steps the school must take include (but are not limited to) billing the borrower, sending overdue notices, and conducting address searches if the borrower cannot be located. If billing procedures fail, a school must take more aggressive collection steps such as hiring a collection firm and/or litigating. Default in the Federal Perkins Loan Program is defined as “the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement.”

Communication With Borrowers

Perkins billing and collection activities involve many steps. First, there are general requirements that your school must adhere to at all times: you must inform the borrower of all program changes that affect his or her rights and responsibilities; you must respond promptly to borrower inquiries. If a borrower disputes a loan and you cannot resolve the dispute, you must explain the services provided by the Department’s Federal Student Aid (FSA) Ombudsman Group. For information about maintaining billing and collection records, see Chapter 1 of this Volume.

Keeping current information on a borrower makes it easier to know when repayment must begin and where to send billing notices. The various offices at the school—the admissions, business, alumni, placement, financial aid, and registrar’s offices, and others, as necessary—must provide any available information about the borrower that is relevant to loan repayment, including:

- the borrower’s current enrollment status;
- the borrower’s expected graduation or termination date;
- the date the borrower officially withdraws, drops below half- time enrollment, or is expelled; and
- the borrower’s current name, address, telephone number, Social Security number, and driver’s license number (if any).

General due diligence

[34 CFR 674.41\(a\)](#)

Coordination of information

[34 CFR 674.41\(b\)](#)

Contact with borrower

[34 CFR 674.42](#)

Disclosure of repayment information

[34 CFR 674.42\(a\)](#)

Requirements At End Of Enrollment

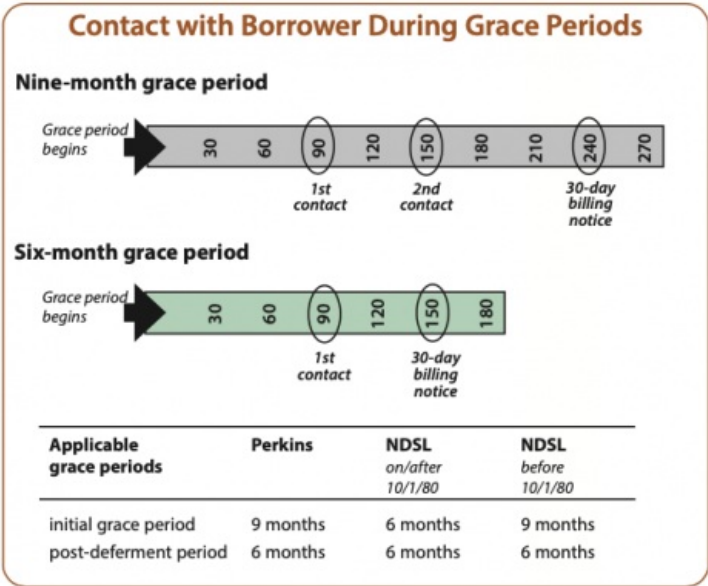
Exit interviews

Contact with the borrower becomes even more important as the borrower’s last day of attendance approaches. As described in Chapter 3, your school must conduct exit interviews with borrowers shortly before borrowers graduate or drop below half-time enrollment (if this point is known in advance).

Contact during grace periods

A school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin or resume. Your school must contact the borrower three times during the nine-month initial grace period. The school must also contact the borrower twice during any six-month post-deferment grace period. The chart on the next page shows the length of initial and post- deferment grace periods for Perkins Loans.

- The first contact must be 90 days after any grace period (initial or post-deferment) begins. The school must remind the borrower that he or she is responsible for repaying the loan. The school must also inform the borrower of the amount of principal and interest, as projected for the life of the loan, and the due date and amount of the first (or next) payment.
- The second contact must be 150 days after any grace period begins, when the school must again remind the borrower of the due date and amount of the first (or next) payment. For six- month grace periods, the second contact should coincide with the first billing notice. These two notices may be combined.
- For nine-month grace periods, the school must make a third contact 240 days after the grace period begins to remind the borrower of the date and amount of the first payment. This contact should coincide with the first billing notice. Again, the school may combine the two notices.



Grace period contact

[34 CFR 674.42\(c\)](#)

Exit counseling

[34 CFR 674.42\(b\)](#)

Contact during initial and post-deferment grace periods

[34 CFR 674.42\(c\)](#)

Perkins Billing Procedures And Overdue Payments

Billing refers to the series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts. The school may choose a coupon payment system as its method of billing. The school must send the coupons to the borrower at least 30 days before the first payment is due when using a coupon payment system.

If the school does not use a coupon system, it must, at least *30 days* before the first payment is due, send the borrower a statement of account and a written notice giving the name and address of the party to which payments should be sent. The statement of account includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment. For subsequent payments, the school must send the borrower a statement of account at least *15 days* before the due date of the payment.

If the borrower chooses to make payments through electronic funds transfer, the school doesn't have to send the borrower a statement of account before each payment. However, the school must send the borrower an annual statement of account that lists the required amounts and dates of repayment, as well as any information tracking the status of any late charges.

Notices of overdue payments

If a payment is overdue and you have not received a request for forbearance, deferment, or cancellation, you must send the borrower:

- the first overdue notice 15 days after the payment due date;
- the second overdue notice 30 days after the first overdue notice; and
- the final demand letter 15 days after the second overdue notice.

In this notice, you must tell the borrower the amount of any late charge your school has assessed (see discussion under Late charges later in this chapter), and whether your school has:

- added the charge amount to the principal amount as of the first day on which the payment was due, or

- demanded payment of the charge no later than the first day on which the next installment is due.

You may skip the first two letters and send just the final demand letter within 15 days after a payment is overdue if the borrower's repayment history has been unsatisfactory or if you have reason to believe the borrower does not intend to repay the loan or to seek forbearance, deferment, or cancellation. A borrower is considered to have an unsatisfactory repayment history if he or she has failed to make payments when due; has failed to request deferment, forbearance, or cancellation on time; or has received a final demand letter.

The final demand letter must inform the borrower that unless the school receives a payment or a request for forbearance, deferment, or cancellation within 30 days of the date of the letter, the school will refer the account for collection or litigation and will report the default to a credit bureau as required by law.

If mail sent to a borrower is returned undelivered, or if the borrower fails to respond, you must take steps to locate the borrower. These steps must include:

- reviews of borrower records in all appropriate school offices;
- reviews of telephone directories or inquiries to directory assistance at the borrower's last known address, and attempting to reach the borrower by phone; and
- attempting to locate and contact the borrower by electronic means.

Contacting the borrower by telephone

If the borrower does not respond to the final demand letter within 30 days of the date the letter was sent, you must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, one call may avoid the more costly procedures of collection.

You should make at least two attempts to reach the borrower on different days and at different times. If the borrower has an unlisted telephone number, you must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If you are still unsuccessful, you should document the contact attempts in your files.

Contacting the endorser—loans Before July 23, 1992

For loans made prior to July 23, 1992, the school must also try to collect the amount owed from any endorser of the loan. It may help to send the endorser a copy of the final demand letter that was sent to the borrower and copies of all subsequent notices, including demand/ collection letters. For loans made on or after July 23, 1992, an endorser is no longer required.

Telephone contact required

[34 CFR 674.43\(f\)](#)

Address searches

The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail):

1. Review the records of all appropriate school offices.
2. Review printed or web-based telephone directories or check with information operators in the area of the borrower's last known address.

If these methods are unsuccessful, you must continue efforts to locate the borrower, using either school personnel or a commercial skip-tracing firm. If you use school personnel, you must employ and document efforts comparable to

commercial skip-tracing firms. If you still can't locate the borrower after taking these steps, you must continue to make reasonable attempts at least twice a year until the loan is recovered through litigation, the account is assigned to the Department, or the account is written off.

Address searches

[34 CFR 674.44](#)

Optional Perkins late charges

The assessment of late charges on an overdue Perkins Loan borrower is optional. A school that adopts a policy of assessing late charges on an overdue Perkins Loan must impose them on all borrowers with overdue payments. A Perkins late charge is based either on the actual costs the school incurs in taking steps to obtain the overdue amount or on average costs incurred in similar attempts with other borrowers. A Perkins late charge may not exceed 20% of the installment payment most recently due.

If a school opts to charge late fees, the school may charge late fees only during the billing process; a school may not charge late fees once the school begins collections procedures.

You may add a late charge to the principal amount of the loan as of the first day the payment was overdue. Alternatively, you may include the charge with the next payment that is scheduled after the date you notify the borrower that the charge must be paid in full by the next payment due date. You must inform the borrower of the late charge, preferably in the first overdue payment notice. For a borrower who repays the full amount of past-due payments, the school may waive any late charges that were imposed.

Perkins Late charges

[34 CFR 674.43\(b\)\(5\)](#)

Perkins Billing procedures

[34 CFR 674.43](#)

Procedures required when payments are overdue

[34 CFR 674.43\(b\), \(c\), & \(d\)](#)

Perkins Loan acceleration

You may *accelerate* a loan if the borrower misses a payment or does not file for deferment, forbearance, or cancellation on time. Acceleration means immediately making payable the entire outstanding balance, including interest and any applicable late charges or collection fees.

Because this marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower a **written** acceleration notice at least 30 days before accelerating the loan. The notice may be included in the final demand letter or in some other written notice sent to the borrower.

If the loan is accelerated, you must send the borrower another notice to inform him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. Once a loan has been accelerated, the borrower loses all rights to deferment and cancellation benefits for qualifying service performed *after* the date of acceleration.

Loan acceleration

[34 CFR 674.31\(b\)\(8\)](#)

[34 CFR 674.43\(e\)](#)

Default Reduction Assistance Program (DRAP)

The Default Reduction Assistance Program (DRAP) assists schools in contacting defaulted Perkins Loan borrowers. A letter is sent from the Department on official letterhead to defaulted Perkins Loan borrowers. It explains the serious consequences of default including the inability to obtain other federally-supported financial assistance, withholding of federal and state income tax refunds, salary garnishment, and damage to credit history. It also encourages borrowers to contact the school to initiate repayment arrangements.

Through DRAP, a school or its third party servicer can:

- submit borrower information for letters to be printed and mailed;
- maintain borrower information;
- edit DRAP contact information without the Department's intervention;
- run a report that assists in monitoring the letters mailed to borrowers;
- run a report that assists in tracking the total number of letter requests submitted; and
- determine if a letter was returned to the Department as "undeliverable" and if an address has been determined to be invalid.

Participation in the DRAP process is voluntary. There is no cost to the school.

DRAP Timing

The DRAP process is most effective when used during the 30- day period when the school is waiting for the defaulted borrower to respond to the final demand letter. Do not request default reduction assistance if the account has already been referred to a collection agency.

Accessing and initiating the DRAP process

All related functions of the DRAP process are accessed via the COD website. To access the DRAP section of the COD website, log in at <https://cod.ed.gov>, and from the School tab select Campus-Based and then "DRAP."

To initiate the process, a school or its third party servicer enters information about borrowers who have defaulted on their Perkins Loans. The information may be entered for each borrower or it may be uploaded from a file. Following submission of the information, a letter will be printed on the Department's letterhead and emailed to each borrower. The email encourages borrowers to contact the school in order to initiate repayment arrangements. A PDF copy of the email may also be downloaded and printed for mailing by the school or third party servicer.

If a school or a third-party servicer that submits DRAP data on behalf of a school does not also provide Fiscal Operations Report and Application to Participate (FISAP) services for the school, the servicer must be granted DRAP-only access to the COD system by the school's Destination Point Administrator (DPA).

DRAP Address information and undeliverable mail

The Department will send only one DRAP email to each address provided by a school. Schools will need to log in periodically to review and print reports of undeliverable emails. Schools are encouraged to provide updated addresses. When an address is updated, a DRAP letter is sent to the new address.

DRAP Contact information

For additional information about DRAP, contact the **COD School Relations Center at 800-848-0978**. Customer service representatives are available Monday through Friday from 8 a.m. until 8 p.m. (EST). You may also email the center at: CODSupport@ed.gov.

Default Reduction Assistance Program

Electronic Announcement Nov. 15, 2013.

Perkins Collection Procedures

If a borrower is unresponsive and required billing procedures have been exhausted, your school will need to institute more intensive collections procedures. You must make a first effort to collect using either your own personnel or hiring a collection firm. Before beginning collection procedures, you must attempt all of the required contact methods described previously. You must also report the borrower to at least one nationwide credit bureau. If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, or cancellation), you have two options—either to litigate or to make a second effort to collect.

A second effort to collect requires one of the following procedures:

- If you first attempted to collect by using your own personnel, you must refer the account to a collection firm.
- If you first used a collection firm, you must attempt to collect by using your own personnel or by using a different collection firm, or the school must submit the account to the Department for assignment. If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, or cancellation), the firm must return the account to the school.

If you are unsuccessful in your effort to place the loan in repayment after a second collection effort, you must continue to make yearly attempts to collect from the borrower until:

- the loan is recovered through litigation,
- the account is assigned to the Department, or
- the loan is written off.

Credit bureau reporting

A school must report an account to credit bureaus as being in default when a borrower fails to respond to the final demand letter or the telephone contact. Reporting all credit history is essential to ensure that current and future creditors have complete information regarding the credit obligations of the borrower. You must report the default to any one national credit bureau or to an affiliated credit bureau that transmits credit information to one of the three national credit bureaus with which the Department has an agreement.

You must report any subsequent changes in the status of the borrower's account to the same national credit bureau, using the procedures required by that credit bureau. You must respond within one month to any inquiry received from any credit bureau about reported loan information. Finally, you must notify all credit bureaus to which you reported the default when a borrower makes consecutive, on-time monthly payments.

Under the Fair Credit Reporting Act (FCRA), a borrower may appeal the accuracy and validity of the information reported to the credit bureau and reflected in the credit report. You should be prepared to handle the appeal and make necessary corrections to the report as required by the provisions of the FCRA.

Credit bureau reporting

[34 CFR 674.45\(a\)](#)

Ceasing Perkins collection

A school may cease collection activity on defaulted accounts with balances of less than \$200 (including outstanding principal, accrued interest, collection costs, and late charges) if the school carried out the required due diligence and if the account has had no activity for four years. Although interest will continue to accrue and may put the account over \$200, you will not have to resume collection activity if you document that you ceased collection activity when the account was under \$200. The borrower will remain responsible for repaying the account, including accrued interest. The borrower will still be in default and ineligible for FSA funds and the account will still be included in the school's cohort default rate, if applicable.

Ceasing Perkins collections

[34 CFR 674.47\(d\)\(g\)\(h\)](#)

Alternatives to litigation

To avoid litigation, a school may offer to waive collection costs as incentive for repayment. You may waive all collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding, including principal and interest; a written repayment agreement is not required. Alternately, you may waive a *portion* of the collection costs on a loan if the borrower agrees to pay a corresponding portion of the loan within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays half of the outstanding balance on a loan within 30 days of the agreement, the school may waive half of the collection costs incurred through the date of that payment. The amount of waived collection costs may be charged to the Perkins Loan fund.

You may compromise the repayment of a defaulted loan if you have fully complied with all due diligence requirements

and the borrower pays, in a single lump-sum payment, at least 90% of the outstanding principal balance, plus all interest and collection fees. The federal share of the compromise repayment must bear the same relation to the school’s share as the Federal Capital Contribution (FCC) bears to the Institutional Capital Contribution (ICC).

A borrower may rehabilitate a defaulted Perkins Loan by making nine consecutive, on-time, monthly payments. A rehabilitated Perkins Loan is returned to regular repayment status. (See *Default Status and Perkins Eligibility* later in this chapter.)

A borrower may include his or her defaulted Perkins Loan in a Direct Consolidation Loan. The amount eligible for consolidation is the sum of the unpaid principal, accrued unpaid interest, late charges, and outstanding collection costs. A defaulted loan that is being repaid under a court order remains in default status until paid and is not eligible for consolidation.

Consolidating defaulted Perkins Loans

To get information about obtaining a Direct Consolidation Loan contact the Loan Consolidation Call Center at 1-800-557-7394 or by visiting [StudentAid.gov/consolidation](https://studentaid.gov/consolidation).

Writing Off Accounts

You may write off a defaulted account with a balance of less than \$25 (including outstanding principal, accrued interest, collection costs, and late charges). You may also write off a defaulted account with a balance of less than \$50 (including outstanding principal, accrued interest, collection costs, and late charges) if, for a period of two years, you have billed the borrower as required.

If you write off an account, the borrower is relieved of all payment obligations, and you must deduct the amount of the account from the Federal Perkins Loan fund. If you receive a payment from a borrower after you have written off the loan, you must deposit that payment into the Fund.

Perkins write-offs

[34 CFR 674.43\(a\)](#)

Perkins Compromise

[34 CFR 674.33\(e\)](#)

Using Billing and Collection Firms

Your school may use a contractor for billing or collection, but it is still responsible for complying with due diligence regulations regarding those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about cancelling or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

If you use a billing service, you may not use a collection firm that owns or controls the billing service or is owned

or controlled by the billing service. In addition, you may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Account protection: minimum bond/insurance amounts

At least once a year, the school must review the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

A school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service. A school using a law firm to collect must review the firm’s bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm’s malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

National Credit Bureaus

The Department has entered into an agreement with the three national credit bureaus listed below:

Trans Union Corporation	1-800-888-4213
Experian (formerly TRW)	1-888-397-3742
Equifax	1-800-685-1111

National credit bureaus charge fees for their services. These fees differ from credit bureau to credit bureau. Credit bureaus affiliated with the above credit bureaus may have different fees from those of the national credit bureaus. The Department does not keep a list of these affiliated bureaus and their fees.

The Privacy Act authorizes disclosure of a borrower’s account information to creditors without the borrower’s consent if the disclosure helps enforce the terms and conditions of the loan. You may also make such disclosures about loans that haven’t defaulted and/or are being disbursed.

Perkins Litigation

If the collection procedures prescribed in the regulations do not result in the repayment of a loan, the school must review the account for litigation once every two years. If all the conditions are met, the school **must** litigate. The conditions are:

- the total amount owed, including outstanding principal, interest, collection costs, and late charges, on all the borrower’s Perkins Loans at the school is more than \$500;
- the borrower can be located and served with process;
- the borrower either has enough assets attachable under state law to cover a major portion of the debt or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time (defining a “reasonable period of time” is left to the school);
- the borrower does not have a defense that will bar judgment for the school; and
- the expected cost of litigation (including attorneys’ fees) does not exceed the amount that can be recovered from the borrower.

Even if all the above conditions are not met, your school may still choose to sue a defaulted borrower. If the borrower has a partial defense that may bar judgment for the school, you must weigh the costs of litigation against the costs of

recovery based on the amount of the enforceable portion of the debt. No federal or state statute of limitation can apply to enforcement actions to collect Perkins Loans.

Your school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. You are also required to try to recover all costs previously incurred in the collection of overdue payments if the borrower has not paid these collection costs; a percentage of these unrecovered costs may be charged to the fund as explained later in this chapter under *Billing and Collection Costs*.

When a school has filed suit to collect a defaulted Perkins Loan and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. A defaulted loan that is being repaid under court order remains in default status until paid and is not eligible for consolidation. After a judgment is satisfied on the defaulted loan, the student is again eligible for future awards under these programs if all other eligibility criteria are met.

Litigation

[34 CFR 674.46](#)

Elimination of defense of infancy

Schools in the Perkins Loan Program are not subject to a defense raised by a borrower on the basis of a claim of infancy under state law. See General Provisions relating to student assistance. For more detail, see HEA Section 484(b)(3).

Deceased student and family estate

A deceased student, a deceased student's estate, or the estate of such student's family does not have to repay any federal student aid, including interest, collection costs, or other charges. For more detail, see HEA section 484A.

Default Status and FSA Loan Eligibility

A borrower who is in default on an FSA loan is not eligible for any further FSA loans unless they have regained eligibility.

Regaining eligibility for federal student aid

To the extent that he or she is otherwise eligible, a borrower who is in default on a Perkins Loan may regain eligibility for federal student aid by making satisfactory repayment arrangements on his or her defaulted loan. (See also *Volume 1*.) For purposes of regaining eligibility for federal student aid, a borrower who is in default on a Perkins Loan can regain eligibility for the remaining *Title IV* programs by making six on-time, consecutive, monthly payments on the defaulted loan. **A borrower may regain eligibility only once in this way.** After a borrower has made six on-time, consecutive, monthly payments on the defaulted loan the school must appropriately update the borrower's loan status code in the NSLDS. Note that a borrower who makes six payments in the course of rehabilitating a defaulted loan but does not seek additional Title IV aid will not be considered to have used the one time opportunity to regain eligibility. **A borrower whose Perkins Loan is in default also can regain eligibility for federal student aid by consolidating his or her Perkins Loan.**

Perkins Loan rehabilitation

Your school must establish a rehabilitation program and notify all borrowers with defaulted loans of the option to rehabilitate and the advantages of rehabilitation. A borrower may rehabilitate a defaulted Perkins Loan by making full monthly payments, as determined by the school, each month for nine consecutive months and requesting rehabilitation. A rehabilitation payment is on time if it is a full monthly payment, as determined by the school, and made within 20 days of the due date.

Borrowers may not rehabilitate loans on which the holder has obtained a judgment. However, your school may enter into an agreement with the borrower that provides the borrower with some of the benefits of rehabilitation. For example, your school could promise to vacate the current judgment and request the removal of the default from the borrower’s credit report after the borrower makes nine consecutive payments.

The rehabilitation payments should be sufficient to satisfy the outstanding balance on the loan within a 10-year repayment period. A school may not establish a loan rehabilitation policy that requires defaulted Perkins Loan borrowers to pay the full outstanding balance of the loan within the nine-month rehabilitation period if such payments would create a hardship for the borrower. In most cases, such a policy would require a borrower to make excessively high monthly payments, and would, in effect, deny the borrower access to a statutorily mandated benefit of the Perkins Loan Program.

Within 30 days of receiving the borrower’s last on-time consecutive monthly payment, you must:

- return the borrower to regular repayment status;
- treat the first of the nine consecutive payments as the first payment in a new 10-year repayment schedule; and
- instruct any credit bureau to which the default was reported to remove the default from the borrower’s credit history.

After rehabilitating a defaulted loan and returning to regular repayment status, a borrower regains the benefits and privileges of the promissory note, including deferment and cancellation.

If a borrower chooses to rehabilitate a defaulted loan and then fails to make nine consecutive on-time payments, the rehabilitation is unsuccessful, but the borrower may still make further attempts to rehabilitate the defaulted loan. Also, if a borrower successfully rehabilitates a defaulted loan and maintains good standing on the loan, the borrower may continue to attempt to rehabilitate other defaulted Perkins Loans. If a borrower successfully rehabilitates a defaulted loan, but they later default on the same loan, that borrower is not allowed to rehabilitate the previously rehabilitated loan (or any other defaulted Perkins Loan) again.

Perkins Loans with judgments

When a school has filed suit to collect a defaulted Perkins Loan and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. If the judgment is for less than the outstanding balance on the loan, the school may write off the portion of the loan not covered by the judgment. After a judgment is satisfied on the defaulted loan, the student is again eligible for aid from FSA programs if all other eligibility criteria are met. However, if a borrower has previously satisfied a defaulted student loan involuntarily (for instance, through wage garnishment), you should consider this as evidence of unwillingness to repay and should not approve further loan assistance to the borrower. The term “involuntarily” includes payments obtained by income tax offset, garnishment, income asset execution, or pursuant to a judgment.

Perkins rehabilitation after judgement

Borrowers may not rehabilitate Perkins loans on which the holder has obtained a judgment. However, your school may enter into an agreement with the borrower that provides the borrower with some of the benefits of rehabilitation. For example, your school could promise to vacate the current judgment and request the removal of the default from the borrower’s credit report after the borrower makes nine consecutive payments and signs a new promissory note.

Rehabilitation of a Perkins Loan

[34 CFR 674.39](#)

Previously defaulted Perkins Loans discharged for school closure

A Perkins Loan made on or after January 1, 1986, may be discharged if the borrower is unable to complete his or her

program of study due to the closure of the school that made the loan. A defaulted borrower whose loan is discharged under this closed school provision is eligible for additional federal student aid, provided that he or she meets all other eligibility criteria. (Schools that close must assign all Perkins Loans to the Department.)

Perkins Cohort Default Rates (CDR)

Your school's cohort default rate is calculated for a particular year based on information you report in Part 3, Sections D and E, of the FISAP. For detailed information on how your school's cohort default rate is determined, see Part III of the FISAP Instructions (see the [EA of June 1, 2021](#)).

How the Perkins Loan default rate is calculated

For any award year in which 30 or more borrowers enter repayment, the cohort default rate is the percentage of those current and former students who enter repayment in that award year on loans received for attendance at that school and who default before the end of the following award year. For any award year in which **fewer than 30** current and former students at the school enter repayment on a loan received at the school, the cohort default rate is the percentage of those current and former students who entered repayment on loans received for attendance at that school in any of the three most recent award years and who defaulted on those loans before the end of the award year immediately following the year in which they entered repayment.

For purposes of the cohort default rate, a loan enters repayment only once in its life. This repayment begins the day after the end of the initial grace period or the day that the borrower waives his or her initial grace period.

A borrower is included in determining the school's cohort default rate if the borrower's default has persisted for at least 240 consecutive days for a loan repayable monthly or 270 consecutive days for a loan repayable quarterly.

Perkins Loans that are not treated as a defaulted loan

The following loans are not treated as a defaulted loan when reporting borrower status on Part III of the FISAP:

- Loans on which borrowers have made six on-time, consecutive, voluntary, full monthly payments;
- Loans on which borrowers have voluntarily made all payments currently due;
- Loans that borrowers have repaid in full;
- Loans for which borrowers have received deferments or forbearance based on conditions that began prior to loans becoming 240/270 days past due;
- Loans that have been rehabilitated;
- Loans repaid in full under a compromise repayment agreement in accordance with [674.33\(e\)](#);
- Loans that have been discharged due to death or total and permanent disability, bankruptcy, or a school closing; and
- Loans that have been assigned to the ED because of the total and permanent disability of the borrower.

Rules for calculating the number of days in default

For purposes of reporting on Part III of the FISAP, a school should use the following rules to calculate the number of days a loan has been in default:

- The 240/270 consecutive days in default is determined by calculating the "age" of the account (that is, the number of consecutive days the oldest dollar is past due).
- A payment that a borrower makes on a past-due loan is applied to the oldest dollars first, effectively reducing the past-due status.
- A loan on which a borrower is past due and on which the borrower makes an occasional payment but never becomes current could be counted as a defaulted loan for the cohort default rate calculation despite the occasional payments. Because the delinquency is not being cured, the oldest past-due dollar could eventually become 240 days past due, making the loan count in the default rate calculation. However, if the borrower makes enough occasional payments to prevent the oldest past-due dollar from becoming 240 days old, the loan would not be counted as being in default.
- An exception to the 240/270-day threshold will be granted in a case where a borrower (1) would have qualified for a deferment for a period beginning prior to the loan hitting the 240/270-day threshold and (2) failed to file a request

for the deferment in a timely manner. For such a borrower, the loan’s past-due status would be adjusted to reflect the deferment period beginning date. However, the borrower would need to pay any past-due amounts that were due prior to the beginning of the authorized deferment periods, if the deferment period beginning date does not eliminate the loan’s entire delinquency.

Penalties for high Perkins default rates

If the school’s cohort default rate is 50% or higher for the three most recent years, the school is ineligible to participate in the Federal Perkins Loan Program and must liquidate its loan portfolio.

A school may appeal a determination of ineligibility if the appeal is based on an inaccurate calculation of its cohort default rate or a low number of borrowers entering repayment. A school appeals a determination of ineligibility based on an inaccurate calculation by adjusting the cohort default rate data on the FISAP.

CDR for Multiple Locations or Change of Ownership

If a school has a branch or branches or has an additional location or locations, the school’s cohort default rate applies to all branches and locations of the school as they exist on the first day of the award year for which the rate is calculated. The cohort default rate applies to all branches/locations of the school from the date the Department notifies the school of the rate until the Department notifies the school that the rate no longer applies.

For more information about the effect of changes of ownership and the treatment of multiple locations in the Perkins rate calculation, see [34 CFR 674.5\(d\)](#).

CDR Calculation and penalties

[34 CFR 674.5\(a\),\(b\)](#)

Loans included and not included in the CDR

[34 CFR 674.5\(c\)\(1\) & \(2\)](#)

Billing And Collection Costs

Your school must assess charges against the borrower, for the cost of actions taken with regard to past-due payments on the loan (not routine billing costs).

If your school cannot recover billing and collection costs from the borrower, you may charge the costs to the fund, provided the costs fall within the specifications described in the following paragraphs and corresponding regulations. Schools are no longer able to claim the Administrative Cost Allowance (ACA) due to the expiration of the Perkins Loan Program. You must report the collection costs permitted in the regulations in the collections cost category on the FISAP. The only *billing* costs a school may charge the fund are the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower. Even if the amount recovered from the borrower does not suffice to pay the amount of

the past-due payments and the penalty or late charges, the school may charge the fund only for the unpaid portion of the actual cost of the calls.

A school may waive a percentage of the collection costs past due on a loan if a borrower agrees to a written repayment arrangement. The percentage of collection costs that may be waived is equal to the percentage of the past-due balance paid by the borrower within 30 days of the date on which the borrower and the school enter into the written repayment agreement. A school may waive 100% of the collection costs due on a loan in return for a lump-sum payment of the full amount of principal and interest outstanding.

The following collection costs may be charged to the Perkins Loan Fund if the costs are waived or not paid by the borrower:

Collection costs waived. If your school waives collection costs as incentive for repayment, the amount waived may be charged to the Fund.

Cost of a successful address search. You may charge to the Fund a reasonable amount for the cost of a successful address search if you used a commercial skip-tracing service or employed your school’s personnel to locate the borrower using comparable methods. (Defining a reasonable amount is left to the school.)

Adjusting Past Due Status Example

Marty’s oldest dollar is 240 days past due. He files a request for a deferment based on the fact that he is attending school and the enrollment period began on the date that the loan became 90 days past due. The past-due status of the loan is reduced to 90 days, and the loan is given a deferment status. This loan is treated as if the 240-day threshold had never been reached. Therefore, it would not be counted in the school’s cohort default rate.

Cost of reporting defaulted loans to credit bureaus. You may charge to the Fund the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account, and responding to any inquiry from a credit bureau about the status of a loan.

Costs of first and second collection efforts. You may charge to the Fund collection costs not paid by the borrower if they do not exceed—for first collection efforts—30% of the total principal, interest, and late charges collected and—for second collection efforts—40% of the principal, interest, and late charges collected. The school must reimburse the Fund for collection costs initially charged to the Fund but subsequently paid by the borrower.

Collection costs resulting from rehabilitation. Collection costs charged to the borrower on a rehabilitated loan may not exceed 24% of the unpaid principal and accrued interest as of the date following application of the ninth payment. Collection costs are not restricted to 24% in the event that the borrower defaults on the rehabilitated loan.

Costs of a firm performing both collection and litigation services. If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the Fund may not exceed the sum of **40%** of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.

Collection costs resulting from litigation, including attorney’s fees. Collection costs resulting from litigation, including attorney’s fees, may be charged to the Fund if not paid by the borrower but must not exceed the sum of:

- court costs specified in 28 U.S.C. 1920;
- other costs incurred in bankruptcy proceedings in taking actions required or authorized under [34 CFR 674.49](#);
- costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- 40% of the total amount recovered from the borrower in any other proceeding.

Due diligence activities involving fixed costs (telephone contacts, credit bureau reporting, and bankruptcy procedures)

may be charged to the Fund whether or not the actions are successful. Other activities, such as address searches, collection, and litigation (other than bankruptcy), are typically performed on a *contingent-fee* basis. **If these activities are unsuccessful, there are no costs charged to the school and therefore no costs may be charged to the Fund.** If these activities are *successful*, you may charge the associated allowable costs to the Fund.

Assessing and documenting costs

You may charge either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency. Your school must assess all reasonable collection costs against the borrower despite any provisions of state law that would conflict with the above provisions. You must document the basis for the costs assessed. For audit purposes, a school must keep documentation supporting costs, including telephone bills and receipts from collection firms.

For loans referred to a collection agency on or after July 1, 2008, collection costs charged the borrower may not exceed:

- first collection effort—30% of the principal, interest, and late charges collected;
- second and subsequent collection efforts—40% of the principal, interest, and late charges collected;
- for collection efforts resulting from litigation—40% of principal, interest, and late charges collected, plus court costs.

Billing and collection

Billing and collection firms: [34 CFR 674.48](#)

Assessing costs: [34 CFR 674.45\(e\)](#)

Charging costs to the fund: [34 CFR 674.47](#)

Collection costs: [34 CFR 674.47\(b\)](#), [34 CFR 30.60](#)

Collection costs waiver: [34 CFR 674.47\(d\)](#)

Perkins Loans and ACA

[34 CFR 674.37\(a\)](#)

Assigning Perkins Loans

All loans a school assigns to the Department are assigned without recompense. The school is relieved of incurring additional expenses in attempting to collect on the loan. All rights, authorities and privileges associated with the loan are transferred to the Department, and the Department will not reimburse the school's Perkins Fund for any collections made on the assigned loans.

Perkins loans may not be assigned to the Department if:

- the total amount of the borrower's account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is not at least \$25;
- the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the student loan obligation is non-dischargeable and has entered a judgment against the borrower or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;
- your school has sued the borrower (unless the judgment has been entered and assigned to the United States); or
- the loan has been discharged because the borrower has died or become totally and permanently disabled, or

because of a school closure.

Nonliquidating schools

A school that is not liquidating its Perkins portfolio may assign any of its Perkins loans (in repayment, in-school, defaulted, or non- defaulted) to the Department at any time during the program year.

As part of the wind down of the Perkins Loan Program, all Perkins Loans that have been in default for two or more years must be assigned by the school to the Department if the school knowingly failed to maintain acceptable collection records for the loans. Because the Department has collection tools that are not available to schools, such as administrative wage garnishment, Treasury offset, and litigation by the Department of Justice, the Department requires schools to assign those loans to the Department, unless the school has documentation that its borrowers are making payments toward their Perkins loan debt so additional steps can be taken to recover the loan funds.

Schools are required to assess their Perkins Loan portfolio each year to determine if accounts have exceeded two years in default status. The school will then have until the end of the subsequent FISAP reporting period to assign the defaulted accounts.

If between the time the loan reached the 24-month default status and reaching the deadline to assign, the institution is able to collect payments on the loan, they may continue collecting on the loan in lieu of assigning it. The Department will continue to monitor all school Perkins Loan assignment activity in subsequent years to ensure continued compliance with this requirement.

Assignment of detailed loans does not affect the calculation of the school's Perkins Loan cohort default rate.

Liquidating schools

A school that is liquidating its Perkins portfolio must assign all of its Perkins loans with outstanding balances (defaulted and non- defaulted) to the Department.

Assignment of Perkins Loan in Default for Two or More Years

[34 CFR 674.50, 34 CFR 674.17](#)
[Assignment and Liquidation Guide](#)
[EA GEN-21-53](#)

Reconciling NSLDS and School Data

The amount of loans and number of borrowers in NSLDS must match what is reported by the school on its final FISAP and also match its records for the outstanding portfolio. For the purposes of Perkins liquidation and closeout, schools must ensure that all outstanding Perkins Loans are properly accounted for and updated in NSLDS.

The Department suggests schools request a reconciliation report from NSLDS to ensure its records are consistent with the NSLDS data, and to reconcile any discrepancies. For more details on carrying out Federal Perkins Loan reporting requirements, please see [Electronic Announcement October 4, 2018](#).

Required documentation

A school may be required to submit the following documents to the Department for any loan it proposes to assign:

- an original copy of the assignment form;
- the original promissory note or a certified copy of the original note;

- copies of all disbursement records or evidence supporting each disbursement including date and amount of every disbursement;
- a copy of the repayment record and a copy of the payment history;
- copies of all approved requests for deferment and cancellation;
- copies of all pleadings filed or received by the school on behalf of a borrower who has filed a petition in bankruptcy and whose loan obligation is determined to be non-dischargeable; and
- a certified copy of any judgment order entered on the loan. (Please see chart at the end of this chapter for specific information related to assignment loans that are under a judgment).

If you assign loans made under the Perkins MPN, you must include **copies** of the disbursement records that document the principal amount when assigning the loan. The school should retain the **original** disbursement records until the loan is paid off or otherwise satisfied. For more details on Perkins Loan Portfolio Liquidation and Assignment, see the [Federal Perkins Loan Program Assignment and Liquidation Guide](#) is available on the Knowledge Center.

Terms of assignment

If the Department accepts the assignment of a loan, it will give the school written notice to that effect. *By accepting the assignment, the Department acquires all rights, title, and interest in the loan.* You must endorse and forward to the Department any subsequent payment(s) the borrower makes, as soon as possible.

If the Department later determines an assigned loan to be unenforceable because of an act or omission on the part of your school or its agent, your school may have to compensate the Perkins Loan Fund in the amount of the unenforceable portion of the outstanding balance.

A borrower whose loan has been assigned to the Department for collection continues to be in default on the loan and is ineligible for FSA funds until the borrower provides confirmation from the Department that he or she has made satisfactory arrangements to repay the loan.

Status of assignment

Loans accepted

When manual paper assignments are accepted, the institution will receive a document identified as "**Perkins Load Database Report**" (**Acceptance Report or notice**) via email. The Acceptance Report is sent securely as an attachment from the email address **productionprocessing@efpls.ed.gov**. The subject line of the email is "Acceptance Report" and the body states that the attached is the acceptance report for date of batch submission. A password is sent from the same email address separately in order to open the reports.

This report provides borrower identification information, school identification information, and outstanding principal, interest and fees accepted for assignment by the Department. This is the official Acceptance Report notice and should be retained in the school's records. It is also important to ensure that schools that utilized a third-party servicer to complete monthly reporting to NSLDS be provided a copy of this information to properly update its system as well as make the reporting updates to NSLDS. Please refer to the section below regarding Loan Payments Received after Loan Assignment and how to process the payments.

Hard copies of the acceptance notifications (Perkins Load Database Reports) may be sent to the school's address provided in the school's program participation agreement. The institution should ensure that its mail distribution staff becomes familiar with these notices and the offices to which they should be distributed.

Note: Schools that use PLAS for electronic submission can access information about accepted and rejected assignments through PLAS. These reports can be viewed on-line or printed from PLAS.

Loans rejected

For Perkins Loans rejected for assignment, the Department will provide the school with the reason(s) for rejection; if the school can resolve the issue(s) it may resubmit the loan for assignment. For most problems, this process may enable a

school to correct the deficiencies and resubmit the rejected loans. The Department will work with the school to assist in resolving issues if possible. If it is not possible to resolve an issue, the loan may have to be purchased by the school.

Assignment under e-signed or Perkins MPN

If you assign loans that were made under an electronically signed promissory note, you must cooperate with the Department in all activities necessary to enforce the loan.

You may be asked to provide an affidavit or certification regarding the creation and maintenance of electronic records of the loan. This affidavit or certification must establish that the records are created and maintained in a form appropriate to ensure admissibility of the loan records in a legal proceeding.

The affidavit or certification must:

- describe the steps followed by the borrower to execute the promissory note;
- include copies of screen shots that would have appeared to the borrower when the borrower signed the note electronically;
- describe field edits and other security measures used to ensure data integrity;
- describe how the promissory note has been preserved to ensure it has not been altered;
- include documentation supporting the school’s authentication and electronic signature process; and
- provide any other documentary and technical evidence requested by the Department.

The affidavit or certification may be executed in a single record for multiple loans provided that this record is reliably associated with the specific loans to which it pertains. An authorized official or employee of the school may have to testify to ensure admission of the electronic records of the loan or loans in the litigation or legal proceeding to enforce the loan or loans.

Your school’s most recent audit must assess how well your school’s e-sign authentication process meets the Department’s “Standards for Electronic Signatures in Electronic Student Loan Transactions”.

Supporting Documentation for Assignment of Perkins Loans

Additional information on the procedures for assigning Perkins Loans to the Department is provided in the [Federal Perkins Loan Program Assignment and Liquidation Guide](#) available on the Knowledge Center.

Perkins Loan Sources of Information

Perkins Loan Assignment Process and Other Financial Aid

You can find detailed treatment of [Federal Perkins Loan Program Assignment Procedures](#) on the Knowledge Center.

Questions regarding the assignment process as it pertains to the rest of the student financial aid award process or questions concerning the management of student loans not assigned to the Department should be directed either in writing or by phone to the School Participation Team serving your region.

ECSI Federal Perkins Loan Servicer School Contact Information

Questions pertaining to the status of your assignment submissions, or the correction of pending submissions, may be directed to:

ECSI Federal Perkins Loan Servicer
100 Global View Drive, Suite 800
Warrendale, PA 15086

ECSI can also be contacted at:

Phone (for assignment help) **1-866-313-4130**

Email: Clientsupport@efpls.ed.gov

Office Hours: 8 a.m.–8 p.m. (ET), Monday through Friday

Information about Assignments previously submitted

For verification of assignments submitted more than 60 days previously, please email productionprocessing@efpls.com. In order to verify the submission, the email must include the student name(s) and Social Security number(s) in an encrypted file. The file must be password protected, and the password must be provided in a separate email. **All inquiries must include the school's Name and OPEID.**

Payments from Borrowers Received after Assignment

Payments from a borrower received by a school or its servicer after the borrower's account has been submitted to the Department for assignment and accepted by the Department should be forwarded, as soon as possible, to

**U.S. Department of Education
ECSI Federal Perkins Loan Servicer
P.O. Box 6200-1
Portland, OR 97228-6200**

Each payment submission must clearly identify the borrower's full name, Social Security number, and the type of loan to which the payment is to be applied.

School Participation Teams

You can find contact information for the regional offices of the School Participation Division at:

<https://fsapartners.ed.gov/help-center/fsa-customer-service-center/federal-student-aid-offices/school-participation-division>

Closed School Procedures

Questions concerning closed school procedures should be directed to the appropriate School Participation Team.

Discrepancies Between School Data and Department Data

Schools should contact ECSI, the Federal Perkins Loan Servicer, to resolve any discrepancies between institutional records and those of the Department pertaining to accounts that have already been assigned to the Department and accepted. This includes corrections to acceptance notices, bankruptcy notices, and any other general information on accepted accounts that an institution wishes to forward.

Fiscal Operations Report and Application to Participate (FISAP)

For questions about the FISAP form, contact the **COD School Relations Center** at **800-848-0978** or by email CODSupport@ed.gov.

Perkins Loan Program Liquidation

For questions about Perkins Loan Program Liquidation, contact the **COD School Relations Center** at **800-848-0978** or by contacting the **Perkins Loan Portfolio and Liquidation Team** at perkinsliquid@ed.gov.

Perkins Loan Servicer Contact Information for Borrowers

Borrower Payments should be mailed to:

**Department of Education
ECSI Federal Perkins Loan Servicer
P.O. Box 6200-31
Portland, OR 97228-6200**

The Borrower Customer Service telephone number is **866-313-3797**.

Borrower Correspondence should be mailed to:

**U.S. Department of Education
ECSI Federal Perkins Loan Servicer
P.O. Box 1079
Wexford, PA 15090**

Total and Permanent Disability Assignments

All Total and Permanent Disability assignments should be sent to:

**Nelnet Total and Permanent Disability Servicer
U.S. Department of Education
121 South 13th Street, Suite 201
Lincoln, NE 68508**

The phone number for the Department's TPD Servicer is **888-303-7818**.