

The Federal Perkins Loan Program comprises Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). (No new Defense Loans were made after July 1, 1972, but a few are still in repayment.) Perkins Loans and NDSLs are low-interest (currently 5 percent), long-term loans made through school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education.

LOAN TYPES

A loan made to a new borrower under the Federal Perkins Loan Program is a Perkins Loan. (New borrowers have no outstanding balance on a Defense Loan or NDSL.) If the borrower has an outstanding balance on a Defense Loan or NDSL when the new loan is obtained, the new loan is an NDSL. Loans made from July 1, 1972 through June 30, 1987 were NDSL's. Loans made before July 1, 1972 were Defense Loans.

RECENT CHANGES

Satisfactory Repayment Arrangements

Satisfactory repayment arrangements, for the purposes of regaining SFA aid eligibility, are now defined as the making of six consecutive, on-time, monthly payments on a defaulted loan.

Satisfactory Repayment
Definition Cite
34 CFR 674.2

Eligibility Criteria and Default

A borrower who satisfies any of the conditions that remove his or her Perkins Loan from the school's cohort default rate becomes eligible for additional Perkins Loans.

Eligibility and Default Cite
HEA 464 (b)(1)

Addendum to Perkins Promissory Note

Until the Department develops and distributes new Perkins Loan promissory notes that include the provisions resulting from the 1998 Amendments, schools must provide borrowers with a copy of the Addendum to the NDSL and Federal Perkins Loan Promissory Notes published in Dear Partner Letter CB-00-07, May 2000.

For loans made on or after August 1, 2000, schools must provide a copy of the Addendum with the copy of the promissory note. For loans made between October 7, 1998 and August 1, 2000, schools should, in a timely manner, provide a copy of the Addendum to borrowers in order to inform borrowers of the new borrower benefits.

Leaves of Absences Cite

- 34 CFR 668.22 (b)(1)
- 34 CFR 668.22 (c)(1)(v)
- 34 CFR 668.22 (d)(1)(ix)

Withdrawal Dates for Students on Leaves of Absence

Students granted approved leaves of absence retain their in-school status for SFA loans. However, if a student does not return from an approved leave of absence, the student's grace period begins the date the student began the leave of absence. (If the school is required to take attendance, the grace period begins on the last date of academic attendance.)

For a student who does not return from an approved leave of absence, this withdrawal date might result in the exhaustion of some or all of the student's grace period.

Leaves of absence no longer qualify as approved leaves of absence for SFA purposes unless the school explains the effects that the student's failure to return from an approved leave of absence might have on the student's loan repayment terms, including the exhaustion of some or all of the student's grace period.

Note: For academic reasons, schools may grant leaves of absence that do not meet the conditions of the SFA regulations for granting "approved" leaves of absence. However, these "unapproved" leaves of absence must be treated as withdrawals for SFA purposes.

Exit Counseling

Schools may now conduct exit counseling through audiovisual presentation or electronic means. If a school conducts exit counseling through electronic means it must take reasonable steps to ensure that each student participates in the exit counseling and receives the materials.

SFA Ombudsman

Schools must now explain the services of the SFA Ombudsman during the exit interview and, if the borrower raises a dispute that the school cannot resolve, during regular collection procedures.

New Deferment Provisions

Borrowers are no longer required to request deferments in writing. However, borrowers must still provide schools with all the information and documents the schools require, by the deadline(s) the schools establish.

Schools may grant in-school deferments to borrowers based on student enrollment information provided by third-party servicers or other schools. The enrollment information must indicate that the borrower is enrolled as a regular student on at least a half-time basis.

If a school grants deferment based on third-party enrollment information, the school must notify the borrower of the deferment and offer the option to cancel the deferment and continue repayment of the loan.

Exit Counseling Cite

- 34 CFR 674.42(b)(1)

SFA Ombudsman Cites

- 34 CFR 674.42(b)(2)(ix)
- 34 CFR 674.41(a)(3)

Requesting Deferment Cite

- 34 CFR 674.38(a)

Enrollment Verification Cite

- 34 CFR 674.38 (a)(2)

Borrowers serving as volunteers in the Peace Corps are automatically eligible for economic hardship deferments. Loan holders may grant categorical deferments for borrowers' full-terms of service, not to exceed three years.

Peace Corps Economic Hardship
Deferment Cite
34 CFR 674.34 (e)

Effective October 1, 1998, if a borrower who is a member of the Armed Forces reserve is ordered to active duty for 30 days or more, the borrower's grace period does not begin until the borrower is released from active duty. This delay may not exceed 3 years and includes up to 12 months for the borrower to reenroll. Borrowers who enroll in a different program when they return from active duty are entitled to the same grace period benefits.

Active Duty Cite
34 CFR 674.31(b)(2)(i)(C)

A borrower who is in a grace period when called or ordered to active duty is entitled to a new grace period upon conclusion of the excluded period.

Incentive Repayment Program

Schools may now offer borrowers incentives, such as discounts and reduced interest, to reduce default and replenish the Federal Perkins Loan revolving fund. Schools may not use Perkins Funds to pay for these discounts.

Incentive Repayment Program
Cite
34 CFR 674.33(f)

Rehabilitation

Schools participating in the Federal Perkins Loan Program must now establish loan rehabilitation programs for Perkins Loans and NDSLs. A borrower who successfully rehabilitates defaulted loan(s) regains the original benefits and privileges of her promissory note.

Rehabilitation Cite
34 CFR 674.39

A borrower may rehabilitate a defaulted loan only once.

Closed School Discharge

Effective October 1, 1998, holders of a Perkins Loan or NDSL made on or after January 1, 1986 may discharge the loan if the borrower is unable to complete his or her program of study due to the closure of the school. The loan holder must reimburse borrowers for payments made voluntarily or by forced collection.

Closed School Discharge Cite
34 CFR 674.33(g)

Service Cancellations

Cancellation benefits once available only to loans disbursed on or after July 23, 1992 are now available to all loans for eligible service performed on or after October 7, 1998.

Service Cancellations Cites
34 CFR 674.53(a)(1)(ii)
34 CFR 674.56(a)(2)
34 CFR 674.57(a)(2)
34 CFR 674.58(a)(2)
34 CFR 674.60(a)(2)

Web List of Low-Income Schools

The Department maintains a web page listing the low-income elementary and secondary schools in which a borrower may teach during the school year to qualify for cancellation benefits. Please, visit this site at <<http://www.ed.gov/offices/OSFAP/Students/repayment/teachers/>>.

Bankruptcy Cite

34 CFR 674.49(c)(3)

Bankruptcy

Effective October 8, 1998, a borrower must obtain a bankruptcy court's ruling of undue hardship for a student loan to be discharged in bankruptcy. Previously, student loans were discharged in bankruptcy if the loans had been in repayment for seven years or more.

Penalties for High Cohort Default Rate

If the school's cohort default rate is 25% or higher, the school's FCC will be reduced to zero.

For FY 2000 and succeeding fiscal years, a school with a cohort default rate of 50% or more for the three most recent years is ineligible to participate in the Federal Perkins Loan Program and must liquidate its loan portfolio.

Expanded Lending Option

The expanded lending option has been eliminated.

Default Reduction Plan

Schools are no longer required to establish a default reduction plan.

Penalty Cite

34 CFR 674.5(a)