



May 2006

CB-06-07

Subject: 2004-2005 Federal Perkins Loan Service Cancellation Reimbursement

Summary: This letter provides information about the 2004-2005 Federal Perkins Loan service cancellation reimbursement process.

Dear Colleague:

Subpart D of the Federal Perkins Loan (Perkins Loan) Program regulations sets forth the conditions for cancellation of a Perkins Loan based on service. Under the conditions specified in these regulations, a Perkins Loan borrower may have all or part of his or her loan cancelled for engaging in teaching, military service, law enforcement or corrections officer service, service as a nurse or medical technician, Head Start service, service to certain types of high-risk children, and voluntary service. Under 34 CFR 674.63, the Secretary reimburses a school its share of principal and interest cancelled during an award year. The questions and answers that follow explain the 2004-2005 reimbursement process.

### **QUESTIONS AND ANSWERS**

#### **Q1: How is a service cancellation reimbursement amount calculated?**

**A1:** There are two categories of reimbursement under the Perkins Loan Program. Reimbursement under each category is calculated as follows:

- ***Cancellations on loans made prior to July 1, 1972.*** The first category of loan cancellation reimbursement is a school's portion of principal and interest cancelled on loans made prior to July 1, 1972 for the National Defense Student Loan (Defense Loan) Program. This portion is calculated using the required matching percentage schools contributed for Defense Loans prior to 1972. It is approximately 10 percent for each school that cancelled loans in this category.
- ***Cancellations on loans made on or after July 1, 1972.*** The second category of loan cancellation reimbursement is both the Federal and school portions of principal and interest cancelled on loans made on or after July 1, 1972 for the National Direct Student Loan (NDSL) and the Perkins Loan programs. Schools are entitled to reimbursement of the total amount cancelled.

Both reimbursement calculations are based on information contained in the 2004-2005 Fiscal Operations Report (Part III, Section A, field 27 for the Defense Loan Program and fields 28 through 34 for the NDSL and Perkins Loan programs) and edit corrections.

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**Q2: Will we receive the full reimbursement amount to which our school is entitled?**

**A2:** A school will receive all of the Defense Loan payments to which it is entitled. However, due to insufficient funds in the Fiscal Year 2006 appropriation, schools will receive less than 100 percent of the reimbursement due this year for the NDSL and Perkins programs. The Department of Education (the Department) will maintain a record of the amount owed to each school and will include it in the calculation for next year.

**Q3: Will there be one or two payments to cover the two reimbursement categories?**

**A3:** One payment will cover both categories of service cancellation reimbursement.

**Q4: When will the service cancellation reimbursement payment be issued to us?**

**A4:** In June 2006, the service cancellation reimbursement payment will be made by electronic funds transfer (EFT) to the bank account established by a school in the Grant Administration and Payment System (GAPS).

**Q5: How will we be notified of the service cancellation reimbursement payment?**

**A5:** Approximately two weeks before we send a school's payment, we will notify the school by e-mail. We will send this e-mail to the Financial Aid Administrator provided in the school's most recently submitted FISAP or that was updated via the "Contact Info" page on the eCampus-Based (eCB) Web site.

In this e-mail, we will inform a school that its 2004-2005 Federal Perkins Loan Service Cancellation Letter and Worksheet Listing-Fiscal Data (letter/worksheet) has been posted on the eCB Web site ([www.cbfsap.ed.gov](http://www.cbfsap.ed.gov)). The letter/worksheet explains how the reimbursement amount was determined.

To access the letter/worksheet following receipt of this e-mail, log in to the eCB Web site, select the "Self-Service" link from the top navigation bar, and scroll to the "Campus-Based Notifications for All Available Award Years" section. Then, scroll to the "Perkins Service Cancellation Awards" bullet and select the "2006-2007" link next to it.

**Q6: How may we use the funds?**

**A6:** The portion of the reimbursement that represents cancellations of Defense Loans (Line 8 of the Worksheet) belongs to a school and may be used for any purpose. The portion of the reimbursement that represents NDSL and Perkins Loan cancellations (Line 19 of the Worksheet) must be deposited into the school's Perkins Loan Fund and can only be used for advances to borrowers and for other allowable uses set forth in 34 CFR 674.8(b).

**Q7: What portion of the service cancellation reimbursement must we report on the FISAP for the award year ending June 30, 2006?**

**A7:** The portion of the reimbursement that represents principal and interest cancelled for Defense Loans (Line 8 of the Worksheet) should not be reported on the FISAP, unless a school decides to contribute it to the Perkins Loan Fund. If the school decides to contribute it to the Perkins Loan Fund, it should report the contribution as additional Institutional Capital Contribution in Part III, Section A, field 21 of its Fiscal Operations Report for the award year ending June 30, 2006.

Reimbursement for cancelled NDSL and Perkins Loans (Line 19 of the Worksheet) must be included in Part III, Section A, field 25 of a school's Fiscal Operations Report for the award year ending June 30, 2006.

**Q8: What must we do if either of the amounts calculated is negative, but the net amount is positive?**

**A8:** A negative amount in either of the reimbursement categories indicates that a prior-year reimbursement to a school was calculated incorrectly as a result of erroneous information contained in a previous Fiscal Operations Report or an error in the campus-based database at the time of the reimbursement. The amount of the overpayment has been deducted from the total 2004-2005 Federal Perkins Loan service cancellation reimbursement.

- *If the overpayment occurred under the first reimbursement category (Defense Loans), the school **must now deposit** into the Perkins Loan Fund from school funds an amount equal to the overpayment, so that the Perkins Loan Fund receives the full amount of its NDSL/Perkins payment. This deposit must be shown as an increase in the cash on hand to be reported in Part III, Section A, field 1.1 and in the cumulative amount of NDSL and Perkins Loan reimbursements to be reported in field 25 of the Fiscal Operations Report for the award year ending June 30, 2006.*
- *If the overpayment occurred under the second reimbursement category (NDSL and Perkins Loans), the school **may withdraw** from the Perkins Loan Fund an amount equal to the overpayment in order that the school may receive the full reimbursement due on its share of Defense Loan cancellations. This withdrawal will result in a decrease in the cash on hand to be reported in Part III, Section A, field 1.1 and in the cumulative amount of NDSL and Perkins Loan reimbursement to be reported in field 25 of the Fiscal Operations Report for the award year ending June 30, 2006.*

We hope this information is helpful to your school. If you have additional questions about or need assistance related to the 2004-2005 service cancellation reimbursement, contact the Campus-Based Call Center at 877-801-7168. Customer service representatives are available Monday through Friday from 8:00 A.M. until 8:00 P.M. (ET). You may also e-mail [CBFOB@ed.gov](mailto:CBFOB@ed.gov).

Sincerely,



Sherlene McIntosh, Director  
Campus-Based Systems and Operations Division  
Federal Student Aid