

Session #22

Overview of the Federal Direct Perkins Loan Program

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Today's Topic

This session covers statutory and anticipated regulatory changes to the Perkins Loan Program. We will cover:

- FY 2010 Administration Budget Request
- Legislative Update on funding authority and allocation, institutional match, loan terms and conditions, and status of revolving fund and existing portfolio
- ED Operational Overview
- Anticipated regulatory changes



Current Federal Perkins Loan Program

- Federal Perkins Loan Program provides, long-term, low-interest loans to ~ 500,000 students with demonstrated financial need yearly at roughly 1,700 institutions
- Total assets of over \$8 billion represent over 40 years of Federal capital contributions, institutional matching funds, repayments on previous loans, and Federal reimbursements for loan cancellations

FY 2010 Obama Administration Budget Request

- FY 2010 Obama Administration Budget proposes to increase college access and success by expanding financial aid while making it simpler, more reliable, and more efficient
- Budget request would expand and modernize the Perkins Loan Program by providing \$6 billion a year in new loan volume for up to 2.7 million students at ~2,700 additional education institutions

FY 2010 Obama Administration Budget Request

Perkins Loan Program	2008	2009	Request 2010
B.A. in millions	\$64	\$67	-\$498
Aid available (\$in Millions	1,103	1,103	5,769
Recipients (in Thousands)	495	495	2,586
Average award	\$2,231	\$2,231	\$2,231

FY 2010 Obama Administration Budget Request

- Effective July 1, 2010 – Federal Direct Perkins Loan Program
 - Formula for allocation of loan authority to be determined by Congress
 - Department of Education would originate and service loans
 - Same low 5% interest rate
 - Same annual/aggregate loan maximums
 - Otherwise, terms & conditions same as unsubsidized Direct Loan Program loans



FY 2010 Obama Administration Budget Request—Other Aid

- Larger and more reliable Pell Grant funding: make funding mandatory and index maximum award (\$5500 for 2010-2011) to consumer price index + 1% point
- More reliable Federal student loans: end entitlement subsidies to student loan lenders effective July 1, 2010
- State-Federal Partnership: \$2.5 billion investment to improve college access and completion

Congressional Action on the Federal Direct Perkins Program

- Student Aid and Fiscal Responsibility Act of 2009 (SAFRA) – H.R. 3221
 - Implements Administration's 2010 budget proposals
 - Introduced July 15, 2009
 - Full committee markup July 21, 2009
 - Passed the House of Representatives on September 17th by a vote of 253-171
 - Senate working on a companion bill

SAFRA – H.R. 3221

- Amends Part D of the Higher Education Act (HEA) to create new Federal Direct Perkins Loan Program effective July 2010
- Authorizes loan authority not to exceed \$6 billion annually
- Broadens participation to more schools
- Broadens loan availability to more borrowers

SAFRA – H.R. 3221

- Direct Perkins Annual Loan Authority for AY 2010-2011 and beyond
 - Current Perkins Loan Program participants “held harmless”
 - Current participants receive a minimum base guarantee equal to average annual amount of Perkins Loans made for award years 2003-2005 through 2007-2008



SAFRA – H.R. 3221

- Direct Perkins Annual Loan Authority for AY 2010-2011 and beyond allocated as follows:
 - 50% of funds based on adjusted self-help need amount of the institution
 - 25% of funds based on low tuition incentive amount
 - 25% of funds based on ratio of Pell Grant recipients that graduate from the institution compared to degree attainment of Pell recipients at other institutions



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- Adjusted self-help need for each participating institution is the institution's base self-help need, or the sum of:
 - Self-help need of institution's eligible undergraduate students each AY and
 - Self-help need of institution's eligible graduate and professional students each AY

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- Adjusted self-help need (cont.)
 - If sum of base self-help need amounts of all eligible institutions for an award year exceeds 50% of annual loan authority, Secretary shall ratably reduce base self-help need amount of all institutions until equal to 50% of annual loan authority

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- Low-tuition incentive amount for each institution equals the sum of:
 - The total amount by which the average tuition and required fees for the institution's sector for second preceding AY exceed tuition and fees for second preceding AY for each undergrad and grad student attending the institution who had financial need plus...

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- Low tuition incentive (cont)
 - The amount by which the total amount for second preceding AY of non-Federal grant aid provided to meet financial need of all undergrad students attending the institution exceeds the total amount for the second preceding AY by which tuition and fees of each student with financial need exceeds average tuition and fees for institution's sector

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- Federal Pell Grant and Degree Recipient Amount calculation:
 - Ratio of the number of students who, during the most recent year for which data are available, obtained an associate's or other postsecondary degree from such participating institution and, prior to obtaining the degree, received a Federal Pell Grant for attendance at any institution of higher education to...

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- Federal Pell Grant and Degree Recipient Amount (cont.)
 - The sum of the number of students who, during the most recent year for which data are available, obtained an associate's or other postsecondary degree from each participating institution and, prior to obtaining such degree, received a Federal Pell Grant for attendance at any institution of higher education



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- Agreements with the Secretary
 - Institutions must operate the Federal Direct Perkins Loan Program consistent with agreements under section 454 of Part D of the HEA (DL)
 - Institutions must pay “matching funds” to an escrow account for the purpose of providing loan benefits to borrowers
 - Institutional participation subject to new FFEL/DL cohort default rate provisions



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- Terms and conditions of a Federal Direct Perkins Loan
 - 5% interest rate
 - Current Perkins Loan Program annual and aggregate loan limits
 - Otherwise, all terms and conditions applicable to Federal Direct Unsubsidized Stafford loans under HEA section 455(a) apply

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- Status of an institution's Perkins Loan Revolving Fund
 - Institutions make capital distribution of the Federal share of their revolving funds to the Department quarterly beginning July 1, 2010 less:
 - Administrative costs
 - Late charges collected
 - Outstanding loan cancellation costs

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- Status of an institution's Perkins Loan Revolving Fund (cont.)
 - Ensures return of an institution's outstanding "short-term loans" to the fund in anticipation of collections or receipt of Federal capital contributions on a case-by-case basis

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- Status of an institution's outstanding Perkins Loan Portfolio:
 - Institutions may assign all outstanding Federal Perkins Loans made before July 1, 2010, to the Secretary or
 - Institutions may continue to service their outstanding Perkins Loan portfolio under existing regulations

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- If an institution assigns outstanding Federal Perkins Loans to the Secretary, the Secretary will return the institutional share of all amounts collected quarterly including:
 - Late charges collected
 - Loan cancellation costs incurred for the quarter

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- If an institution opts to continue to service outstanding Federal Perkins Loans, the institution must return the Federal share of such collections to the Secretary quarterly, less:
 - Administrative costs
 - Late charges collected
 - Loan cancellation costs incurred for the quarter

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- Administrative Expenses
 - An institution that continues to service its outstanding Perkins Loans is entitled, for each fiscal year, to a payment equal to .50 percent of the outstanding principal and interest balance of the loans being serviced as of September 30th of each fiscal year

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- Secretary has the authority to mandate assignment of an outstanding Perkins Loan made before July 1, 2010, if the institution has failed to maintain an acceptable collection record, as determined by the Secretary, in accordance with criteria established by regulation
- Secretary will return the institutional share, plus late charges and loan cancellation costs incurred, on loans required to be assigned

Operational Overview

- Perkins Federal Direct Loan Program will be available to eligible schools and students beginning in the 2010-2011 award year
- Common Origination and Disbursement (COD) System will receive, process, and store Perkins originations and award adjustment records
- Award and adjustment records submitted by schools in a common record document/batch or through COD website

Operational Overview

- Direct Loan Subsidized and Unsubsidized Master Promissory Note will be modified to include Direct Perkins Loans (or an addendum will be provided to existing MPN)
- Direct Perkins Loan entrance and exit counseling will be included in Direct Loan counseling
- Direct Perkins Loans will be serviced with our Title IV additional servicers

Anticipated Regulatory Activity

- Implementation of the new Federal Direct Perkins Loan Program will require negotiated rulemaking after enactment
- ED will publish Federal Register Notice
 - Announcing ED's intent to establish a negotiated rulemaking committee(s)
 - Announcing public hearings
 - Soliciting non-Federal negotiators
 - Setting a negotiating schedule

Anticipated Regulatory Activity

- Possible topics for negotiations implementing the Federal Direct Perkins Loan Program include:
 - Allocation of loan authority based on low tuition incentive
 - Allocation of loan authority based on ratio of Pell Grant recipients that graduate from the institution compared to degree attainment of Pell recipients at other institutions

Anticipated Regulatory Activity

- Possible topics for negotiation (cont.)
 - Calculation and amount of institutional “matching funds” for the purpose of providing loan benefits to borrowers
 - Calculation of Federal Direct Perkins Loan cohort default rates based on the Direct Loan Program model
 - Mandatory assignment based on institution’s failed to maintain an acceptable collection record

Anticipated Regulatory Activity

- Possible topics for negotiation (cont.)
 - Treatment of institutional short-term loans to the fund in context of return of institutional funds
 - Changes to assignment regulations to facilitate the process for institutions that opt to assign their portfolio to ED
 - Rules governing the process by which ED returns institutional share when ED services an institution's portfolio



Anticipated Regulatory Activity

- Regulatory changes may also include amendments to various PARTS of 34 CFR, particularly:
 - PART 673 – General Provisions for the Campus-based Programs
 - PART 674 – Federal Perkins Loan Program regulations
 - PART 685 – William D. Ford Federal Direct Loan Program regulations

Contact Information

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