

Perkins for Beginners

Basic Perkins Due Diligence Requirements



Todd, Bremer & Lawson, Inc.

A distinctive approach to educational debt recovery since 1974.





674.12 Loan Maximums

- Annual Maximum Loan
 - Undergraduate: \$ 5,500
 - Graduate: \$ 8,000

- Aggregate Maximum Loan
 - Undergraduate: \$ 27,500
 - Graduate: \$ 60,000



674.20 Equal Credit Opportunity Act

- In making a loan, an institution shall comply with the equal credit opportunity requirements of Regulation B
 - 12 CFR part 202



Equal Credit Opportunity Act

- makes it unlawful for any creditor to discriminate against any applicant, with respect to any aspect of a credit transaction, on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to contract); to the fact that all or part of the applicant's income derives from a public assistance program; or to the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act



Promissory Notes

- Dear Colleague Letter GEN-15-21
 - Master Promissory Note
 - Required usage, used like MPN or Closed End Note
 - OMB Control Number 1845-0074, expiration 9/30/18
- Dear Colleague Letter GEN-16-13
 - Electronic MPN
 - Electronic Standards GEN-01-06



674.16(a) Disclosure

- School must provide pre-loan counseling information in writing.
 - Must be done before making the first Perkins Loan disbursement for and award year.



674.42 (b)(1) Contact with Borrower

- Exit interviews can be done...
 - individually
 - in groups
 - or, electronically



Electronic Exit Interviews

- Section 674.42 (b)(3)
 - An institution that conducts exit counseling through interactive electronic means must take reasonable steps to ensure that each students borrower receives the counseling materials and participates in and completes the exit counseling.



674.42 (b)(2) Exit Counseling Information

- Information as to how the borrower can request a copy of their promissory note(s).
- Explain the use of a Master Promissory Note
- Name & address of the institution to which the debt is owed.
- Name & address to whom communication should be sent.
- Name & address of the party to which payments should be sent.



- Estimated balance owed by the borrower.
- Date repayment of debt is to begin. And right to change repayment plans.
- Stated interest rate on the loan.
- Repayment schedule for all loans –
 - First payment due date
 - # of payments
 - \$ of the payments
 - Frequency of the payments



- Option to consolidate or refinance the loan along with the consequences.
- Right to prepay without penalty.
- Description of charges imposed when payments are late.
- Description of charges imposed as a consequence of default.



- Total interest charge imposed according to the projected repayment schedule.
- Suggest to the student debt management strategies.
- Emphasize the seriousness & importance of the repayment obligation.
- Describe in forceful terms the consequences of default, including adverse credit reports and litigation.



- Emphasize the borrower's obligation to repay even if they did not complete the program or were dissatisfied with their education or other services.
- Review deferment & cancellation benefits
- Require borrower to provide updated corrections to their records concerning:
 - name, address, SS#, references
 - driver's license #, employer name/address



- Review information of the Student Loan Ombudsman Office
- Provide information about the National Student Loan Database (NSLDS).
- General description of type of tax benefits the borrower may be eligible.



Initial Grace Period

- NDSL on or after 10/1/80 = 6 months
- NDSL on or before 9/30/80 = 9 months
- Perkins on or after 7/1/87 = 9 months



674,42(c) Grace Letters

- Mailed at:
 - 90 days, 150 days & 240 days
- Includes: due date, payment amount, frequency, # of payments, and projected interest paid.



674.43 (a) Billing Methods

- Coupon System
 - Mailed 30 days before due date.
- Billing Statements
 - 30 days before first payment send statement of account.
 - Subsequent, mailed 15 days before due date.
- Electronic Billing Presentment & Payment
 - Handle like billing statements
 - Annual statement of accounts



Repayment Provisions

- No penalty for pre-payment
- 9 month initial grace period
- Interest doesn't accrue during grace
- 5% interest rate
- \$40.00 minimum monthly payment
- Optional late charge assessment up to 20%
- Monthly credit bureau reporting



674.33 (a) (4) Payment Hierarchy

- Payments must be applied in the following order:
 - Collection costs – contingency
 - Late charges
 - Accrued interest
 - Principal
- Past due payments are applied in the same order except “oldest” past due dollar first.



674.47 (h) Write-Offs

- An institution may write-off an account with a balance of less than \$25 including:
 - outstanding principal
 - accrued interest
 - collection costs
 - Late charges
- A balance of less than \$50 can be written off if it has been billed for two years in accordance to 674.43(a)



674.43 (1)(b)(5) Late Charges

- Effective 11/1/02 institutions were given the option to access late charges.
- From 7/1/87 until 11/1/02 late charges were required.



Late Charge Properties

- May not exceed 20% of each late payment.
- Deposited into the fund to cover expenses paid.
- Only waived if account it brought current in a single remittance or submits a eligible benefit form.
- Late charges are frozen once collection procedures have begun.



Notice of Overdue Payments

- 15 days after the payment due date.
 - 674.43(b)(1)
- 30 days after the first overdue notice.
 - 674.43(c)(1)
- The final demand letter sent 15 days after the second overdue notice.
 - 674.43(c)(2)



674.43(d) Notice of Overdue Payments

- 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 you can conclude the borrower does not intend to pay.



Final Demand Letter

- The letter must inform the borrower that unless the school receives a payment or request for loan benefit 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 the credit bureau.



674.43(f) Contacting by Telephone

- If the borrower does not respond to the final demand letter within 30 days, you must attempt to contact the borrower before beginning collection procedures.
- You must make two attempts on different days and at different times.



674.44 Address Searches

- The school must take the following steps to locate the borrower if communications are returned undelivered
 - review the records of all appropriate school offices, and
 - review printed or web-based telephone directories or check with information operators in the area of the borrower's last known address.



Address Searches

- Above searches fruitless, must intensify efforts using school personnel or skiptrace firm.
- Must make reasonable attempts, twice a year.



DRAP Letters

- The U.S. Department of Education (ED) provides this free service. (optional)
 - Electronic announcement 11/15/2013
- Questions on the program should go to the eCampus-based website www.cbfisap.ed.gov.
- intended to get the borrower back into repayment before the account goes to collection



674.16(h) Credit Bureau Reporting

- Amount and date of each disbursement
- Info pertaining to repayment and collection until loan is PIF.
- Date loan was repaid, cancelled or discharged
- Must promptly report any changes to loan status.



674.45(a)(1) & (b) Credit Reporting

- Report the default to any one national credit bureau.
- Report according to the procedures of the credit bureaus (FCRA), update statuses.
- Resolve disputes within 30 days



National Credit Bureaus

- Trans Union 800-888-4213
- Experian 888-397-3742
- Equifax 800-685-1111



674.5 (b) Cohort Default Rate

- For any award year in which 30 or more current and former students at the institution enter repayment on loans for attendance at the institution, the percentage of those students who default before the end of the following award year.



674.5 (b)(2) Small Repayment

- For any award year in which less than 30 current and former students at the institution enter repayment on a loan received for attendance at the institution, the “cohort default rate” means the percentage of those current and former students who entered repayment on loans received for attendance at that institution 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.



Cohort Calculation

- 1052 borrowers entered repayment between 7/1/15 and 6/30/16 (previous fiscal year).
- As of 6/30/17, 85 borrowers are in default status (240 or 270 days past due).

$$85/1052 \times 100 = 8.08\%$$



674.5 (a) Default Rate Penalties

Cohort Rate

Penalty

0 – 24.9%

No Penalty

25% or more

0% FCC

50% for 3 years

Ineligible to
participate in program



674.5(c)(3) Cohort Default Resolution Tools

- 6 consecutive, monthly, voluntary payments made by the end of the fiscal year.
- Borrower voluntarily brings loan current.
- Borrower voluntarily pays the loan in full.
- Retroactive deferment or forbearance.
- Borrower rehabilitates loan.
- Borrower's loan is cancelled
 - Death, disability, discharged for closed school
- Loans assigned to ED for Total & Permanent Disability.



674.39 Loan Rehabilitation

- Each Institution must establish a loan rehabilitation plan. The plan must provide,
 - Defaulted borrowers are notified of their option and consequences of rehabilitation.
 - Rehabilitation occurs after a borrower has made 9 consecutive, on-time, monthly payments in an amount determined by the school.
 - On-time is a payment made within 20 days of the payment due date.



- Within 30 days of the 9th payment, the school must –
 - Return the borrower to regular repayment
 - Treat the first payment of the 9 consecutive payments as the first of a new 10-year payment plan.
 - Instruct any credit bureau to which the default was reported to remove the default from the borrower's credit history.



Collections and Rehabilitation

- The borrower is responsible for 100% of the collection cost while the borrower is attempting to rehabilitate.
- Once the borrower has rehabilitated, the collection costs may not exceed 24%.
 - 674.39(c)



674.43 (e) Loan Acceleration

- Institutions that accelerate loans must provide the borrower with written notice of the intention at least 30 days in advance.
 - May be included in final demand letter
- Included in the notification must be the intended acceleration date and total amount due.



674.45 Collection Procedures

- Institutions must make the first effort to collect using it's own personnel or hiring a collection form.
- If the first collection effort cannot convert the account to regular repayment status by the end of 12 months – the institution must either litigate or make a second effort to collect.



- If the Institution first attempted to collect by using it's own personnel, it must refer the account to a collection firm.
- It the Institution first used a collection firm, then the school must attempt to collect using it's own personnel or a different collection firm.



674.45(d) Yearly Attempts

- If the Institution is unsuccessful in its collections efforts, the Institution must continue to make yearly attempts to collect the debt.
 - Recovered by collection
 - Assigned
 - Written off per 674.47(g)



674.16 (b)(9) Collection Costs

- Collection costs must be passed on to the borrower within the limitations of the promissory note.
- To determine the borrower's responsibility for collection costs, refer to the first paragraph of the promissory note.**



674.45(e)(3) Reasonable Collection Costs

- For all loans referred to a collection agency on or after 7/1/08
 - First placements 30% of principal, interest, and late charges collected
 - Replacement 40% of principal, interest, and late charges collected
 - Litigation 40% of principal, interest, and late charges collected, plus court costs



674.47 (g) Ceasing Collections

- Institutions may cease collection activity on a defaulted account with a **balance of less than \$200** (including principal, interest, late charges & collection costs) if due diligence has been followed and for at least 4 years the borrower has not made payments on the account, or applied for a benefit.



674.46 Litigation

- Perkins regulations require litigation when all of the following apply:
 - Total owed is more than \$500.
 - Borrower can be located and served.
 - Borrower has sufficient assets.
 - Has sufficient wages/salary that can be garnished
 - Borrower does not have a defense to bar the judgment
 - Cost of litigation is likely to be less than recovered amount.
 - Institutions must review their portfolio every 2 years.



Questions?

Lori S. Hartung

Todd, Bremer & Lawson, Inc.

800.849.6669

lori.hartung@tbandl.com