Your Perkins Portfolio Strategy and Next Steps

COHEAO's HIGHER EDUCATION COMPLIANCE WORKSHOP

Manhattan College

May 3, 2018

Agenda

- Perkins Status Update
- Administrative Cost Allowance
- Key Factors to Assessing your Portfolio
- Perkins Assignment Process
- Excess Liquid Capital (ELC)
- Summary and Recap
- Resources
- Questions

Legal Disclaimer

- The views and opinions expressed by the Presenters are those of the Presenters.
- This information is not intended as legal advice and may not be used as legal advice. Legal advice must be tailored to the specific circumstances of each case.
- Every effort has been made to assure this information is up-to-date as of the date of publication.
- This information is not intended to be a full and exhaustive explanation of the Federal Regulations in any area, nor should it be used to replace the advice of your own legal counsel.

Perkins Status Update

Perkins Status Update

- Perkins Loan Program Extension Act of 2017
  - Recent attempt to add to Omnibus Appropriations Bill
  - Active until the end of current Congressional session
- COHEAO Advocacy
  - Political capital
  - Harm to students
  - Future opportunities
- Reauthorization
  - House Bill: PROSPER Act (Promoting Real Opportunity, Success and Prosperity through Education Reform)
  - Senate Bill: Alexander stated markup could happen late April/early May
  - Alternative Perkins Proposal: 21st Century Perkins Loan Program

Perkins Wind-Down

- June 30, 2018 is last day to disburse Perkins. To spend down your cash balance, you can:
  - Increase awards to any eligible recipients
  - Repackage Perkins to any eligible students
  - Award summer Perkins for 2017-18 academic year
  - Charge all campus-based ACA to Perkins including FWS and/or SEOG

Department Guidance on Perkins

- DCL GEN-17-10 (Perkins Wind-Down Instructions)
- Institutions are not required to assign Perkins Loans to the Department or liquidate their Perkins Loan portfolios.
- Institutions may continue servicing their Perkins Loans and distributing the assets to the Department on a regular basis until all outstanding Perkins Loans have been:
  - Paid in full
  - Otherwise fully retired (cancelled, written off, etc.)
  - Assigned to the Department

Department Guidance on Perkins

- Institutions that continue servicing their Perkins Loan portfolios must continue to:
  - Service the loans in accordance with the Perkins regulations
  - Report their outstanding loan portfolio using the FISAP
- Institutions may choose to liquidate at any time in the future and may assign non-defaulted and/or defaulted Perkins Loans to the Department at any time.
- The institution loses all rights to assigned loans and will not receive any share of future amounts collected by the Department.

Department Guidance on Perkins

- The Department will begin collecting the Federal share of institutions' Perkins Loan Revolving Funds following the submission of this year's FISAP due October 1, 2018.
  - Separate from the current excess cash process
  - More information will be provided prior to 10/1/2018
- An administrative cost allowance cannot be charged against an institution's Perkins Loan Revolving Fund after June 30, 2018 because institutions will no longer be advancing funds.

Administrative Cost Allowance

Administrative Cost Allowance

- A school participating in the campus-based programs is entitled to an Administrative Cost Allowance (ACA) if it advances funds under the Perkins Loan, FSEOG, and/or FWS Programs
- Current ACA calculation = 5% of Expenditures (up to $2,750,000 and then on a declining percentage)
- If your school previously charged FWS and/or SEOG ACA to Perkins – be sure to allocate properly going forward

Administrative Cost Allowance

- COHEAO Proposal – ACA is the key to sustaining quality campus-based servicing of the Perkins portfolio and should be tied to dollars collected.
  - School has the incentive and ability to collect more $ and can do it for less.
  - Schools do it better – they're our current and former students who are tied to our institution. We have a vested interest in how their loan is serviced.
  - With ACA, schools won't be forced to liquidate. Mass assignments may result in delays, errors and confusion to our borrowers.
  - Supports and protects jobs on campus.

Administrative Cost Allowance

- Why ACA is the key to sustaining quality campus-based servicing of the Perkins portfolio:
  - School servicing will protect borrowers from delayed action that could result in borrower delinquency, credit profile issues, and/or loss of benefits.
  - Protects your institution's reputation and relationships with alumni.
  - It provides the necessary resources to maximize the recovery of the school's investment – ICC (Institutional Capital Contribution).
  - It's a win-win for the school and the Department.

Key Factors to Assessment

6 Factors for Assessment

1. What is the value of your Institution's Investment
2. What are the benefits of servicing
3. How to project future revenue
4. Maximizing your recoveries
5. Identifying the cost of servicing
6. What are the costs and risks of liquidation

Key Factors to Assessment

1) Calculate your institution's share of the Perkins Fund using the following 2017 FISAP data:
   - **Total Net FCC (Federal Capital Contribution)**
     Total FCC minus Repayments of FCC to the Department
   - **Total Net ICC (Institutional Capital Contribution)**
     Total ICC minus Repayments of ICC to the institution
   - **Federal Share Percentage** = $\frac{\textbf{Net FCC}}{\textbf{Net FCC+Net ICC}}$
   - **Institutional Share Percentage** = $\frac{\textbf{Net ICC}}{\textbf{Net FCC+Net ICC}}$

Key Factors to Assessment

2) Why Continue to Service your Portfolio?
   - Recover your institution's investment (ICC).
   - Utilize the ICC to fund an institutional loan program or provide additional aid to students.
   - Foster the borrower/alumni relationship.
   - Convert as many loans to paid-in-full as possible (fewer loans to assign in the future).
   - Rejected loans in liquidation result in a cost to the campus – must buy the loan
     - Rejected loans in an assignment usually do not – can continue to service the loan.

Key Factors to Assessment

3) Projecting your Portfolio's Revenue Potential
   - Analyze monthly collections and create a recovery forecast
     - Utilize historical collections and paid-in-full data, take into account the % of borrowers enrolled or in grace.
   - Apply your ICC Proportional Share Percentage to your estimated monthly collections to determine ICC Revenue
   - What costs can be charged to the fund
     - Billing Costs: unpaid portion of the actual cost of phone calls made to demand payment on past-due accounts
     - Collection Costs: waived collection agency fees, successful address searches, credit bureau reporting costs, and costs of responding to inquiries
   - What is the potential ACA if based on collections?

Key Factors to Assessment

4) Maximize your Portfolio's Recoveries and ICC

- Review your portfolio and ensure that all delinquent accounts are placed with your TOP Performing collection agencies
- Leverage the advanced technology, data analytics and skip tracing tools of your TOP collection agencies
  - Data scrubs for bankruptcy, death and disability
  - Borrower location information
  - Credit reporting to all three major credit bureaus
  - New employment data
  - Demographic data
  - Credit attributes, credit monitoring

Key Factors to Assessment

5) Identify the Cost to Service your Perkins Loans
   - Fixed vs. variable costs
     - Fixed: salaries, maintenance fees, reporting fees to credit bureau, NSLDS, etc.
     - Variable: per-borrower billing costs, postage, phone calls, skip-tracing, Clearinghouse
   - Where can costs be reduced
     - Natural decline in billing costs, e-signature, postage
     - Utilize your recovery forecast to estimate account volume
     - Salaries: staff attrition, cross training for other areas

Key Factors to Assessment

6) Identify the Costs/Downsides to Liquidating
   - Having to buy rejected loans
   - Forfeiting your institution's investment (ICC)
   - Additional resources required to manage the liquidation process
   - Recent conversion to a new servicer and potential discrepancies, missing documentation, etc.
   - Job loss
   - Loss of control in how the loan is serviced (i.e. alumni relationship)

Perkins Assignment & Liquidation Process

Assignment Process

- IFAP – Perkins Assignment and Liquidation Guide
- Schools can assign a defaulted or non-defaulted Perkins Loan at any time
- Schools can elect to complete and submit assignments either manually by paper or electronically by using the Department's Perkins Loan Assignment System (PLAS)
- Required Documentation for Loan Assignments:
  - Assignment manifest
  - Perkins Assignment Form – Form 1845 (formerly 553)
  - Original Perkins Promissory Note (MPN) or certified copy
  - Repayment records and payment history
  - Judgment information (if applicable)
  - Bankruptcy information (if applicable)

Liquidation Process

- Timeline from the Department of Education
  - Step 1: School electronically **notifies the Department** of its intent to begin the liquidation process (in the COD System).
    - Be sure to notify your servicer and recall accounts from your collection agencies.
  - Step 2: Notify Borrowers that their loans are being assigned to the Department (**must be at least 30 days before assignment of loans**).
  - Step 3: Assign all outstanding open Perkins Loans to the Department **within 45 days following intent to liquidate – Step 1**

Liquidation Process

- Timeline – cont'd
  - Step 4: School **purchases any loans** that are rejected and/or cannot be assigned
  - Step 5: **Update Perkins records in NSLDS** for all assigned and purchased loans. There must be zero open loans in NSLDS at end.
  - Step 6: **Perkins Closeout Audit** – File report within 90 days from end of program
  - Step 7: **Remit the Federal Share** via G5
  - Step 8: School completes **final FISAP Data**

Liquidation Process: Necessary Resources

- How long would it take to assign 3,000 loans?
- Using an average of 30 minutes per loan
  - Given loan info is accurate and all documentation easily accessible
- Equates to 1500 hours; 50 weeks; approximately one year - if one person is devoted solely to handling assignments
- Plan for more than 30 minutes per loan if:
  - You expect missing or hard to find documentation
  - You have judgment accounts
  - You have reconciliation issues with NSLDS that must be resolved

Excess Liquid Capital (ELC)
Excess Cash

Excess Cash

- The Department delayed the 2017-2018 ELC notification and collection process due to the transition from the eCampus-Based System to the Common Origination and Disbursement (COD) System.
- FAA received an email **March 29, 2018** if ELC was assessed.
- If an institution estimated that returning the ELC would create a shortfall in the funds available for meeting the school's Perkins Loan commitments through June 30, 2018, the institution was allowed to request an adjustment to its ELC (***deadline 4/20/18***).

- If assessed with excess cash, the Federal share must be returned by **April 30, 2018** and the ICC portion removed from the revolving fund.

ED Guidance on Short-Term Loans to the Fund

- A school may deposit into its Perkins Fund as additional ICC, short-term, no interest loans to increase the Fund balance available for making Perkins Loans. (often referred to as “overmatch”)
- Beginning with the 2008-2009 FISAP, new lines were added for schools to report these loans.
- For a school to reclaim the additional ICC that is deposited from 2008-09 and forward, the **ICC must be entered as a short-term, no interest loan** made to the Fund in the accounting records of the school.
- **A school may repay itself for a short-term loan** to the Fund at any time and lines were added to the FISAP to reflect the repayment of such short-term, no interest loans.
- ED noted that they were not defining what consisted as "short-term”.

In Summary…

- Evaluate your Perkins Portfolio
  - What are the costs and benefits of servicing
  - What are the risks and benefits of liquidation
  - What is the long-term projection for return on investment
- Communicate with decision-makers on campus
  - Discuss costs, benefits, risks and resources
- Maximize Returns – ICC Recovery
  - Recirculate accounts to your collection agencies
  - Maximize the ability to reinvest into an Institutional Loan Program or 21st Century Perkins Loan Program
  - Support the operational costs of servicing the program
  - Pay yourself back for any overmatch

In Summary…

- Minimize Risk: Clean up your Portfolio before Liquidation
  - Assign older uncollectible loans first
  - Review your due diligence procedures and documentation
  - Reconcile NSLDS
- Communicate your Post-Perkins resource challenges to your Representatives and/or COHEAO – enrollment, retention, financing
- Utilize COHEAO as a resource for your compliance and training needs – http://www.coheao.org

Become a Member of COHEAO

- Membership Benefits:
  - 3 FREE Webinars per year
  - Regulatory & Legislative Updates – Torch & Sparks
  - Lead organization on Perkins issues
  - A LOT More than just Perkins:
    - Advocacy and training on legal and compliance issues that impact you and your institution directly
    - TCPA & CFPB Compliance
    - Student Tuition and Accounts Receivable (STAR),
    - Institutional Loan Task Force
    - Financial Wellness – Newsletters, Training, Whitepapers
    - A Voice on Capitol Hill – Advocacy and Relationships
  - Institutional membership rates are very affordable: $210 - $595 based on FTE (**10% discount when you join within 30 days of this presentation**).

Resources

Resource Links

- Federal Perkins Loan FAQs - https://ifap.ed.gov/cbp/PerkinsFAQ.html
- PROSPER Act - https://edworkforce.house.gov/prosper/
- Dear Colleague Letter: GEN-17-10 - https://ifap.ed.gov/dpcletters/GEN1710.html
- Federal Perkins Loan - Assignment and Liquidation Guide https://ifap.ed.gov/cbpmaterials/attachments/PerkinsAssignmentandLiquidationGuide.pdf
- Perkins Loan Assignment System (PLAS) https://ifap.ed.gov/eannouncements/attachments/092115PerkinsLoanAssignmentSystemSystemAvailandUserAccessInfoAttach.pdf
- Perkins - Excess Liquid Capital Determinations and Timelines for 2017-2018 https://ifap.ed.gov/eannouncements/090617PerkinsLoanPrgmExcessLiqCapDeterminationsandTimelines20172018.html

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Questions…