Ensuring Smooth Servicing of Perkins Loans: An Alternative Administrative Cost Allowance Calculation

What is the Administrative Cost Allowance (ACA)?

A school participating in campus-based aid programs is entitled to collect an Administrative Cost Allowance (ACA) if it advances funds under the Perkins Loan, FSEOG, and/or Federal Work Study Programs. For Perkins, the ACA covers the costs schools incur when servicing their revolving loan fund. Currently the ACA calculation equals 5% of the total "expenditures" (loan originations in the case of Perkins) in any given campus based program (up to $2,750,000 and then on a declining percentage).

ACA Concerns over Expiration

Due to the expiration of the Perkins Loan program, the last time the Perkins ACA can be charged is on the 2017-18 FISAP form for expenditures through June 30, 2018. <u>Although millions of loans remain in repayment, schools who would like to continue servicing their Perkins portfolio for their former students after June 30 will no longer receive any form of support to make that possible.</u>

The Importance of Continuing the ACA for Perkins

Allowing schools to earn ACA on servicing loans rather than just on new loan expenditures will permit schools to maintain responsibility for servicing their portfolio managing the servicing process and working with their former students. Without any ACA, schools will be forced rapidly to assign their loans to the Department of Education, straining a process that is already seriously over-burdened with continuing delays in responsiveness to schools and borrowers.

The ACA is the key to sustaining quality campus-based servicing of the Perkins portfolio during the wind-down period. It should be based on dollars collected rather than expenditures for the following reasons:

1. The school has the incentive and ability to collect more money and can do it for less than the Department's servicer.
2. The school can do it better because of the relationship with current and former students and the vested interest in making sure its alumni are treated well.
3. With ACA restored, schools won't be forced to liquidate. Mass assignments may result in delays, errors and confusion to borrowers, which in turn could result in delinquency, credit problems and loss of benefits.
4. It keeps jobs on campus that not only directly relate to Perkins, but also other financial services support areas that directly benefit students and borrowers.
5. It provides the necessary resources to maximize the recovery of the school's Institutional Capital Contribution without a high cost to the school while at the same time increasing the

Department of Education for the return of the Federal Capital Contribution. It's a win-win-win for the school, the borrowers and the Department.

Suggested Labor HHS Education Appropriations Bill Authorization Language:

Federal Perkins Loan Program

Title IV, Part E; 20 U. S. C. 1087aa-1087ii

Institutions of Higher Education that participate in the Federal Perkins Loan Program shall be permitted to retain –

(a) Up to 5 percent of repaid federal capital contributions for the purpose of servicing Perkins loans that were disbursed by the institution, and
(b) Such portion of the federal capital contribution for reimbursement of the institutional share of loan cancellations related to public service loan forgiveness under Section 465 until such institutional share is fully reimbursed.

This language would allow schools to fund servicing using a formula that is similar to the expenditure based ACA.

Anticipated Servicing Savings in this Proposal

We believe this proposal should be scored as a savings on servicing costs because the schools will retain less money to pay for servicing costs than the Department currently pays its servicing contractor. We also believe that schools, with an existing relationship and connection to their alumni borrowers will have a higher likelihood of collecting on their loans than a servicer on behalf of the Department. Finally, the disruption to borrowers that would occur with a mass conversion of loans would likely lead to additional loss of revenue from defaulted and neglected loans.

Schools Should Be Reimbursed for Their Share of Cancelled Loans, As the Law Requires

The Higher Education Act requires the Secretary to reimburse schools for the cost of Perkins Loans that are forgiven for borrowers who work in certain public service professions, such as teaching, the military and firefighting. The Department years ago decided that it would only make such reimbursements if Congress funded them with annual appropriations. There have been no such appropriations since 2009, yet schools are required to forgive the loans, as promised, including the institutional share, usually about one-third. Institutions would use these funds to set up institutional aid programs that may at least partially make up for the loss of Perkins Loans for their students.

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