Ensure Smooth Servicing of Perkins Loans: Continue Campus-Based Management

What is the Perkins Loan Servicing Issue?

A school participating in federal campus-based aid programs is entitled to an Administrative Cost Allowance (ACA) if it advances funds under the Perkins Loan, FSEOG, and/or Federal Work Study Programs. For Perkins, the ACA – 5% of originated loans -- covered the costs schools incurred when servicing the loans.

No New Perkins Loans Means No ACA for Servicing

Due to the expiration of the Perkins Loan program on Oct. 1, 2017, the last time the Perkins ACA could be charged was in the 2017-18 academic year. Although millions of loans remain in repayment, schools who would like to continue servicing their Perkins portfolio for their former students after June 30, 2018 no longer receive any form of support to make that possible.

Congress Authorized Funds for ACA Equivalent

The FY 2019 appropriations law funding the Department of Education, passed in September 2018, authorizes the Department to fund Perkins Loan servicing by campuses. The Department is currently considering how to implement this law, but it hasn't determined what, if anything, it will do.

The Importance of Continuing Campus-based Perkins Loan Servicing

Schools that are permitted to earn the equivalent of ACA for servicing loans will retain responsibility for managing the servicing process and working with their former students. Without any funding for servicing, schools will be forced rapidly to assign their loans to the Department of Education, straining a process that is already over-burdened. Payments should be based on dollars collected. "ACA" is the key to sustaining quality campus-based servicing of the Perkins portfolio during the wind-down period. Here are some reasons:

1. The school has the incentive and ability to collect more money and should be able to do it for less than the Department's contracted servicer.

2. The school benefits from the relationship with current and former students, and the school has a vested interest in making sure its alumni are treated well, which benefits borrowers.

3. With the equivalent of 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 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's return on the Federal Capital Contribution. It's a win-win-win for the school, the borrowers and the Department.

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