Perkins Program Ending – What’s Next?

CACUBO Spring Workshop, May 16, 2016
Agenda

» Introduction

» Summary of the Liquidation Process

» Other Options
  • Endowment – Revolving Loan Fund
  • Finance Loan Pool
  • Institutional Scholarship

» Questions
Liquidation Process

Perkins Program Options
Summary of Liquidation Process

• March 30, 2016 – all previous guidance was superceded and updated

• Use the following document:
  “Federal Perkins Loan Program – Assignment and Liquidation Guide”

• Link: http://ifap.ed.gov/ifap/cbp.jsp
Summary of Liquidation Process

Campus-Based Processing Information

The Campus-Based Programs include the Federal Perkins Loan, Federal Work-Study, and Federal Supplemental Educational Opportunity Grant programs. These programs are administered through the Electronic Campus-Based (ECB) System.

Operational communications and guidance specific to the Campus-Based Programs are categorized under four basic areas - Campus-Based Electronic Announcements and Letters, Campus-Based Deadlines, FISAP Form and Instructions, and FISAP Technical Reference. To access each area, click on the applicable box below. In addition, related resource information is provided on the right side of this page.

Campus-Based Electronic Announcements and Letters
Click on this box to access Electronic Announcements and Letters about the Campus-Based Programs.

Campus-Based Deadlines
Click on this box to access deadline notices for the Campus-Based Programs.

FISAP Form and Instructions
Click on this box to access information about the FISAP.

FISAP Technical Reference
Click on this box to access technical information about the FISAP.

Alert!
- New Perkins Assignment and Liquidation Guide
- PWS Community Service Waiver Requests Due April 25, 2016

Contact Information
- Campus-Based Cell Center
- DCL GEN-15-19

Perkins Excess Liquid Capital
- DCL GEN-15-05
- Perkins Loan Questions and Answers

Perkins Loan Program Wind-down
- Perkins Loan Assignment and Liquidation Guide
- Returning Perkins Funds
- Perkins Assignment Form - Instructions
Summary of Liquidation Process

**Step 1: INTENT TO LIQUIDATE**

Notify the Department of Education of the school’s intent to begin liquidation.

**Step 2: NOTIFY BORROWERS**

Notify borrowers that their Perkins Loans are being assigned to the Department.

**Step 3: ASSIGN LOANS**

Assign all outstanding open Perkins Loans to the Department within 45 days following intent.

School logs onto eCampus Based (eCB) System to notify the Department and begin the liquidation process.

School notifies borrowers by mail at least 30 days before assignment of loans.

School has the choice of manual or electronic completion of assignment forms and submission of (most) materials.

**Liquidation Process Overview**

**PLAS**

Perkins Loan Assignment System (PLAS)

Request Access!
For more information, visit www.efpls.com

School separates loans into categories (see procedures) and submits to the Federal Perkins Loan Servicer (ECSI) electronically and/or by mail.

School receives notification of acceptance or rejection of assignment.

Required for all loans:
- Assignment Forms (OMB 1845-0048)
- Assignment Manifest
- Original or Certified True Copy Promissory Notes
- Repayment History Records

Required for Certain loans: (see procedures)
- Disbursement Records
- Documents related to Bankruptcy or Judgment
Summary of Liquidation Process

**Step 4: PURCHASE LOANS**
- Purchase Perkins Loans that cannot be assigned to the Department.

**Step 5: UPDATE NSLDS**
- Update Perkins Loan records in NSLDS.

**Step 6: PERKINS CLOSEOUT AUDIT**
- Complete Perkins closeout audit.

School reimburses the program Fund for the entire portion of the outstanding principal balance plus any accrued interest on loans being purchased. Payment is NOT sent directly to the Department at this time. Once the liquidation of the portfolio is completed, payment of the Federal portion of the remaining, program Fund will be required (see step 7 below).

Note: Before a school updates any records in NSLDS to purchased, FSA will need to know the school is purchasing loans so FSA can obtain the list from NSLDS prior to update. As part of the liquidation and closeout process in eCB, any liability (purchased loans) will be calculated and entered into the Perkins closeout form by FSA.

School must report and update all assigned and school-purchased Perkins Loans in NSLDS. Perkins liquidation requires that there be zero open loans (school held) in NSLDS.

Not-for-profit schools that fall under the Single Audit Act:
- School can elect to either have an Independent Perkins closeout audit completed or combine the Perkins closeout audit with the school’s annual audit.

Schools that do not fall under the Single Audit Act:
- School must have an independent Perkins closeout audit completed.
Summary of Liquidation Process

**Step 7: Remit the Federal Share**
Remit the federal share of the remaining Perkins cash assets to the Department.

**Step 8: Final FISAP Data**
School completes final FISAP data.

Distributional shares (Federal – Institutional) are determined using the Distributional Shares Formula. This formula is calculated in Phase 3 of the Perkins Intent and Closeout Form. The calculation includes the latest cash on hand amount as reported by the school and may include the outstanding principal amount plus interest for any loans the school may have to purchase.

School remits federal share via G5 at [www.g5.ed.gov](http://www.g5.ed.gov) using the Miscellaneous Refunds option.

School logs onto eCB and enters final FISAP data in Phase 4 of the Perkins Intent and Closeout Form.
Steps to the Liquidation Process

Step 1 – intent to Liquidate

- Done via eCB
Steps to the Liquidation Process

Step 2 – Notify Borrowers

- Borrowers given at least 30 day’s notice
- Loans should be submitted to DOE no later than 45 days from the date submitted for intent to liquidate

Step 3 – Assign Loans

- Understand this key new paragraph!

Assigning Loans without Recompense

All loans that a school assigns to the Department are assigned without recompense. The Department will not reimburse the school’s program Fund for the loans, and all rights, authorities and privileges associated with the loan are transferred to the Department. The school is relieved of incurring additional expenses in attempting to collect on the loan. Any funds collected by the Department on these loans are the property of the United States government. Assignment of defaulted loans will not affect the calculation of the school’s Perkins Loan cohort default rate.
Step 3 – Assign Loans (continued)

• Reconciliation
• Manual or Electronic Submission
• Automated Perkins Loan Assignment System
• Documentation Requirements
  • Use Perkins Assignment Form for Manual Submission
  • Assignment manifest
  • Original or Master Promissory Note (send to ECSI even if doing electronic) - If Missing – “Certified True Copy”
• Repayment Records
• Disbursement Records
• Judgment and/or Bankruptcy Information
Steps to the Liquidation Process

Step 4 - Purchase Loans

• All loans with total outstanding of less than $25
• Any loan where the promissory note is missing or unsigned
• The Institution must reimburse the Program Fund for the entire portion of the outstanding balance plus any accrued interest on a loan
• Guidance on how to report on FISAP and on NSLDS when school purchases the loan
Step 5 – Update NSLDS

- It is a school’s responsibility to ensure the required reporting to NSLDS is completed on time and accurately
  - Transferred for assignment, use “AE”
  - Date of Loan status match the certification date
  - Loans purchased by school are called “UD” (defaulted loan purchased by school) or “UC” (non-defaulted loan purchased by school)
Step 6 – Perkins Closeout Audit

- **Schools filing a single audit**
  - Include in single audit report as part of SFA cluster
    - Additional reporting

- **Schools not filing a single audit**
  - Must submit an engagement letter for an independent audit 45 days after school ends participation in Perkins
  - Audit report must be filed with DOE no later than 90 days after school ends participation in Perkins
Step 7 – Remit the Federal Share

- Use the Overtime Formula

\[
\text{(net FCC)} \\
\text{X Cash on hand = Final Capital Distribution} \\
\text{(net FCC + net ICC)}
\]

FCC = Federal Capital Contribution added to the Fund by the Department over period of time (Part III, Section A, Field Item 27)

Repayments of Fund capital to federal government (Part III, Section A, Field Item 28)

\[
\text{net FCC = FCC minus repayments of Fund capital to federal government (Field Item 27 minus Field Item 28)}
\]

ICC = Institutional Capital Contribution added by school over period of time this language needs to match the DCL (Part III, Section A, Field Item 29.3)

Repayments of Fund capital to school (Part III, Section A, Field Item 30.3)

\[
\text{net ICC = ICC minus repayments of Fund capital to school (Field Item 29.3 - Field Item 30.3)}
\]

Cash on hand (Part III, Section A, Field Item 1.1 or 1.2 as appropriate)
Strategies during Wind down

Perkins Program Options
Key Strategy between now and October 1, 2017

Do NOT voluntarily liquidate!

**Voluntary** means you are giving up any right to your ICC invested in your fund

Review your FISAP – specifically lines 29.1 through 30.3

- Is amount on line 29.3 more than 20% of FCC/ICC combined?
  - If so, your school has given short term loans to the pool and needs to be reimbursed any of its own funds above what was required
  - Might show on lines 29.1 less 30.1
  - Means you might not have as much to continue loaning out
Other Strategies between now and October 1, 2017

Consider setting aside short term repayments to the institution and earmark them for future program

Gather a team of institutional representatives:
- Student Financial Aid
- Admissions
- Finance
- Development
Strategize if the institution needs to continue offering a lower interest rate pool for eligible students.

Weigh items and Options:

- Cost effectiveness
- Self serviced or third party
- Donor support
- Financing options
Replacement Options

Perkins Program Options
Endowment – Revolving Loan Fund

» Consider start up seed money or initial institutional match to come from repayment of short term loans or any ICC received back from the liquidation of pool

» Work with development to identify those donors supportive of low income programs to students
Endowment – Revolving Loan Fund

Consider amount needed:

» Assume 10 year’s before fully repaid
  • (5 year grace/5 year repayment period)

» How much is needed?
  • Example:
    $500,000 per year loaned out
    $5,000,000 in revolving loan
    Use 5% interest rate
    Consider using a servicer
Options to Replace Perkins

Endowment – Revolving Loan Fund

Upside
» Donor’s typically will support this type of program
» Investments can be part of current long term pool

Downside
» Has to earn rate of return at least 5% (interest rate) plus costs to operate
Finance – Loan Fund

» Consider using funds received from liquidation towards initial startup and having banks finance the remainder

» Work with local banks to contribute towards the revolving loan pool

» $1-3 million per bank is what we have typically seen
Options to Replace Perkins

Finance – Loan Fund

» Costs to operate

» Financing costs should be something less than 5%

» Can loans still be at 5% or should it be something more

» Maturities will need to be staggered
Institutional Scholarship

» Consider start up seed money or initial institutional match to come from repayment of short term loans or any ICC received back from the liquidation of pool

» Work with donors to set up an additional institutional scholarship program to replace the Perkins – goal to raise amount you need annually

» Will need to work with SFA staff to ensure they only award funded scholarships through this program and use similar criteria as current Perkins program
Any other suggestions or ideas that you are discussing with your institution?

Other Questions?
Vicki is a partner at Plante & Moran PLLC and leads their Higher Education Practice and has more than 28 years of experience in accounting, auditing and tax for colleges and universities, not-for-profit corporations, governmental entities, healthcare organizations, and employee benefit plans.

She is the engagement partner on several state universities, community colleges and private colleges.

Vicki is a frequent presenter on higher education specific topics to associations, institutions, and training sessions and webinars.

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Thank You!

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