The Perkins Loan Program (formerly called National Direct Student Loans and, before that, National Defense Student Loans) provides low-interest loans (Perkins Loans) to both undergraduate and graduate students with exceptional financial need. Perkins Loans are originated and serviced by participating schools and repaid to the school. The government does not insure the loans but instead provides initial contributions to eligible institutions to partially capitalize a loan fund.

The Perkins Loan Program is small and getting smaller over time—accounting for less than 1% of outstanding federal loan amounts. In 2011–2012, only 2% of undergraduates (5% of Direct Loan borrowers) borrowed Perkins Loans. The Perkins Loan Program expired on September 30, 2015, but at the year’s end was revived in a more limited form for an additional two years through September 30, 2017. Under the terms of the extension, only undergraduates who have already exhausted their Direct Loan eligibility (whether subsidized or unsubsidized) or consolidated their existing Perkins Loans, along with graduate students with existing Perkins Loans, are eligible for new Perkins Loans. The extension terms also provide that undergraduate students who receive an initial disbursement of Perkins funding at the beginning of the 2016–2017 or 2017–2018 award years are able to receive subsequent disbursements through the end of that award year.

Since Perkins Loans have different regulations than FFEL Program loans and Direct Loans, student rights and obligations are often different. However, the 1998 Higher Education Act contained a number of provisions that made the Perkins Loan Program regulations much more similar to the FFEL Program and Direct Loan Program regulations. In particular, the closed-school discharge for loans made on or after January 1, 1986, applies to Perkins Loans as well. In addition, Perkins Loan borrowers who make nine consecutive monthly payments may rehabilitate defaulted loans.

If the student Perkins borrower defaults, the school can seek collection through a lawsuit or otherwise. Perkins Loan Program schools may assign loans to the United States when they cannot collect. The United States will then seek collection from the defaulted borrower, using the full range of collection tools available. However, the schools can no longer receive any of the funds collected after assignment. In a few cases, such as in reviews of disability discharges, schools are required to assign loans to the Department of Education.

In September 2013, the Department announced a new servicer, ECSI Federal Perkins Loan Servicer, for Perkins Loans assigned to the Department. The Department began transferring accounts to the new servicer in November 2013.

Footnotes

84 [84] Statutory authority can be found at 20 U.S.C. §§ 1087aa–1087ii.

85 [85] U.S. Dep’t of Educ., Electronic Announcement, Federal Student Aid Posts Updated Reports to FSA Data Center (June 16, 2016).


1.4.1.4 Perkins Loans
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89 [89] U.S. Dep’t of Educ., Dear Colleague Letter, GEN-16-05, Extension of the Federal Perkins Loan Program (Feb. 17, 2016). Prior to receiving their initial disbursement of Perkins Loan funds, students must receive disclosures regarding the end of the Perkins Loan Program. See id.


93 [93] See § 10.3 [1], infra.

94 [94] 34 C.F.R. § 674.39. See § 7.3.5 [2], infra.

95 [95] 34 C.F.R. § 674.50. The Department allows assignment of a Perkins Loan without a Social Security number if the loan was made before September 13, 1982, which is when the Department began requiring institutions to collect a borrower’s SSN when assigning loans. 34 C.F.R. § 674.50(e)(1).

96 [96] The Department claims to have collection tools such as administrative wage garnishment, federal offset, and Department of Justice litigation that are not available to schools. It is unclear whether this statement accurately reflects current practice. Perkins Loan Program schools can presumably refer accounts to the government for tax refund intercepts. They would seem to have authority to also refer accounts for federal benefits offset. However, the Department claims this is not current practice. See U.S. Dep’t of Educ., Dear Colleague Letter, CB-02-05, Revised Policies and Procedures for Assigning Perkins Loans (Apr. 2002). See also 34 C.F.R. § 674.41 (Perkins Loan lender due diligence requirements).

The situation is clearer for FFEL Program loans because guaranty agencies, in most cases, have specific authority to collect on behalf of the Department prior to assignment. See generally Ch. 9 [3], infra.


98 [98] See § 10.8 [4], infra (disability discharges).


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