Participation, Fiscal Procedures, & Records

CHAPTER 1

Schools must maintain funds and records according to the procedures of the Federal Perkins Loan Program.

PROGRAM PARTICIPATION AGREEMENT

Program Participation Agreement cite
34 CFR 674.8

A school that wants to participate in any Federal Student Aid (FSA) program must sign a Program Participation Agreement with the Secretary. (See *Volume 2 - Institutional Eligibility and Participation* for more general information about the Program Participation Agreement.) The agreement requires the school to submit annually to the Department a report containing information that will enable the Department to determine the school's cohort default rate (discussed in chapter 8 of this volume).

The agreement for the Federal Perkins Loan Program also requires the school to establish and maintain a Fund and to deposit into the Fund:

- the Federal Capital Contribution (FCC) the school receives as its federal allocation for the program for each award year (explained later in this chapter);
- the school's matching share—the institution's capital contribution (ICC), discussed on the next page;
- payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the fund;
- payments the school receives from the federal government for cancellations (such as teacher cancellations) of Perkins Loans and National Direct Student Loans (see chapter 6 of this volume);
- any other earnings on fund assets, including net interest earnings on funds deposited in an interest-bearing account (total interest minus bank charges incurred on the account); and
- proceeds of any short-term no-interest loans the school makes to the fund in anticipation of receipt of its FCC or of loan collections.

Allocation cites
HEA 462
34 CFR 673.4(a)

Basis for initial allocation
HEA 462(a)

Basis for reallocation
34 CFR 673.4(a)

School's matching share
34 CFR 674.8 (a)(2)

Returned funds
34 CFR 673.4(d)

ALLOCATION OF FUNDS

As discussed in *Volume 4 - Campus-Based Common Provisions*, a school applies for program funds annually through the electronic Fiscal Operations Report and Application to Participate (FISAP). The Department allocates funds directly to schools. The allocation for the Federal Perkins Loan Program, the FCC, is the amount of funding the school is authorized to receive from the Department for an award year.

Beginning with the 2000-2001 award year, the Department will base your school's initial FCC allocation on the amount allocated for the 1999-2000 award year.

Your school's matching share or ICC is one-third of the FCC (or 25% of the **combined** FCC and ICC).

If a school returns unexpended Perkins funds, the Department reallocates 80% of the returned funds in accordance with the statutory formula in section 462(i) of the Higher Education Amendments of 1965, as amended, (HEA) and reallocates 20% in a manner that best carries out the purposes of the Federal Perkins Loan Program.

If a school returns more than 10% of its FCC, the Department will reduce the school's FCC for the second succeeding year by the dollar amount returned.

Transfer of funds cite
34 CFR 674.18(b)

Work-colleges funds
A work-college may transfer up to 100 percent of its initial and supplemental Perkins Loan allocations to the Work-Colleges Program. Any unexpended funds must be transferred back to the Federal Perkins Loan Program at the end of the award year.

TRANSFER OF FUNDS

Your school may transfer up to a total of 25% of its FCC for an award year to either or both the Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study (FWS) programs.

Your school must match any Perkins funds transferred to FSEOG or FWS at the matching rate of that program, but the match doesn't have to be made until the transfer has occurred.

You must award transferred Perkins funds according to the requirements of the program to which they are transferred.

You must report any transfer of Perkins funds on the Fiscal Operations Report portion of the FISAP.

A school that transfers funds to the FWS, FSEOG, and/or Work-Colleges programs must transfer any unexpended funds **back** to the Federal Perkins Loan Program at the end of the award year.

Perkins cash management cite
34 CFR 674.19

CASH MANAGEMENT

Each year, your school must submit a FISAP; your school must ensure that the information reported is accurate and must submit it on the form and at the time the Department specifies. (See volume 4 for more information about the FISAP.)

The cash management requirements that apply in general to FSA programs (those in the General Provisions) are discussed in volume 2. The cash management provisions that apply specifically to the Federal Perkins Loan Program follow.

Account requirements

Under the General Provisions, your school must maintain the Perkins Loan Fund in an interest-bearing bank account or investment account consisting predominately of low-risk, income-producing securities, such as obligations issued or guaranteed by the United States. Interest or income earned on fund proceeds is retained by the school as part of the Perkins Loan Fund.

Insured account cite
34 CFR 668.163(a)

A separate bank account for federal funds is not required, unless the Department specifies otherwise.

You must notify the bank that federal funds are deposited in an account. You may do this in writing (you must keep a copy of the notice in the school's file) or by giving the account a name that clearly indicates that federal funds are deposited in the account.

The school must maintain sufficient liquidity in the Perkins Loan Fund to make required disbursements to students.

Transaction requirements

A school must deposit its ICC into its fund prior to or at the same time it deposits any FCC.

If a school credits a student's account at the school with Perkins Loan funds, the school must notify the student of the date and amount of the disbursement, the student's right to cancel all or a portion of that loan. The school must send this notice, either in writing or electronically, within 30 days of the date the loan is credited to the student's account. If the school sends the notice electronically, the school must require the student to confirm receipt of the notice, and must keep a copy of the confirmation.

A school may deduct from the interest earned any bank charges incurred as a result of maintaining the fund assets in an interest-bearing account, such as service charges, and deposit only the net earnings into the fund.

Bank charges deduction cite
34 CFR 674.8(a)(6)

A collection agency, collection attorney, or loan servicer is required to deposit funds collected into an interest-bearing account held by the school only if the agency, attorney, or servicer holds such amounts for more than 45 days. Such an account must be insured by an agency of the federal government, secured by collateral of reasonably equivalent value, or invested in low-risk income-producing securities, such as obligations issued or guaranteed by the United States.

Deposit after 45 days cites
34 CFR 674.48(c)(4)
34 CFR 674.48(d)(1)

Business requirements

A school must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize payments and disburse Perkins Loan funds to students.

A school must establish and maintain program and fiscal records that are reconciled at least monthly.

RECORDKEEPING REQUIREMENTS

Recordkeeping cites
34 CFR 668.24
34 CFR 674.10(e)

A school must follow the recordkeeping requirements in the General Provisions (discussed in volume 2), those specific to the campus-based programs, and those specific to the Federal Perkins Loan Program. Perkins Loan records a school must maintain include, but are not limited to:

- documentation of each student's eligibility for a Perkins Loan;
- documentation of the amount of a Perkins Loan, its payment period, and the calculations used to determine the amount of the loan;
- documentation of the date and amount of each disbursement of Perkins Loan funds;
- information collected at initial and exit loan counseling required by Perkins Loan regulations.

Records readily available for review cite
34 CFR 668.24(d)

A school must make its records readily available for review by the Department or its authorized representative at an institutional location the Department or its representative designates. Generally, a school must keep records relating to the school's administration of a campus-based program or the Federal Pell Grant Program for three years after the end of an award year for which the aid was awarded and disbursed under those programs. There are some exceptions to this requirement:

- The school must retain the FISAP containing reported expenditures and any records necessary to support the data contained in the FISAP, including "income grid information," for three years after the end of the award year in which the FISAP is submitted.
- The school must keep repayment records for Perkins Loans, including records relating to cancellation and deferment requests for at least three years from the date a loan is repaid, canceled, or assigned to the Department.
- Records questioned in an audit or program review must be kept until the questions are resolved or until the end of the retention period applicable to the records, whichever is later.

For information on the formats in which a school must keep its campus-based program records, see volume 4.

Repayment history and promissory note

Repayment history and promissory note cite
34 CFR 674.19(e)(2)

In addition to following the recordkeeping requirements mentioned in volume 2 and volume 4, a school must follow the procedures in 34 CFR 674.19 for documentation of a student's Perkins Loan repayment history. The school must maintain a repayment history for each borrower that shows:

- the date and amount of each repayment during the life of the loan;
- the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges;
- the date, nature, and result of each contact with the borrower (or endorser for loans made prior to July 23, 1992) in the collection of an overdue loan; and
- copies of all correspondence to or from the borrower (and endorser for loans made prior to July 23, 1992), except for bills, routine overdue notices, and routine form letters (demand letters, notices of intent to accelerate, and the like are not considered to be routine form letters).

Returning the promissory note cite
34 CFR 674.19(e)

When a loan has been repaid, the school should mark the note with the phrase "paid in full" and the date the loan was paid in full, have the note certified by a school official, and give or mail the original note to the borrower. The school must keep a copy of the note for at least three years after the date the loan is paid in full.

The school must keep the original signed promissory note and repayment schedule in a locked, fireproof container until the loan is repaid in full or until the original note and schedule are needed to enforce loan collection. Only authorized personnel may have access to these records.

If the original promissory note is released for the purpose of enforcing repayment, the school must keep a certified true copy. To qualify as a certified true copy, a photocopy (front and back) of the original promissory note must bear the following certification statement signed by the appropriate school official:

Certification Statement

"CERTIFIED TRUE COPY: I declare under penalty of perjury that the foregoing is a true and correct copy of the original Promissory Note.

Signature: ______________________________

Title: ______________________________

Date: ______________________________*"*

Because a borrower must reaffirm a Perkins Loan that has been written off before he or she is eligible to apply for future federal student aid, the Department recommends that the school maintain a certified copy of the signed promissory note as well as a record of the full amount owed in its records beyond the three-year record retention requirement.

REIMBURSEMENT TO THE FUND

The Department may require your school to reimburse its Perkins Loan Fund for any outstanding balance on an overpayment or a defaulted loan for which your school failed to record or retain the promissory note, record disbursements, or exercise due diligence. (Previously, the Department did not have the latitude to waive this requirement.)

Your school must also reimburse the Perkins Loan Fund for the amount of the administrative cost allowance claimed on any reimbursed portion of a loan.

You needn't reimburse the Perkins Loan Fund, if your school can recover the defaulted loan or show that the borrower would not have paid the loan even if your school properly exercised due diligence.

Also, you should not reimburse the Perkins Loan Fund for loans on which your school obtains a judgment.