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**Brief History of Program**

The Federal Perkins Loan Program ("Perkins Program") was established in 1957. When established, it was a campus-based program that served students with financial need who qualified for lower interest loans than traditional Stafford loans issued through banks. Institutions originated loans to their students and are responsible for servicing the loans throughout the repayment term. As a revolving loan program, the dollars collected from former students are used to make new loans to current students.

The program was funded with aid from the federal government and matched with institutional contributions. Over the years, the proportion of federal to institutional matching funds varied, from a 90/10 split to a 75/25 split. The two sources of funding are tracked and shown separately on the annual Fiscal Operations Report and Application to Participate (FISAP) report. The Federal Capital Contribution (FCC) is an obligation to the federal government (a liability of the institution) and must be repaid as student loans are collected and no new loans are made by either assigning the loans or by refunding the excess cash. The Institutional Capital Contribution (ICC) is part of the net assets (wealth) of the institution and can be repurposed for other uses as loans are repaid and no new loans are issued. There has been no new funding from the federal government for this program since the early 1990s. Over time, several institutions put additional funds into the pool voluntarily.

Students receiving Perkins loans may qualify for flexible repayment terms and generous deferral options. There is a nine-month grace period so that borrowers begin repayment in the 10th month upon graduating, falling below half-time status, or withdrawing from their college or university.\(^1\) There are also opportunities for cancelling the loans, which are tied to work in public service occupations, including early childhood education, elementary and secondary school teaching, speech therapy, nursing, law enforcement, librarian, public defense attorney, firefighting, and certain active duty military postings.\(^2\)

**Closeout Timing and Rules**

Congress did not renew the Perkins Program after September 30, 2017. Consequently, except for a brief transition period, no new loans could be made. The transition period covered both undergraduate and graduate loans that were awarded and had a first disbursement prior to specific dates (October 1, 2016, for graduate students and October 1, 2017, for undergraduate students). No disbursements were permitted after June 30, 2018. The lack of renewal also means that as loans are repaid, the federal portion of the repayment must be returned to the federal government. The Department of Education (ED) will begin collecting the FCC, effective with the FISAP filing for 2019–2020, due October 1, 2018.

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1. "Federal Perkins Loans"
2. Ibid
Closeout Options

Institutions have the option to continue to follow the current processes by servicing the outstanding loans and remitting the federal share of the repayments following guidance that is expected prior to October 1, 2018. Under this option, nondefaulted and defaulted loans can continue to be assigned at any time. Alternatively, institutions can liquidate the portfolio, turning all of the loans over to the federal government (subject to certain requirements), and forfeit its remaining ICC that is in the pool. The advantages and disadvantages of each option are noted below.

Continue to Service the Outstanding Loans and Assign Defaulted Loans, as Needed

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Retain the ICC</td>
<td>- Retain the administrative burden of collecting loans into the future</td>
</tr>
<tr>
<td>- Increase positive alumni relations through closer ties with alumni</td>
<td>- Maintain staff with knowledge of the loan provisions, criteria for deferrals, and rules for collecting and discharging obligations—and/or retain their Perkins servicer</td>
</tr>
</tbody>
</table>

Liquidate the Portfolio

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Reduce or eliminate the administrative burden and costs of collecting outstanding loans</td>
<td>- Forfeit the ICC</td>
</tr>
<tr>
<td></td>
<td>- May harm alumni relations</td>
</tr>
<tr>
<td></td>
<td>- May not be able to liquidate all loans; some may still have to be collected by the institution, written off, or purchased if rejected for assignment</td>
</tr>
</tbody>
</table>
Actions Prior to Submitting an Intent to Liquidate

1. If the institution put additional funding into the pool above the ICC—all proceeds collected from loan repayment can be used to repay the institution, with the filing of the 2018 or subsequent year’s FISAP.

To determine if the institution has made loans/advances to the fund, review the most recent FISAP, specifically lines 29.1 and 30.1. The net amount of these two lines (the amount on 29.1 minus the amount on 30.1) is the amount of the institution’s short-term loans/advances to the pool. To verify the amount, review the financial transactions in the fund on the financial system that represents the ICC to identify the mandatory transfers that were the required match as well as any nonmandatory transfers that were in excess of the required match.

2. Request access to the Perkins Loan Assignment System (PLAS). The waiting period for access can exceed 30 days; therefore, it’s important to request this access long before submitting the intent to liquidate.

3. Evaluate the portfolio by classifying loans into categories of performing and nonperforming, pursue assignment of poor-performing loans and write off those with small balances. ED will not take any loans with a balance of less than $25, unless the combined total of all loans less than $25 for one borrower exceeds $25. Appendix A contains a decision tree for assigning individual loans to ED.

4. Review the termination clauses of third-party loan servicing contracts to quantify the institution’s obligations if the contract is terminated early.

5. Gather all required documents for all loans, including the Master Promissory Notes (MPNs) and repayment history records for each loan to be assigned. If the original MPN cannot be located, ensure a certified true copy can be provided. Additional documentation needed will be all disbursement records, bankruptcy documents, and judgment information documents.

6. For institutions that used electronic signatures on promissory notes, verify the extent to which the electronic signature authentication process meets the Department’s Standards for Electronic Signatures in Electronic Student Loan Transactions.

7. Assign loans prior to notification of the intent to liquidate to become familiar with the process and ensure the required documentation is available.

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3 Plante Moran Webinar: “Perkins Loan program expiration and tax law changes: Next steps for your institution”
Evaluating the Options – to Liquidate or Not

There are both qualitative and quantitative factors (described in the following sections) to consider when making the decision as to whether or not to liquidate the Perkins loan portfolio.

Qualitative Factors

One major qualitative factor is the impact that liquidating the Perkins loan portfolio may have on student and alumni relations. This is especially true for schools that are currently servicing loans in-house, as they would for the first time be ceding control of the collections process if they chose to liquidate. These schools would lose a point of contact with students and alumni, which could adversely affect relations. Another consideration is the quality of the ED’s loan servicing contractor. If alumni aren’t served well, they may transfer the dissatisfaction with ED to the institution.

Another factor to consider is the administrative burden, which can be substantial with either option, including the effort associated with assembling closeout documentation and the effort associated with continuing to administer the Perkins Program.

Since the documentation required to liquidate Perkins loans is substantial, institutions may want to consider estimating the amount of time and effort that will be required of them to assemble the appropriate loan documents. Both the size and composition of a school’s Perkins loan portfolio will directly affect the administrative burden. The collection of documentation for loans that have entered repayment status is more time-consuming because the loans are generally older and have more documentation requirements (e.g., repayment history, judgment information, etc.). Conversely, loans that have not yet entered repayment status will be less burdensome, as they are typically newer and require less documentation. Schools that already possess a well-organized repository of loan documentation will have the ability to quickly and efficiently liquidate their portfolios. Schools without such a repository will need to collect and/or assemble documentation before they can even consider the liquidation process. In addition, schools that are unable to provide the required documentation for loans will be required to purchase them from ED if they proceed with the liquidation process.

On the other side of the equation, there is the burden of continuing to administer the loan program. Liquidating the portfolio will substantially reduce and eventually eliminate the ongoing compliance requirements associated with the program. Once the liquidation process is completed, institutions are no longer required to file the Perkins section of their FISAPs or update the National Student Loan Data System (NSLDS) for Perkins loans and will, therefore, save time and effort and reduce their compliance risk. In addition, liquidating schools will no longer need to worry about training or retaining staff with the knowledge necessary to appropriately service the loan program.
Quantitative Factors

The cost/benefit evaluation of liquidating the loans or continuing to service the portfolio includes a comparison of the inflows (i.e., the present value of the institution’s share of the future cash flows) with the outflows (i.e., the present value of the collection costs, staff compensation, loan servicing costs, and other expenses). In other words, what is the return on investment (ROI) calculated using this formula?

\[
ROI = \text{Institution’s ICC} \% \times (\text{Net present value [NPV] of future cash flows likely to receive}) \\
\text{minus NPV collection costs}
\]

To calculate the present values of the benefits and costs, the variables needed are:

1. The expected cash flows by year, adjusted by a risk factor (Note that the ICC reduced by the institution’s percent of the current allowance for doubtful accounts could be used as a shortcut to quantify the present value of the future cash flows.)

2. The future annual internal and external expenses of servicing the loans

Additional judgment calls are needed to perform this calculation, including the risk factors to apply to future collections, reflecting the uncertainty of future cash flows. Other variables affecting the estimate of collection costs include the potential increase in third-party loan servicing costs, future decreases in the number of full-time equivalent (FTEs) employees assigned to manage the program, and how much overhead (if any) to include in the calculation.

To determine the risk factors to apply to future collections, information about the specific portfolio is needed, primarily the aging of the receivables, accrued interest, accrued penalties, and last payment date. The institution’s Cohort Default Rate (found in Sections D and E of the FISAP) is also a valuable data point. Nonquantitative information to help assess the feasibility of collection includes whether loan documents are available and the last contact date with the borrower.

A sample template for this calculation is included in Appendix B.
Liquidation Process and Tips

To liquidate the portfolio, the institution will be required to execute a series of steps, summarized here. Appendix C describes the steps in more detail with explanations for each step.

If your institution plans to submit your assignments electronically, it is important to request access to the PLAS before notifying ED of the intent to liquidate. It can take up to 30 days to be granted access to this system. As an alternative, the institution can submit all assignments manually.

1. **Notify ED of the intent to begin liquidation.**
   This step begins the 45-day countdown until the loans need to be assigned. Therefore, it will be essential to make sure all documents have been gathered before notifying ED of the intention to liquidate.

2. **Notify borrowers that their Perkins loans are being assigned to ED.**
   Borrowers must be notified by mail at least 30 days before the loans are assigned to ED.

3. **Assign the outstanding loans within 45 days following the notice of intent.**
   Similar to the current assignment process, significant documentation is required for every loan assigned to ED. ED has the discretion to accept or reject loans if the documentation is lacking. They will also reject any loan with a balance of less than $25.

4. **Purchase any loans that ED does not accept.**
   The institution reimburses ED for the entire portion of the outstanding balance plus any accrued interest.

5. **Update the NSLDS.**
   All loans must be updated in the NSLDS, both the ones assigned to ED and the ones purchased by the institution.

6. **Initiate and complete a Perkins closeout audit.**
   This step can be incorporated into the Student Financial Aid portion of the single audit report.

7. **Remit the federal share of the remaining Perkins cash assets to ED.**
   The calculation formula is the “Distributional Shares Formula,” formerly called the “overtime” formula, and is shown in Appendix D. A notice of the federal amount owed will be sent to the school via the self-service page in the eCampus-Based system (eCB).

8. **Prepare a final FISAP.**
   Using the online electronic closeout form, the institution reports the final FISAP activity related to the Perkins Program. The “final” status is achieved when the remaining loans with outstanding balances have been assigned to ED, the institution has purchased the loans that were not accepted by ED, and the institution has paid ED its final share of the capital balance.
Accounting Entries

For public institutions that follow GASB, the FCC may be included in Restricted Net Position, rather than as a liability. Please refer to Appendix F for the accounting entries to reclassify the FCC to a liability and other public institution considerations.

Repayment of Institutional Loans to the Perkins Program

When an institution made a loan to the Perkins Program, the entry was likely recorded as a nonmandatory transfer of funds from unrestricted net assets to net assets associated with the Perkins ICC. If the institution maintained a separate bank account for the Perkins Fund cash, then there was also a movement of cash from one bank account to the Perkins Fund bank account.

Assume an institution has made loans of $100,000 over the years to help fund the Perkins Program. The influx of cash was added to the separate Perkins bank account from the institution’s cash balances.

Repayment of the institutional loan would result in the following entry:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Cash</td>
<td>$100,000</td>
</tr>
<tr>
<td>Perkins ICC: Transfer to Unrestricted Net Assets/Net Position</td>
<td>$100,000</td>
</tr>
<tr>
<td>Perkins Cash</td>
<td>$100,000</td>
</tr>
<tr>
<td>Unrestricted Net Assets/Net Position: Transfer from Perkins ICC</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Reduce cash in Perkins bank account to repay the institutional loan made to the Federal Perkins Loan Program.

If a separate Perkins bank account was not used, the entry would be:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perkins ICC: Transfer to Unrestricted Net Assets/Net Position</td>
<td>$100,000</td>
</tr>
<tr>
<td>Unrestricted Net Assets/Net Position: Transfer from Perkins ICC</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Repay the institutional loan made to the Federal Perkins Loan Program.
Remittance of the Federal Excess Liquid Capital (ELC)

Beginning with the FISAP report due October 1, 2018, for the FISAP filing period ending June 30, 2018, institutions will be required to return the federal portion of the total cash on hand, aka “excess liquid capital” or ELC. The ELC is the amount of the Perkins revolving fund’s “Cash on Hand” that is in excess of the institution’s estimated immediate needs for the Federal Perkins Loan Program. Appendix E describes the ELC Proportional Share Worksheet calculation.

Assuming an institution calculates the federal share of ELC to be $30,000, the following entry would be recorded when the funds were remitted to ED:

<table>
<thead>
<tr>
<th>Refundable government grants</th>
<th>$30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

Return the federal share of ELC to the federal government.

Purchase Loans Not Accepted by ED

When an institution decides to liquidate its portfolio, it is likely that some loans will not be accepted by ED. Loans with balances less than $25 or those with missing or unsigned promissory notes for which the “certified true copy” exception is not available (Appendix C, step 3) will not be accepted for liquidation. These loans will have to be “purchased” by reimbursing ED for the outstanding balance plus any accrued interest.

Assume an institution has an FCC to ICC ratio of 85 percent/15 percent and the loans and accrued interest that have not been accepted are as follows:

Loans receivable: $60,000 (federal portion = $51,000; institution portion = $9,000)
Accrued interest: $12,000 (federal portion = $10,200; institution portion = $1,800)

Note that the loans receivable of $60,000 would already be recorded in the institution’s financial system. Accrued interest on Perkins loans is generally not recorded; interest income is recognized when paid. However, in this case, since the purchase included payment for the accrued interest, the amount could be recorded as a receivable. Alternatively, if the accrued interest is not material, a net debit of $10,200 (the amount purchased from the government) could be recorded as a loss on purchase of the portfolio. Subsequent interest income collected would increase net assets.

---

4 9-06: Perkins Loan Program - Excess Liquid Capital Determinations and Timelines for 2017-2018
Perkins Loan Program Close-Out

When the loans are purchased from the government, the entry would be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refundable government grants</td>
<td>$51,000</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>$12,000</td>
</tr>
<tr>
<td>Interest income on Perkins loans</td>
<td>$1,800</td>
</tr>
<tr>
<td>Institutional cash</td>
<td>$61,200</td>
</tr>
</tbody>
</table>

*Purchase loans and recognize the federal portion of accrued interest.*

**Liquidation of the Portfolio**

When the portfolio is ready to be liquidated—i.e., loans with small balances or those significantly past due have been written off—all excess federal and institutional capital has been returned (cash on hand is zero), and all outstanding loans have been accepted by ED, an entry will be needed to clear the receivable, liability, and net assets from the institution’s financial records.

**Assume an institution has the following Perkins balances and is liquidating its portfolio:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perkins loans receivable</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Refundable government grant liability (FCC)</td>
<td>$6,800,000</td>
</tr>
<tr>
<td>Unrestricted net assets/net position (ICC)</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Refundable government grants</td>
<td>$6,800,000</td>
</tr>
<tr>
<td>Perkins ICC: Loss on liquidation of loan portfolio</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Loans receivable (various accounts comprising the outstanding balance)</td>
<td>$8,000,000</td>
</tr>
</tbody>
</table>

*Liquidate the Perkins loan portfolio by transferring all outstanding loans to ED.*

Refer to Appendix G for financial statement presentation of these entries for independent institutions.

**Continuing to Hold the Portfolio**

When the institution decides to hold the portfolio and collect on the outstanding loans, the entries recorded will be the same as they are today. Refer to the *Financial Accounting and Reporting Manual* (FARM), Chapters ¶303.5 and ¶403.5, for illustrations of those entries.
Other Considerations

Policy for Use of ICC

One of the benefits of continuing to service the portfolio is to recoup as much of the outstanding ICC as possible, an amount that could be substantial and used to establish an institutional revolving loan fund to replace the Perkins funds. The ICC could be used directly or indirectly to create the fund. Directly, the ICC is the funding resource from which the loans are made. Indirectly, the ICC is used to create an endowment, from which the distributed earnings are the source of funds for lending. In either case, the institutional loan program can be more flexible than the Perkins Program while retaining the traits that made it a popular lending option.

Regardless of the amount of the ICC, it will be important for institutions to give some thought to the redeployment of these newly available resources.

Recovering Collection Costs

An institution’s first recourse for recovering some collection costs related to past-due payments is to add them to the amounts owed by the borrower. However, if this avenue is unsuccessful, the institution can charge billing and collection costs to the fund, with certain limitations. Per the Federal Student Aid Handbook, the only allowable billing costs that may be charged to the fund are “the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower.”

Collection costs that can be charged to the fund include:

- Collection costs waived by the institution as an incentive for repayment
- Costs of a successful address search
- Costs of reporting defaulted loans to credit bureaus, including reporting changes to the status and responding to inquiries from a credit bureau on the status of a loan
- Costs of first and second collection efforts, not to exceed 30 percent and 40 percent, respectively, of principal, interest, and late charges collected (Institutions must reimburse the fund for collection costs charged that are later paid by the borrower.)
- Collection costs resulting from rehabilitation of a loan
- Costs of a third-party performing both collection and litigation services, not to exceed 40 percent of the principal, interest, and late charges collected
- Collection costs resulting from litigation, including attorney’s fees
- Costs for due diligence activities such as telephone contacts, credit bureau reporting, and bankruptcy procedures, regardless of whether the activities are successful

Costs charged can be actual costs incurred or average costs for similar actions to collect loans in similar stages of delinquency. All costs that are assessed must be documented.

For more information, refer to the Federal Student Aid Handbook 2017-2018, p. 6-185.
Future Developments

ED is expected to issue more guidelines prior to October 1, 2018.

The Coalition of Higher Education Assistance Organizations (COHEAO) is working with congressional members of the Appropriations Committee to enact legislation that would allow ED the ability to pay an administrative cost allowance (ACA) to institutions that continue to service the loans. The following points support the request:

1. The school has the incentive and ability to collect more money and can do it for less than ED’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 ICC without a high cost to the school while at the same time increasing the ED’s return of the FCC. It’s a win-win-win for the school, the borrowers, and ED.

NACUBO will assist COHEAO in advocating for continuation of the ACA, monitor the status of this request, and communicate the results when known.

Additional Resources

1. Federal Student Aid Handbook 2017-2018
2. Federal Perkins Loan Program Assignment and Liquidation Guide
3. Plante Moran Webinar: “Perkins Loan program expiration and tax law changes: Next steps for your institution”
4. NACUBO FARM on Perkins loans, Chapters ¶303.5 and ¶403.5
Appendix A: Decision Tree for Assigning Individual Loans

Are the documents available to assign this loan?

- Yes
  - Is there another avenue in which the loan can qualify for assignment?
    - Yes
      - Loan is the institution’s; consider writing off the balance
    - No
      - Begin the process to assign to ED

- No
  - Is the loan more than 10 years past its last payment activity?
    - Yes
      - Begin the process to assign to ED
    - No
      - Begin the process to assign to ED (ROI on collection is minimal or a loss)

Is the loan more than five years old, with no payment activity and a balance less than $500?

- Yes
  - Are regular monthly or quarterly payments received?
    - Yes
      - Classify as “Active” and continue to collect
    - No
      - Has a payment been made in the last 12 months?
        - Yes
          - Classify as Active-high priority and make contact; verify address; and stay engaged with borrower
        - No
          - Validate address and make quarterly contact attempts

- No
  - Begin the process to assign to ED
## Appendix B: Cost/Benefit Calculation Template

### Perkins Loan Program

Quantifying the Cost/Benefit of Liquidation (Numbers are for illustration only)

**Present Value (PV) of inflows:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV of future cash receipts – principal</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>PV of future cash receipts – interest</td>
<td>2,700,000</td>
</tr>
<tr>
<td>PV of remittance to ED</td>
<td>(4,500,000)</td>
</tr>
<tr>
<td><strong>Total benefit</strong></td>
<td>1,200,000</td>
</tr>
</tbody>
</table>

**Comparison with ICC**

<table>
<thead>
<tr>
<th>Current ICC</th>
<th>Cash flow as % of ICC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,250,000</td>
<td>96.0%</td>
</tr>
</tbody>
</table>

**Calculation of inflows appears reasonable**

**Less: PV of outflows**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV of future expenses</td>
<td>1,800,000</td>
</tr>
</tbody>
</table>

Net benefit/(cost) of not liquidating, i.e. institution liquidates the portfolio

$$(600,000)$$

Access the Excel file at [https://www.nacubo.org/Topics/Student-Financial-Services/Perkins-Wind-Down](https://www.nacubo.org/Topics/Student-Financial-Services/Perkins-Wind-Down) to tailor this calculation to your institution.
Appendix C: Liquidation Process Overview

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

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

- 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 if not already accounted for and remitted to the school's current cash on hand amount.

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

- 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.

---

5 Federal Perkins Loan Program Assignment and Liquidation Guide
Appendix C: Liquidation Process Overview (continued)

**Step 6: Perkins Closeout Audit**
Complete Perkins closeout audit.

**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.

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

**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 [https://g5.gov](https://g5.gov) using the Miscellaneous Refunds option.

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

School logs onto eCB and enters final FISAP data in Phase 4 of the Perkins Intent and Closeout Form.
Appendix D: Calculation of Final Perkins Loan Payment

The Distributional Shares Formula, formerly known as the “overtime” formula.

Formula used to Determine Shares of Remaining Cash Asset
(Perkins Revolving Fund)

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

NOTE: Divide the net FCC by the sum of the net FCC and net ICC and multiply by the Cash on hand

\[
\text{FCC} = \text{Federal Capital Contribution added to the Fund by the Department over period of time (Part III. Section A. Field Item 27)}
\]

\[
\text{Repayments of Fund capital to federal government (Part III. Section A. Field Item 28)}
\]

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

\[
\text{ICC} = \text{Institutional Capital Contribution added by school over period of time this language needs to match the DCL (Part III. Section A. Field Item 29.3)}
\]

\[
\text{Repayments of Fund capital to school (Part III. Section A. Field Item 30.3)}
\]

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

\[
\text{Cash on hand (Part III. Section A. Field Item 1.1 or 1.2 as appropriate)}
\]
Appendix E: ELC Proportional Share Worksheet Calculation

The ELC Proportional Share Worksheet Calculations:

1. Estimated Available Funds is the sum of the Revolving Fund’s cash on hand (FISAP, Part III, Sec A, Line 1.1), plus 50 percent of the principal and interest repaid by borrowers (FISAP, Part III, Sec B, Line 9).

2. Estimated Need for Funds is the sum of the amount advanced to students during the award year (FISAP, Part III, Sec B, Line 7) and the Administrative Cost Allowance taken from the Revolving Fund (FISAP, Part III, Sec B/Line 8).

3. Excess Liquid Capital is the difference between the total Estimated Available Funds less the total Estimated Need for Funds.

4. Proportional Share Percentage is calculated using the following FISAP data:
   b. Total Net Institutional Capital Contribution (ICC) is the total ICC (FISAP, Part III, Sec A, Line 29.3) minus Repayments of ICC to the institution (FISAP, Part III, Sec A, Line 30.3).
   c. Federal Share Percentage is the total Net FCC divided by the sum of the total Net FCC plus total Net ICC.
   d. Institutional Share Percentage is the total Net ICC divided by the sum of the total Net FCC plus total Net ICC.

5. Federal Share to be Returned is the total Excess Liquid Capital multiplied by the Federal Share Percentage.

6. Institutional Share to Be Returned is the total Excess Liquid Capital multiplied by the Institutional Share Percentage.

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7 “9-06: Perkins Loan Program - Excess Liquid Capital Determinations and Timelines for 2017-2018”
Appendix F: Public Institution Considerations

GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, provides authoritative guidance for several types of nonexchange transactions. Statement 33 would classify the Perkins Program as a type of government-mandated nonexchange transaction. Consequently, before 2009, public institutions would have the federal capital contribution (FCC) recorded as net position (previously net assets) under Statement 33.

**NACUBO Guidance: Financial Accounting and Reporting Manual (FARM), ¶333.41**

In 2009 after Congress proposed fundamental changes to the Perkins Program, placing the program’s inevitable termination on the record, NACUBO approached GASB staff and received an informal approval for treating the FCC as a liability. Many institutions subsequently changed their accounting treatment and recognized a liability. Those institutions would follow the protocol previously outlined in this advisory.

**Advisory Guidance for Public Institutions: FCC Contained in Restricted Net Position**

Public institutions have two potential transactions that will reduce net position as a result of the termination of the Perkins Program. The first is the reclassification of the FCC from restricted net position to a liability. The second is the reduction in restricted net position in the event the institution decides to liquidate the portfolio and forfeit the ICC to the ED.

**Reclassification to a Liability**

The guidance in paragraph 26 of GASB Statement No. 33 must be considered and states:

> “After a nonexchange transaction has been recognized in the financial statements, it may become apparent that (a) the eligibility requirements are no longer met (the transaction was recognized as a government-mandated or voluntary nonexchange transaction) or (b) the recipient will not comply with the purpose restrictions within the specified time limit. In these circumstances, if it is probable that the provider will not provide the resources or will require the recipient to return all or part of the resources already received, the recipient should recognize a decrease in assets (or an increase in liabilities) and an expense . . . for the amount the provider is expected to cancel or reclaim.”

Now that the Perkins Program has ended, public institutions for which the FCC is material and included in restricted net position should reclassify the balance to a liability. This reclassification should be made whether or not the organization intends to hold the portfolio or liquidate it immediately or in the future.
Financial Reporting Considerations

The question that arises with the reclassification of restricted net position to a liability is where to show the expense on the statement of revenue, expenses, and changes in net position (SRECNP).

Because Perkins Program revenue is nonexchange revenue, it is also considered nonoperating. Additionally, the Perkins Program would be considered a financing activity and not part of the core mission activities of teaching, public service, or research. Perkins loans made it possible for students to “finance” their education in a low-cost, effective manner.

Consequently, the expense related to termination of the Perkins Program is a nonoperating expense—similar to interest expense. As such, the expense could be classified one of two ways on the SRECNP:

1. As a nonoperating finance expense
2. As an “other change in net position”

Classification as an “other change in net position” is an option because the termination of the Perkins Program meets the definition of an extraordinary item—transactions that are both unusual in nature and infrequent in occurrence. GASB 34 (paragraph 53) specifies that extraordinary items are reported separately at the bottom of the statement of activities. The extraordinary item should be labeled with a description, i.e., “Perkins program termination: financing expense (loss)” or similar.

Either way, the expense/debit is not a period cost, does not relate to an exchange for service, and should not be included in the operating sections of the SRECNP.

Loss on Liquidation of the Loan Portfolio

As noted in this Advisory Guidance, if the institution liquidates the loan portfolio with the ED, its portion of net position will be forfeited and will also have to be written off.

Based on the reasoning noted above, the write-off of the institution’s share would also be shown as a nonoperating (financing) expense or as an extraordinary item.

Statement of Cash Flows

The reclassification of restricted net position to a liability is a noncash item and does not appear on the statement of cash flows.

For institutions that elect to liquidate their portfolio, any remittances to the federal government should be included in noncapital financing activities.

For institutions that do not elect to liquidate October 1: Future and ongoing cash inflows (from students) and outflows (to the federal government) should be classified as noncapital financing activities on the statement of cash flows.
Illustration – Accounting Entries

Assume a public university has a portfolio similar to the one described above:

- Perkins loans receivable: $8,000,000
- FCC included in restricted net position: $6,800,000
- ICC included in restricted net position: $1,200,000

The accounting entry to reclassify the FCC is:

**Restricted Net Position**

- Loss on federal termination of Perkins Program: $6,800,000
- Refundable government grants: $6,800,000

Recognize the liability for the Perkins FCC that is currently included in restricted net position.

Note: The accounting entries resulting from liquidation of the portfolio are shown on page 11 of this Advisory Guidance.
Illustration – SRECNP Presentations

The following sample SRECNP illustrates the presentation of the debit resulting from the reclassification of restricted net position to a liability as a nonoperating expense (option 1 noted above).

<table>
<thead>
<tr>
<th>Current Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
</tr>
<tr>
<td>Tuition and fees (net of scholarship allowances of $yy)</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
</tr>
<tr>
<td>Sales and services of educational departments</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
</tr>
<tr>
<td>Other operating revenues</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
</tr>
</tbody>
</table>

| **Operating Expenses** | |
| Line items by nature or function | XX |
| Line items by nature or function | XX |
| Line items by nature or function | XX |
| Line items by nature or function | XX |
| **Total Operating Expenses** | XXX |

| Operating Loss | (XXX) |

| **Nonoperating Revenues (Expenses)** | |
| Revenue items (appropriations, contributions, etc.) | XX |
| Revenue items (appropriations, contributions, etc.) | XX |
| Expense items (interest, etc.) | (XX) |
| Reclassification of restricted net position to a liability (termination of the Perkins Loan program) | (XX) |
| **Net Nonoperating Revenues/(Expenses)** | XXX |

| Income Before Other Changes in Net Position | XXX |

| **Other Changes in Net Position:** | |
| Capital contributions | XX |
| Additions to Permanent Endowments | XXX |
| **Increase/(Decrease) In Net Position** | XXX |
| Net Position – Beginning of Year | XXX |
| Net Position – End of Year | $ XXX |
The following summarized SRECNP illustrates the presentation of the debit resulting from the reclassification of restricted net position to a liability as an extraordinary item (option 2 noted above).

<table>
<thead>
<tr>
<th>Current Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
</tr>
<tr>
<td>Tuition and fees (net of scholarship allowances of $yy)</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
</tr>
<tr>
<td>Sales and services of educational departments</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
</tr>
<tr>
<td>Other operating revenues</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line items by nature or function</td>
</tr>
<tr>
<td>Line items by nature or function</td>
</tr>
<tr>
<td>Line items by nature or function</td>
</tr>
<tr>
<td>Line items by nature or function</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
</tr>
<tr>
<td><strong>Operating Loss</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nonoperating Revenues (Expenses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue items (appropriations, contributions, etc.)</td>
</tr>
<tr>
<td>Revenue items (appropriations, contributions, etc.)</td>
</tr>
<tr>
<td>Expense items (interest, etc.)</td>
</tr>
<tr>
<td><strong>Net Nonoperating Revenues/(Expenses)</strong></td>
</tr>
<tr>
<td><strong>Income Before Other Changes in Net Position</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Changes in Net Position:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital contributions</td>
</tr>
<tr>
<td>Additions to Permanent Endowments</td>
</tr>
<tr>
<td><strong>Reclassification of restricted net position to a liability (termination of the Perkins Loan program)</strong></td>
</tr>
<tr>
<td><strong>Increase/(Decrease) in Net Position</strong></td>
</tr>
<tr>
<td>Net Position – Beginning of Year</td>
</tr>
<tr>
<td>Net Position – End of Year</td>
</tr>
</tbody>
</table>
Appendix G: Independent Institution Considerations

As noted above in the “Accounting Entries” section, if independent institutions liquidate their Perkins loan portfolio with the ED, they forfeit the ICC. The resulting accounting entry to reduce net assets is shown as a “loss on liquidation of the Perkins loan portfolio.”

Accounting Standards Update (ASU) 2015-01 replaced the concept of extraordinary items with two concepts: infrequently occurring and unusual nature. Infrequently occurring is defined as: “The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.” Unusual nature is defined as: “The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.” ASU 225-20-45-16 states: “A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both shall be reported as a separate component of income from continuing operations.”

NACUBO suggests that this loss on termination of a federal program is both infrequently occurring and of an unusual nature, and should be presented as nonoperating.

The following two statements of activities (shown in the new reporting format) illustrate different approaches for displaying the reduction in net assets. The relevant lines are highlighted.
### Advisory Guidance 18-03

**EDUCATIONAL INSTITUTION**  
Illustrative Statement of Activities with Measure of Operations  
Multicolumn Format

<table>
<thead>
<tr>
<th></th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees, net</td>
<td>$ XXX</td>
<td>$ XXX</td>
<td></td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>XXX</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>Private gifts, grants and contracts</td>
<td>XXX</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>Investment earnings distributed</td>
<td>XXX</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>Auxiliary services</td>
<td>XXX</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>XXX</td>
<td>(XXX)</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>XXX</td>
<td>(XXX)</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Line items by nature or function</td>
<td>XX</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>Line items by nature or function</td>
<td>XX</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>Line items by nature or function</td>
<td>XX</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>Line items by nature or function</td>
<td>XX</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>XXX</td>
<td>-0-</td>
<td>XXX</td>
</tr>
<tr>
<td>Increase (decrease) in net assets from operating activities</td>
<td>XXX</td>
<td>(XXX)</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nonoperating:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>XXX</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>Investment returns, net of distributions</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Actuarial gain (loss) on split-interest agreements</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Loss on assignment of Perkins loans</td>
<td>(XX)</td>
<td>(XX)</td>
<td>(XX)</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>XXX</td>
<td>(XXX)</td>
<td>-0-</td>
</tr>
<tr>
<td>Increase (decrease) in net assets from nonoperating activities</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Net assets at beginning of year</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$ XXX</td>
<td>XXX</td>
<td>$ XXX</td>
</tr>
</tbody>
</table>
Perkins Loan Program Close-Out

EDUCATIONAL INSTITUTION
Illustrative Statement of Activities with Measure of Operations
Single-column Format

Changes in net assets without donor restrictions:

Operating:

Revenues
Tuition and fees, net $ XXX
Government grants and contracts XXX
Private gifts, grants and contracts XXX
Investment earnings distributed XXX
Auxiliary services XXX
Net assets released from restrictions XXX
Total revenues XXX

Expenses
Line items by nature or function XX
Line items by nature or function XX
Line items by nature or function XX
Line items by nature or function XX
Total Expenses XXX
Increase (decrease) in net assets without donor restrictions from operating activities XXX

Nonoperating:

Investment returns, net of distributions XX
Loss on assignment of Perkins loans (XX)
Net assets released from restrictions XXX
Increase (decrease) in net assets without donor restrictions from nonoperating activities XXX
Increase (decrease) in net assets without donor restrictions XXX

Changes in net assets with donor restrictions:

Contributions XXX
Investment returns, net of distributions XX
Actuarial gain (loss) on split-interest agreements XX
Net assets released from restrictions (XXX)
Increase (decrease) in net assets with donor restrictions XXX

Increase (decrease) in net assets XXX
Net assets at beginning of year XXX
Net assets at end of year $ XXX