

NASFAA's quickscansurvey August 19, 2009 results

Survey on New Perkins Loan Proposal

NASFAA Survey Results Show Most Schools Oppose Proposed Perkins Loan Changes

More than three-quarters of postsecondary institutions (79 percent) would prefer expanding the current Perkins Loan program rather than replacing it with the Direct Perkins Loan program being proposed in Congress, according to a recent survey of NASFAA-member schools. In fact, increasing unsubsidized Stafford Loan limits (80 percent) and lowering the interest rate on unsubsidized Stafford Loans (83 percent) were both preferred over the proposed Perkins changes passed by the House education committee last month.

During the first week of August, NASFAA surveyed more than 2,600 schools about potential changes to the Perkins program. Nearly 25 percent of surveyed schools responded. The survey addressed the proposal in House Bill H.R. 3221 to eliminate the Perkins Loan Program and replace it with the Direct Perkins Loan Program. As proposed, the Direct Perkins Loan program would operate in much the same way as unsubsidized Stafford loans. The new loan program would not carry an administrative cost allowance; a small payment would be paid to schools that elect to service outstanding loans made under the old Perkins Loan Program. The new loans would be serviced by the Department of Education, carry no interest subsidy for borrowers, offer an interest rate of 5 percent, and generally lack the loan forgiveness provisions currently available to Perkins Loan borrowers. The bill would dramatically increase funding for the program by allocating \$6 billion annually towards the program beginning in the 2010-11 award year, which supporters of the proposal hope will significantly increase its usage over the current Perkins Loan program.

Respondents overwhelmingly (80 percent) preferred increasing funding for the current Perkins Loan program rather than creating the new Direct Perkins Loan program. Schools that currently participate in the Perkins Loan program are most opposed to the changes proposed by Congress (only 15 percent favored the new program), while non-Perkins schools tended to be split (45 percent of non-Perkins schools preferred the current program).

Concerns About Loan Benefits

Most schools are concerned about losing the in-school interest subsidy currently offered to Perkins Loan borrowers. Fifty-five percent were opposed or strongly opposed to eliminating the interest subsidy, while 23 percent were in favor or strongly in favor, with 21 percent remaining neutral.

"I cannot see where this benefits students except in adding additional funds," said one respondent. "They are taking a program that is subsidized and helps needy students and changing it to an unsubsidized program with fewer benefits."

"Perkins is a program designed to assist the neediest students. I think the proposed change subverts the intent of the program," said another respondent.

Graduate schools were especially critical of losing the interest subsidy. They described the Federal Perkins Loan program as one of the few sources of need-based, subsidized funds for their graduate students.

Matching Funds Opposed

One of the tenets of the proposed program is to expand the numbers of schools participating, but the matching funds requirement would appear to undermine that effort. Under the House bill, schools would be required to pay matching funds quarterly, in an amount agreed to by the Secretary, to an escrow account for the purpose of providing loan benefits to borrowers. Aid administrators expressed almost universal opposition (73 percent strongly opposed, and 12 percent opposed) to the idea of requiring matching funds. Only 2 percent favored or strongly favored the matching requirement.

"I find it ironic that we are expected to pay for some type of loan benefit (e.g., in-school interest) while keeping tuition low," said one respondent. "If the benefit is in-school interest, it is an expensive benefit. How could our price not reflect it?"

Fifty-seven percent of respondents felt the matching requirement would probably or definitely prohibit their institution from participating in the program. Twenty-two percent more were unsure of whether their school would be able to participate, with only 21 percent responding that the match would probably (19 percent) or definitely (2 percent) not prohibit the school from participating.

Even among schools that do not currently participate in Perkins – the schools Congress and the Administration hope to bring into the new program – 78 percent said that a matching funds requirement would probably (33 percent) or definitely (45 percent) make them unable to participate.

If Congress did mandate a matching requirement, schools said an appropriate matching level would be \$1 offered by schools for every \$4 of federal funds. Many schools responded that any matching program would need to offer a waiver for schools that serve high numbers of low-income students.

Preferred Borrower Benefits

Schools were asked which three borrower benefits they would most support offering through these matching funds. The top three selections were interest subsidy during periods of deferment (60 percent), reduced interest rates (63 percent), and loan forgiveness provisions (61 percent). The bottom three choices were extended payment periods (26 percent), reduced payment amounts (23 percent) and extended grace periods (17 percent).

Interest subsidies and loan cancellation provisions also became a recurring theme among survey comments:

“I prefer that the program remain as it is,” said one respondent. “It provides important loan forgiveness benefits that otherwise would not be replicated; plus it has worked well for years.”

“The current program is unique since it provides low cost loans to needy students, without interest accruing,” said another. “Also in repayment there are cancellation options for students who enter into specific public service careers.”

Allocation Issues

The House bill would allocate funds in the Direct Perkins program based on three factors: fifty percent based on the number of needy students at the institution, twenty-five percent based on keeping tuition amounts low, and twenty-five percent based on the ratio of Federal Pell Grant recipients that graduate from the institution compared to other institutions.

With this in mind, 48 percent of respondents indicated they are opposed or strongly opposed to this formula, while only 16 percent indicated they are in favor or strongly in favor. The remaining 36 percent were undecided.

When asked to pick which allocation criteria they would support, with the option to choose as many as they wished, respondents overwhelmingly selected “number of needy students at the institution” (76 percent) as their recommended allocation criteria, distantly followed by ratio of Pell Grant recipients (28 percent) and keeping tuition low (25 percent).

Concerns about keeping tuition low related to the disparate nature of postsecondary institutions in terms of factors such as mission, population, and environment.

“I have a concern about how ‘keeping tuition amounts low’ would be defined,” said one respondent. “The obvious differences between public and private institutions, two-year versus four-year, graduate school, etc., come to mind. Will comparisons be made by region, type of institution, etc.?”

Simplification

NASFAA members also felt that creating yet another new program, particularly one that combines the names of two existing programs, would be confusing for families.

“Giving the students multiple loans from multiple sources/programs is a recipe for higher defaults,” said one respondent.

“What happened to simplifying the aid process for applicants?” another respondent asked. “This will be another confusing program (e.g., ACG and SMART).”

“We need to... streamline these programs instead of splintering them,” another respondent said. “[I’m] not clear what benefit there is to having multiple loan programs with differing requirements. This is confusing and difficult for students and families to navigate.”

Change Is Needed, But Not This Change

A number of schools commented on the shift in the purpose of the Perkins program from a need-based loan offered at the institution’s discretion to a substitute for alternative loans.

“The most ridiculous idea is that it is a loan to help needy students!” exclaimed one respondent. “How is that possible when it is [likely] to be awarded after both subsidized and unsubsidized Stafford loans?”

Per another respondent, “This seems like yet another step to put a band-aid on a problem, making it even more complicated, rather than overhauling the federal loan programs in their entirety, which is what is needed.”

Survey Questions

Please select the type of institution at which you work.

- Less than 2-year 2-year 4-year only
 4-year & above Graduate/Professional only Other:

Do you currently participate in the Federal Perkins Loan Program? Yes No

Do you service these loans in-house or contract with an outside servicer?

- In-house Outside servicer N/A

Given the choice between the proposed Federal Direct Perkins Loan program or increasing funding in the current Perkins Loan program, which would you prefer?

- I prefer the new Federal Direct Perkins Loan Program
 I prefer increasing funding in the current Perkins Loan Program

Assuming that Congress elects to eliminate the current Perkins Loan program, which would you prefer?

- Creating the proposed Federal Direct Perkins Loan program
 Increasing loan limits on unsubsidized Stafford Loans

Given the choice between the proposed Federal Direct Perkins Loans program or lowering the interest rate on unsubsidized Stafford Loans, which would you prefer?

- Creating the new Federal Direct Perkins Loans program
 Lowering the interest rate on unsubsidized Stafford Loans

How supportive are you of eliminating the interest subsidy (i.e., making the new program like unsubsidized Stafford Loans) to control costs and, in turn, make the funds available to more schools?

(Opposed) 1 2 3 4 5 (Supportive)

Under the House bill, servicing would be handled by the Department of Education. Would that make your school more or less likely to participate in the program?

(Not Likely) 1 2 3 4 5 (Very Likely)

Under the House bill, schools would be required to pay matching funds quarterly, in an amount agreed to by the Secretary, to an escrow account for the purpose of providing loan benefits to borrowers. How supportive are you of a matching funds requirement?

Opposed 1 2 3 4 5 Supportive

If schools are required to provide matching funds, what do you think is an appropriate match for schools?

- \$1 School : \$2 Federal \$1 School : \$3 Federal \$1 School : \$4 Federal
 No matching requirement Other:

Would the requirement to provide matching funds prohibit your institution from participating in the new program?

- Definitely Probably Probably Not Definitely Not Unknown

Given that the new program – as outlined in the House bill – does not specify what loan benefits would be offered to borrowers through this matching fund, which of the following loan benefits would you most support? (Choose your top three)

- Interest subsidy during periods of deferment Loan forgiveness provisions
 Reduced payment amounts Reduced interest rates
 Extended payment periods Extended grace periods
 Other:

The House bill would allocate funds in the new program based on three factors: number of needy students at the institution (50%), keeping tuition amounts low (25%), and the ratio of Federal Pell Grant recipients that graduate from the institution compared to other institutions (25%). How supportive are you of that allocation formula?

(Opposed) 1 2 3 4 5 (Supportive)

Please indicate specifically which allocation criteria you would support for a new Federal Direct Perkins Loan program. (Pick as many as you like.)

- Number of needy students at the institution Keeping tuition amounts low
 Ratio of Federal Pell Grant graduates Other:

Please share any other comments you have on the proposed Federal Direct Perkins Loans Program
