"Budgeting for Education: The Role of Perkins Loans"

Submitted Statement of
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We appreciate the opportunity to submit comment on the role of the Perkins Loan program. The unique characteristics of Perkins Loans are of great value to students and schools. As conversations on the role and future of this and other student aid programs continue, we hope there will be a focus on the founding principles of the student aid programs. Those principles include a commitment to need-based aid and the promotion of policies focused on meeting the needs of disadvantaged students with an eye towards simplicity, equity, and flexibility.

NASFAA represents more than 18,000 financial aid professionals who serve 16 million students each year at 2,800 colleges and universities throughout the country. Our members are on the front line when it comes to helping underserved and underrepresented student populations overcome financial barriers to attain a higher education. They are intimately familiar with the student aid programs and work daily to create financial aid packages that address financial need, exhausting the most consumer-friendly funds first to keep debt levels as low as possible.

Half a century ago, Congress introduced the National Defense Student Loan Program. Authorized under the National Defense Education Act of 1958, this simple, campus-based loan program – which eventually became the Perkins Loan program – allowed schools to leverage their own funds to meet students' financial need. Support for campus-based programs increased over the next few decades, but has since dwindled. Today, the underfunded program needs attention.

When Perkins was first introduced, the loan program was funded by schools and amplified by the federal government. For each $1 put up by schools, the federal government contributed another $9 into a fund used by schools to make loans to low-income students. In the program's first year, 1,100 schools disbursed nearly $10 million dollars to about 25,000 students. Schools determined which of their eligible students had the most need and awarded the funds accordingly. The loan originally had a 3 percent interest rate and borrowers who went into certain fields, such as teaching, could eliminate large portions of their debt—up to 50 percent in some cases. Schools used the money repaid by current borrowers—along with the federal contribution—to make loans to more low-income students.

Over time however, the Perkins Loan program has waned in magnitude. As college costs and students' financial needs increased, the federal student aid programs became more reliant on other federal student loans to meet students' needs. Today, the Perkins program is a small fraction of the entire federal student loan portfolio. According to the College Board, Perkins Loans aided 504,000 students in 2008-09, down from 669,000 in 1998-99. By contrast, 8.7 million students utilized subsidized and unsubsidized Stafford Loans in the 2008-09 academic year.

But even as the Perkins program has waned, its unique characteristics have made it an important tool for many schools that are trying to meet students' financial need. As a subsidized loan program, students receiving Perkins funds do not have to pay interest while they are in school or during periods of deferment. The fixed, 5 percent interest rate and generous loan forgiveness provisions make this loan especially attractive to students who might otherwise struggle with loan debt.

In addition, like other campus-based aid programs (e.g., the Federal Supplemental Educational Opportunity Grant and the Federal Work Study Program), institutions have the flexibility to transfer funds between programs and to carry-forward and carry-back funds across program years, a feature that many aid administrators appreciate as they try to fill funding gaps for their students for special purposes, such as awarding student aid for summer sessions.

Lastly, the Perkins Loan program is particularly unique because funds are distributed through a revolving account that is made up of both university and federal funds. As students pay back their loans, the schools re-award those funds to other students. Colleges and universities therefore have a vested interest in making sure students repay their loans so that they can continue to serve other students.

Today, the Perkins Loan program finds itself in a very precarious position. In FY 2009, Perkins borrowers received $65.5 million in loan cancelation benefits, but no funds were appropriated for new Federal Capital Contributions. The revolving fund that schools have relied on to make new loans dwindles every year through loan default and forgiveness programs. In addition, more students are enrolling in college, forcing existing dollars to be spread thinner and thinner. It is clear that measures must be taken to appropriately address the future of this program.

Whatever the future of the Perkins Loan program, or other student aid programs for that matter, it is vital that we remember the core principles upon which student aid is predicated; namely, that we promote the primacy of need-based aid and policies that address the needs of disadvantaged students with an eye towards simplicity, equity, and flexibility. We look forward to working with Congress and the Administration on ensuring students and families receive the funds they need to attend college.