

A NEW ERA OF RESPONSIBILITY: RENEWING AMERICA'S PROMISE

President Obama's Fiscal 2010 Budget Overview

Modernize and Expand Perkins Loans

Background: Current annual loan limits in the federal student loan programs are inadequate for some students with special circumstances. Today, many of these students must either drop out of school or borrow from private lenders, often at high interest rates with unforgiving repayment terms.

An option for a small share of these students is the Perkins Loan program. Created 51 years ago in the wake of the Soviet launch of Sputnik, Perkins Loans represent less than 2 percent of all federal student loans. Undergraduate or graduate students receive \$1 billion loans annually from campus-administered revolving funds totaling approximately \$8.6 billion. Participating schools have significant discretion in determining which students to offer these loans and the amounts they can borrow. Perkins Loans have a fixed 5 percent interest rate.

The Perkins loan revolving funds were amassed through appropriations for federal capital contributions and school matching funds; the federal share of these funds is \$6.6 billion. The Higher Education Act allocates these funds according to a formula that does not take the financial need of an institution's students into account.

FY 2010 Budget Proposal: The Budget does not propose an across-the-board increase in loan limits, which could lead to over-borrowing and tuition inflation. Rather, the Budget would modernize and expand the Perkins Loan Program so that many more colleges can participate and many more students would have access to greater aid. Up to six billion dollars in available loans each year would be serviced more efficiently and at lower cost along with other Federal loans.

Loan volume would be allocated among degree-granting institutions using a method to be determined in consultation with Congress. The Administration intends for this new formula to encourage colleges to control costs and offer need-based aid to prevent excessive indebtedness. It may also reward schools that enroll and graduate students from low- and middle-income families.

Some schools opt not to participate in Perkins Loans because they do not want to take on the responsibility of loan servicing. Under the proposal, loans would be originated and fully serviced by the Department of Education, which can collect loans more efficiently and effectively than many colleges.

The modernized and expanded Perkins Loan program would continue to make loans to students at a low 5 percent interest rate. Schools would have discretion with regard to student eligibility. To reduce costs and maximize the proposed increase in the Pell Grant, interest on these loans would accrue while students are in school. Other terms and conditions and loan maximums would be the same as the current unsubsidized Stafford Loan program.

As current Perkins Loan borrowers repay their loans, schools would remit the federal share of those payments to the Department of Education. Schools would retain their own share of the revolving funds, as well as amounts sufficient to cover the costs of the various Perkins Loan forgiveness provisions.

Results:

- **Provide an estimated 2.7 million additional students with Perkins loans each year** (assuming the current average Perkins Loan of \$2,190). Students who need access to additional funds, or attend schools that do not offer Perkins Loans, often must change schools, drop out, or borrow from private lenders, often at high interest rates with unforgiving repayment terms. By providing \$5 billion in additional Perkins Loans, annually, this would ensure that a significant number of students will receive the additional loan assistance they need.
- **Target Perkins funds on needy students and the institutions they attend.** Only 1,800 institutions out of 4,400 participate in the current Perkins loan program. Schools currently receiving 50 percent of Pell Grants, for example, receive only 4 percent of Perkins Loans. Even within this group, resources are distributed inequitably.

The current distribution of Perkins loan funds bears no relationship to campus size or need. For example, in the 2006-2007 academic year, 8 percent of undergraduate students at Harvard University received Pell Grants – a sign that their students are relatively financially well off – but 42 percent of them received Perkins Loans. At Pennsylvania State University, 43 percent of students received Pell Grants but only 12 percent received Perkins Loans. The restructured program would address this significant issue by making these Perkins loans available to 2,700 additional colleges, giving them the ability to provide supplemental loan funds to students who need them.

Distribution of Perkins by Type of Institution 2005-2006			
Institution Type	Recipients	Available Aid	Average Loan
Public 4-Year	348,971	\$729,692,923	\$2,091
Public 2-Year	9,398	16,109,873	1,714
Private	338,438	799,416,917	2,362
Proprietary	30,793	48,296,467	1,568
TOTAL	727,600	\$1,593,516,180	\$2,190

- **Encourage colleges to keep tuition under control and to target institutional grant aid to financially needy students.** The current Perkins formula provides a higher level of funding to schools that set higher tuitions. The Administration’s new allocation formula would encourage colleges to control costs and offer need-based aid to prevent excessive indebtedness.

- **Let schools spend more time and resources on what they do best.** Rather than placing the burden of servicing loans on institutions, distracting from their primary role of serving students, the Administration's proposal would leverage the Department's efficient loan servicing capacity and competitive contracting process, as well as access certain default collection tools not available to schools.