Affordable Perkins Loans Needed: Good for Students, Taxpayers

STOP THE DRAIN: REIMBURSE CANCELLED LOANS, RESTORE FUNDING

Bottom Line: The tried and tested Perkins Loan Program is a highly efficient way to provide low-cost financing to students. Federal contributions immediately grow by one third thanks to the institutional match, and the loans are funded by past loan repayments.

- Annual appropriations are needed to strengthen campus-based revolving funds in order for higher education institutions around the nation to continue to provide Perkins Loans to the students who need them the most. Providing reimbursement for cancelled Perkins Loan $250 million and restoring the Capital Contribution with $100 million and would significantly improve college access to hundreds of thousands of students across the nation for years.

- Reimbursements for loan cancellations would result in approximately 135,000 additional low-income students across the country receiving the loans they need for higher education. ($250 million divided by the average Perkins loan of $1,852).

- Perkins Loans don't duplicate Stafford Loans. They supplement Stafford Loans and help. The interest rate for Perkins Loans is fixed at 5 percent with no origination fees – significantly less than the 6.8 percent for unsubsidized Stafford Loans (with a 1% fee) and the 7.9% for PLUS (with a 4% fee) – making Perkins Loans a way for students to finance their higher education that is efficient for the taxpayer but leaves the student owing less.

- Federal funding for Perkins Loans is an appropriation that feeds on itself and builds, starting with a school match of at least one-third of the federal funds and continuing for years as the loans are repaid and re-lent. For example, a $100 million Federal Capital Contribution for Perkins would result in at least $133 million in new capital for students because schools must match one third of the federal dollars with their own funds. Many match more than the minimum.

- Throughout the history of the Perkins Loan Program, $7.9 billion in federal contributions has been leveraged to award over $30 billion in loans to students through 26 million aid awards. This is clearly one of the most effective and efficient public-private partnerships in the federal government.

The National Defense Loan Program was created in 1958 in reaction to the launch of the first orbiting satellite, Sputnik, by the Soviet Union in 1957. It has helped millions of Americans access the dream of higher education, including many members of Congress. It remains one of the key tools students can use to finance higher education in the 21st Century.

BACKGROUND ON PERKINS LOANS

Perkins Loans are efficient, need-based, low-interest (5 percent fixed rate) loans that go to about 600,000 low-income college students with high need at some 1,800 colleges and universities each year. Interest isn't charged while students are in school, and borrowers can have all or part of their Perkins Loans cancelled if they undertake certain public service jobs for one to five years.

The Perkins Loan Program is the Nation's longest running student loan program, created in 1958 as the National Defense Student Loan Program. In addition to offering favorable terms, Perkins Loans also feature the human touch of campus-based servicing, which allows on-campus administrators to provide Perkins borrowers with one-on-one service.

To clarify, this request is not related to President Obama's proposal to create a new "Unsubsidized Perkins Loan Program." The Administration's FY 2013 budget supports creating an entirely new program that for students is simply an expansion of the Direct Unsubsidized Stafford Loan Program. All terms and conditions, all loan administration, cancellation benefits, interest rates and fees would be the same as for unsubsidized Stafford Loans. The only differences would be that campuses would have some authority to decide which students could get the loans, and the government might put new conditions on campuses that would affect how much each would have available to lend.

Here's how the efficient, low-cost current Perkins Loan Program has worked in the 54 years since it was created during the Eisenhower Administration in reaction to the launch of the Sputnik satellite by the Soviet Union.

Perkins Loan colleges and universities operate revolving loan funds. This means that current repayments fund future loans. Colleges have also contributed one-third or more of the available loan funds from their own resources.

Unlike the Unsubsidized Stafford Loan Program, but like the Subsidized Stafford Loan Program, students in school don't have to pay interest on their loans under the traditional Perkins Program, and the interest rate is low. This means they leave school with less debt.

In addition, the traditional Perkins Program concentrates on serving borrowers from low-income backgrounds whom generally cannot get private education loans to supplement other aid because they and their families don't have strong enough credit.

With the scheduled rise in interest rates on subsidized Stafford Loans, whether or not their low rate is extended one year, Perkins Loans will become even more important for low-income students.