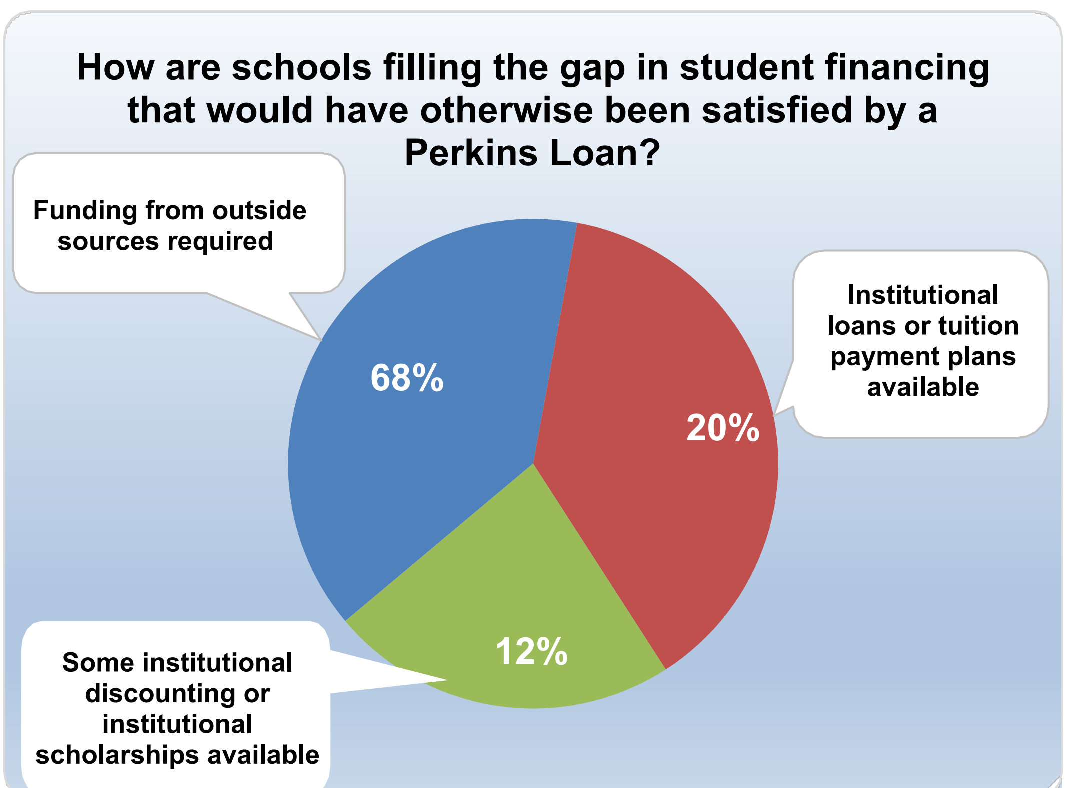
Perkins Access, Retention and Completion (ARC) Loan Whitepaper

Background: The Federal Perkins Loan program (formerly the National Defense Student Loan Program) was created in 1958 in response to our country's need to create a more educated workforce and regain our competitive edge as a global power. This program was the first of its kind to offer aid targeted to low-income students and was the longest-running student loan program prior to its expiration in 2017.

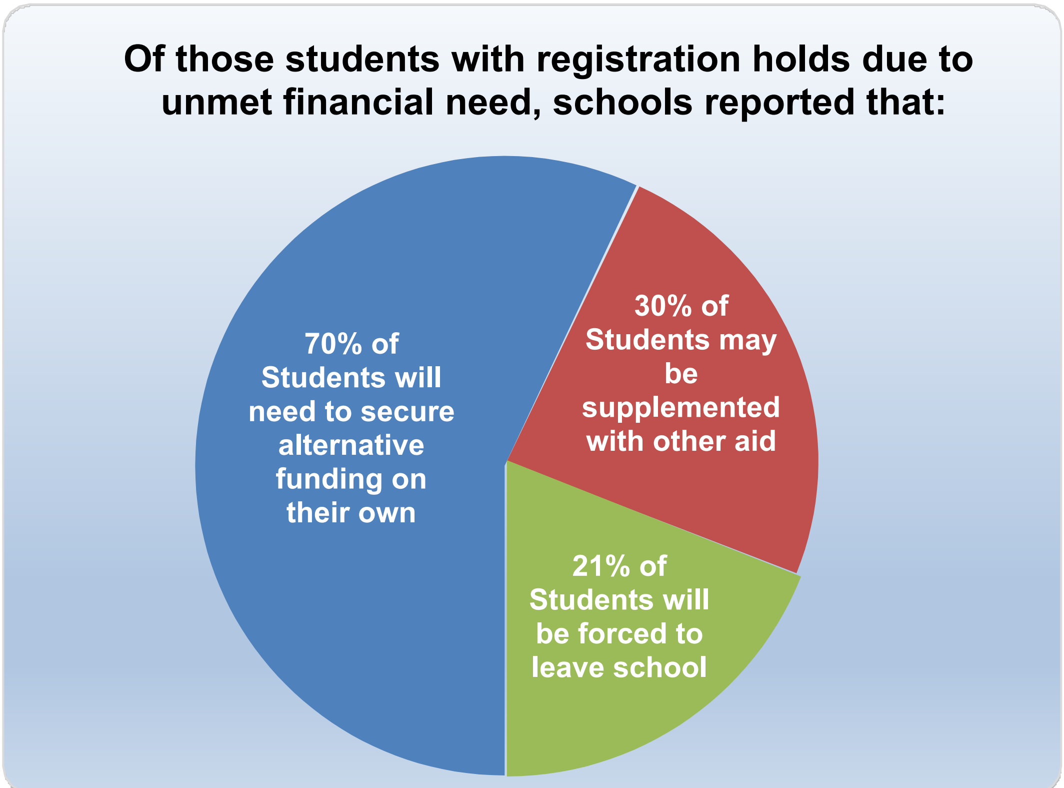
During its existence, over 30 million students with need benefited from the Perkins loan program. The program had a unique and successful risk-sharing model of funding made up of contributions from the Federal government and participating institutions. After six decades of providing financial assistance to the neediest student borrowers, the Federal Perkins Loan Program was allowed to expire without a replacement to fill the void.

Currently: The absence of this federal campus-based loan program has left a gap in critical funding resources available to institutions and is negatively impacting access, retention and completion of students with the most financial need.

In a 2019 COHEAO survey, schools that participated in the Federal Perkins Loan Program reported how they are filling the gap in student financing that would have otherwise been satisfied by a Perkins Loan; schools shared the less than favorable alternatives.



- In addition to Perkins filling a critical gap in affordable financing, 70% of schools reported using Perkins loans as emergency funding when all other Federal Aid options were exhausted. This emergency funding was critical to retention and completion for students facing unforeseen financial or family hardships during the semester.
- Today, 72% of Schools reported having students with registration holds on their accounts due to unmet financial need that would have otherwise been satisfied with a Perkins Loan.



COHEAO's Proposal: The Perkins Access, Retention and Completion (ARC) Loan would assist in filling this funding gap and provide critical resources at the institutional level. The ARC Loan, like Perkins Loans, would feature a revolving fund that is replenished by student repayment, in turn reducing the funding burden on the Federal government while still allowing institutions to meet the financial needs of students. The revolving fund directs loan repayments from student borrowers back into the loan fund and disbursed as new loans to current students. This feature is unique to the Perkins Program as other federal student loan programs require new budget allocations for funding each year.

This proposal updates and renews the low-cost Perkins Loan program while maintaining the focus on local control, risk-sharing, and helping students with the most financial need.

1. <u>A One for One Replacement</u>: The federal share of monies in the Perkins Loan revolving fund at each participating campus would revert to the Federal treasury as would the federal share of all future collections.
2. <u>Local Control and Risk Sharing</u>: Schools would utilize the ARC Loan to provide gap funding and emergency aid for students who experience an unexpected shortfall during their semester. Schools will contribute at the rate of $1 for every $3 invested by the Federal government.

3. Updated Formula: A new amount of Federal funds would be allocated to schools actively servicing the former Perkins Loan Program and funding would be made available to new institutions who wish to participate. The “base guaranty” in the existing formula would be phased out and replaced so that newer campuses, or campuses that have grown substantially in size, are no longer disadvantaged.

4. In-School Interest Deferral: Borrowers would not be charged interest while enrolled at least half-time, in periods of deferment, or during their nine-month grace period. This benefit is important for low-income students and reduces their loan debt by thousands of dollars.

5. Low-Interest Rate: The ARC Loan contains a low five percent, fixed interest rate with no origination fees.

6. Cancellation for Public Service: The ARC Loan would maintain the provisions for cancellation from the areas of public service in the Perkins Loan Program with full forgiveness available to qualified borrowers after five years and partial forgiveness available for each full year of service.

7. Campus Based Servicing: Loan servicing is done at the institutional level where personalized service is provided, and campus personnel focuses on default prevention. The terms and conditions of the loan servicing would remain consistent with the current Part E of the Higher Education Act.

If Congress fails to provide a campus-based loan alternative for gap-funding, students with need will struggle to meet their financial obligation, and many will be forced to drop out. The primary source for gap-funding will become private student loans, which generally have a higher interest rate, less favorable terms than the proposed Perkins ARC Loan and are difficult for low-income students to obtain based on credit and income underwriting criteria. In addition, private loans cannot be consolidated, which creates a more complicated and financially challenging repayment scenario for borrowers to manage.

COHEAO’s members encourage you to support campus-based funding and the Perkins ARC Loan Program in the HEA Reauthorization process. In several of the HEA hearings to date, the theme has been on retention and completion. Campus-based funding, particularly the Perkins ARC Loan Program, is vital to helping colleges and universities meet the needs of students and improve both retention and completion rates. The historic success and sustainability of Perkins provides a model of simplicity, efficiency and risk-sharing, which are all crucial components in achieving the reauthorization goals. Members of COHEAO and the higher education community strongly encourage and much appreciate your support of the Perkins ARC Loan Program.