Student Aid Policy Analysis

Student Aid and Fiscal Responsibility Act of 2009 (HR3221)
ANALYSIS OF PERKINS LOAN REENGINEERING

Mark Kantrowitz
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Executive Summary

This report estimates the likely impact of the Perkins Loan reengineering proposals in the Student Aid and Fiscal Responsibility Act of 2009 (SAFRA) on public, non-profit and for-profit colleges. The SAFRA legislation passed the US House of Representatives on September 17, 2009 by a vote of 253 to 171. It has not yet been considered by the US Senate.

The SAFRA legislation increases total Perkins loan funding from $1.5 billion to $6.0 billion. The $4.5 billion in additional Perkins loan funding will likely be distributed as follows.

- Public Colleges $3,147.1 million (70.0% of total increase)
- Non-profit Colleges $505.5 million (11.2% of total increase)
- For-profit Colleges $842.4 million (18.7% of total increase)

Reengineering the Perkins Loan Program

Previous attempts to reform the Perkins loan program have met with failure because of opposition from colleges that would suffer under any equitable reallocation of Perkins loan program funding. The new Perkins loan program avoids this problem by quadrupling the amount of Perkins loan program funding and by including a hold harmless provision that allows colleges to retain their existing Perkins loan program allocations.

Under the new Perkins loan program, colleges would retain the discretion to award Perkins loans to eligible students subject to the annual limits and available funding under the college's allocation. Recipients must still demonstrate financial need, but the requirement that recipients must demonstrate exceptional financial need would be dropped.[1] The Perkins loan would be packaged after Stafford loans (including the unsubsidized Stafford loan).

The interest rate will remain at 5% but in most other respects the new Perkins Loan will function like an unsubsidized Stafford Loan.[2] The new Perkins loan does not provide subsidized interest or a 9-month grace period. In effect the new Perkins Loan program will provide colleges with the authority to selectively increase unsubsidized Stafford loan limits for individual students.

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[1] Unlike the FSEOG program, which defined students with exceptional need in section 413C(c)(2)(B) of the Higher Education Act of 1965 as students with the lowest EFC scores (e.g., Pell Grant recipients and zero-EFC students), the Perkins loan program never defined exceptional need. In practice Perkins loan funding had a similar distribution of recipients according to adjusted gross income (AGI) as the subsidized Stafford loan program.

[2] It is unclear whether the new Perkins loan program would retain the favorable loan forgiveness provisions of the existing Perkins loan program. It appears that these provisions would be retained only for borrowers from the previous Perkins loan program.

Colleges will be able to retain the institutional portion of the old revolving Perkins loan program funds as borrowers repay the old Perkins loans, but will have to return the federal capital contribution to the US Department of Education.

Perkins Loan Limits

The Higher Education Opportunity Act of 2008 increased the annual and aggregate Perkins loan limits.

- <u>Undergraduate</u>
  Annual Limit: $5,500 (previously $4,000)
  Aggregate Limit: $27,500 (previously $20,000)

- <u>Graduate</u>
  Annual Limit: $8,000 (previously $6,000)
  Aggregate Limit: $60,000 undergraduate + graduate combined (previously $40,000)

Expanding the Perkins Loan Program versus Across-the-Board Unsubsidized Stafford Loan Limit Increases

There are a few key differences between expanding the Perkins loan program and another across-the-board loan limit increase for the unsubsidized Stafford program.

- The previous across-the-board unsubsidized Stafford loan limit increase enacted by the Ensuring Continued Access to Student Loans Act of 2008 was restricted to undergraduate students. Colleges can award Perkins loan money to graduate and professional students in addition to undergraduate students.[3] The bulk of the funding will still go to undergraduate students, but this provides colleges with an additional funding option for graduate and professional students who were denied a Grad PLUS loan due to an adverse credit history.

- An across-the-board unsubsidized Stafford loan limit increase presents a risk (albeit relatively small) that some students will borrow to the limit even if they do not need to. The discretionary authority associated with the Perkins loan avoids this risk of overborrowing.

- The Perkins loan program allows colleges to selectively increase loan limits. Colleges currently have the authority to selectively reduce loan limits in a non-discriminatory manner,[4] but this authority has been restricted by published guidance from the US Department of Education.[5] The new Perkins loan program authority is likely to be much more flexible.

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[3] No specific portion of the funding is designated for undergraduate versus graduate and professional students. The allocation of Perkins Loan funding among undergraduate and graduate and professional students at a college is subject to the college financial aid administrator's discretion.
[4] See section 479A(c) of the Higher Education Act of 1965.
[5] Page 4-16 of the 2008-09 Federal Student Aid Handbook states "Also note that your school cannot engage in a practice of certifying Stafford loans only in the amount needed to cover the school charges, or to limit unsubsidized

- Because the Perkins loan funding is awarded by the colleges subject to their discretion, it is unlikely to shift borrowing from the PLUS loan program.[6] The previous across-the-board loan limit increase not only shifted borrowing from private student loans to the unsubsidized Stafford loan, but also shifted borrowing from Parent PLUS loans to the unsubsidized Stafford loan.[7] Such a shift from the PLUS loan program to the Stafford loan program does not increase the availability of loan funding, but does reduce federal government revenues from the loan program, offsetting some of the increased revenues otherwise associated with increased loan limits. A key objective of the new Perkins loan program is to replace higher cost private student loans.

- The allocation formulas of the new Perkins loan program funding are leveraged to encourage colleges to control costs and increase the graduation rates of Pell Grant recipients.

Allocation of Perkins Loan Funding

Funding in the new Perkins loan program will be allocated according to three criteria. The first criterion includes a hold harmless provision that allows colleges with allocations under the old Perkins loan program to retain at least their previous allocation levels.

1. 50% of the Perkins funding ($3 billion) will be allocated according to "self help need", which is the financial need of students at the school two years ago but capped at the Perkins loan limits (with an additional 25% of cost of attendance cap for undergraduate students).

   This portion of the funding will be adjusted to ensure that colleges that previously had Perkins allocations will retain those allocations (reducing other colleges' allocations pro-rata if necessary). Since the existing Perkins loan allocations total $1.5 billion, half of this pool of funding will be distributed according to existing allocations and half according to the new self help need allocations.

Stafford borrowing by independent students." Several colleges have expressed an interest in limiting borrowing according to field of study or degree program in order to prevent overborrowing, but the response from the US Department of Education to date has been lukewarm.

[6] Colleges are likely to use the Perkins loan to provide extra borrowing capacity to undergraduate and graduate students who have exhausted the Stafford loan limits and are ineligible for the PLUS loan, especially if they are ineligible for private student loans. The Perkins loan will also be used to replace private student loans.

[7] According to data from the 2007-08 NPSAS, undergraduate students who had borrowed Stafford loans to the limit had approximately $2.0 billion in private student loans and $843 million in Parent PLUS loans that could have been shifted to the unsubsidized Stafford loan program due to the $2,000 increase in the unsubsidized Stafford annual loan limit. More than 70.6% of the loan volume that was shifted came from private student loans instead of PLUS loans, with 88.2% at for-profit colleges, 62.6% at public colleges and 68.7% at non-profit colleges. (Approximately $3.6 billion in private student loans and $1.6 billion in Parent PLUS loans could have been shifted if the unsubsidized Stafford loan limits had been increased by $4,000 instead of $2,000.) These figures do not include the approximately 1.7% of undergraduate student borrowers who hit the aggregate Stafford loan limits and would be eligible for a greater increase in unsubsidized Stafford borrowing due to the increase in aggregate limits. These figures also do not consider any increases due to an increase in the number of borrowers or decreased availability of private student loans or Parent PLUS loans during the recession.

2. 25% of the Perkins funding ($1.5 billion) will be based on the degree to which colleges have low tuition (net of need-based grants) that is below average for their sector.[8]

3. 25% of the Perkins funding ($1.5 billion) will be based on the college's share of students graduating with an associate's or bachelor's degree who had previously received a Pell Grant.

Old Perkins Loan Allocations

The average Perkins Loan was $2,231 in FY2008 according to the President's FY2010 budget proposal, with $1.1 billion in funding to 495,000 recipients. This figure appears to include only Perkins loans received by undergraduate students.

According to the 2007-08 National Postsecondary Student Aid Study (NPSAS), 2.8% of undergraduate students received Perkins Loans in 2007-08, an average of $2,008 each, with 583,100 recipients and $1.17 billion in funding. 2.7% of graduate and professional students received Perkins Loans in 2007-08, an average of $3,646 each with 91,700 recipients and $334 million in funding. 77.8% of the Perkins Loan funding was received by undergraduate students and 22.2% by graduate and professional students. Thus a total of $1.5 billion in Perkins Loan funding was awarded to 674,800 recipients in 2007-08, with an average award of $2,230 per recipient.

The following tables provide some statistics concerning the awarding of Perkins loans according to institution control for undergraduate and graduate students.

Undergraduate Students by Institution Control	Number of Recipients	Percentage Receiving	Average Perkins Loan	Total Perkins Funding
Public Colleges	282,800	1.8%	$1,974	$558.1 million
Non-profit Colleges	276,700	9.1%	$2,065	$571.4 million
For-profit Colleges	23,600	1.2%	$1,747	$41.2 million
TOTAL	583,100	2.8%	$2,008	$1.171 billion

Graduate Students by Institution Control	Number of Recipients	Percentage Receiving	Average Perkins Loan	Total Perkins Funding
Public Colleges	44,700	2.6%	$3,011	$134.6 million
Non-profit Colleges	47,000	3.2%	$4,249	$199.7 million
For-profit Colleges	0	0.0%	$0	None
TOTAL	91,700	2.7%	$3,646	$334.3 million

All Students by Institution Control	Number of Recipients	Percentage Receiving	Average Perkins Loan	Total Perkins Funding
Public Colleges	327,500	1.9%	$2,115	$692.7 million
Non-profit Colleges	323,700	7.2%	$2,382	$771.1 million
For-profit Colleges	23,600	1.2%	$1,746	$41.2 million
TOTAL	674,800	2.8%	$2,230	$1,505 million

[8] Sector is defined in section 132(d) of the Higher Education Act of 1965 as the cross product of level (4-year, 2-year and less-than-2-year) and control (public, non-profit and for-profit). Examples of sectors include public 2-year colleges, non-profit 4-year colleges, and for-profit less-than-2-year colleges.

The following table illustrates the distribution of old Perkins funding according to institution control.

Institution Control	Share of Undergraduate Funding	Share of Graduate Funding	Share of Total Funding
Public Colleges	47.7%	40.3%	46.0%
Non-profit Colleges	48.8%	59.7%	51.2%
For-profit Colleges	3.5%	0.0%	2.7%

One can assume that a similar distribution of funding will apply to the hold harmless portion of the first allocation criterion, yielding the following totals:

- Public Colleges $692.7 million
- Non-profit Colleges $771.1 million
- For-profit Colleges $41.2 million

Share of Self-Help Need

The following table illustrates the percentage of students with self-help need according to institution control based on the 2007-08 NPSAS.

Institution Control	Percent of Undergraduate Students with Self-Help Need	Percent of Graduate Students with Self-Help Need	Percent of All Students with Self-Help Need
Public Colleges	63.6%	70.9%	64.4%
Non-profit Colleges	82.7%	77.1%	80.9%
For-profit Colleges	97.5%	92.1%	96.9%
TOTAL	69.7%	75.0%	70.5%

The following table illustrates the distribution of the number of students with self-help need according to institution control.

Institution Control	Share of Undergraduate Students with Self-Help Need	Share of Graduate Students with Self-Help Need	Share of All Students with Self-Help Need
Public Colleges	69.0%	47.8%	65.7%
Non-profit Colleges	17.3%	43.3%	21.4%
For-profit Colleges	13.7%	8.9%	12.9%

The following table illustrates the distribution of the amount of self-help need according to institution control.

Institution Control	Share of Undergraduate Self-Help Need	Share of Graduate Self-Help Need	Share of Self-Help Need
Public Colleges	65.6%	47.0%	61.5%
Non-profit Colleges	19.2%	43.4%	24.5%
For-profit Colleges	15.2%	9.6%	14.0%

This will yield the following totals for the self-help allocation criterion, after subtracting the hold harmless amounts and prorating the remainder.

- Public Colleges $1,125.1 million
- Non-profit Colleges none (hold harmless exceeds self-help need)
- For-profit Colleges $369.9 million

Combining these figures with the hold harmless amounts yields the following totals for the first of the three allocation criteria.

- Public Colleges $1,817.8 million
- Non-profit Colleges $771.1 million
- For-profit Colleges $411.1 million

Share of Pell Grant Graduates

The following statistics are based on the 2007-08 NPSAS and are restricted to undergraduate students.

Institution Sector (Level & Control)	Distribution of Graduating Students with a Prior Pell Grant
Public Colleges	62.5%
Public 4-year	31.6%
Public 2-year	29.7%
Public < 2-year	1.2%
Non-profit Colleges	15.2%
Private nonprofit 4-year	13.8%
Private nonprofit 2-year	0.8%
Private nonprofit < 2-year	0.6%
For-profit Colleges	22.3%
For-profit 4-year	6.5%
For-profit 2-year	7.7%
For-profit < 2-year	8.1%

The total number of graduating students with prior Pell Grants was 1,922,900 out of a total of 4,240,900 graduating students (45.3%).

This yields the following totals for the quarter of Perkins loan funding based on success in graduating Pell Grant recipients.

- Public Colleges $937.5 million
- Non-profit Colleges $228.0 million
- For-profit Colleges $334.5 million

The following table illustrates the distribution of graduating students according to level and control of institution.

Institution Sector (Level & Control)	Distribution of All Graduating Students
Public Colleges	69.4%
Public 4-year	35.4%
Public 2-year	32.9%
Public < 2-year	1.1%
Non-profit Colleges	17.0%
Private nonprofit 4-year	16.0%
Private nonprofit 2-year	0.6%
Private nonprofit < 2-year	0.4%
For-profit Colleges	13.6%
For-profit 4-year	4.1%
For-profit 2-year	4.5%
For-profit < 2-year	5.0%

Comparing the two tables demonstrates that for-profit colleges have a disproportionate share of Pell Grant recipients and graduates as compared with public and non-profit colleges. According to the 2007-08 NPSAS, 74.5% of students at for-profit colleges had previously received a Pell Grant, compared with 36.6% of students at public colleges and 36.0% of students at non-profit colleges. 63.1% of students at for-profit colleges received a Pell Grant in 2007-08, compared with 23.0% of students at public colleges and 26.3% of students at non-profit colleges. Of students receiving a Pell Grant in 2007-08, 22.0% were at for-profit colleges, 64.0% at public colleges and 14.0% at non-profit colleges. The following table illustrates the distribution of Pell Grants among students according to institution control in 2007-08. It also demonstrates that for-profit colleges gain market share among Pell Grant recipients mostly by taking it away from public 2-year colleges.

Institution Sector (Level & Control)	Received Pell Grant in 2007-08	Share of Pell Grant Recipients in 2007-08	Ever Received a Pell Grant	Share of All Students in 2007-08
Public Colleges	23.0%	64.0%	36.6%	75.9%
Public 4-year	25.4%	29.7%	36.6%	32.0%
Public 2-year	21.2%	33.8%	36.4%	43.5%
Public < 2-year	34.0%	0.5%	46.4%	0.4%
Non-profit Colleges	26.3%	14.0%	36.0%	14.5%
Private nonprofit 4-year	25.7%	13.2%	35.3%	14.1%
Private nonprofit 2-year	39.2%	0.4%	55.2%	0.3%
Private nonprofit < 2-year	61.9%	0.4%	70.1%	0.2%
For-profit Colleges	63.1%	22.0%	74.5%	9.5%
For-profit 4-year	57.5%	10.2%	71.7%	4.8%
For-profit 2-year	71.7%	6.7%	79.9%	2.6%
For-profit < 2-year	65.6%	5.1%	74.6%	2.1%
Total	27.3%	100.0%	40.1%	100.0%

Below Average for Sector

Since each college is compared with the average for its sector, the overall funding for this criterion will be distributed in proportion to the number of students in each sector.

The following table illustrates the distribution of students among colleges by level and control of institution, regardless of whether they are graduating or not.

Institution Sector (Level & Control)	Distribution of All Undergraduate Students	Distribution of All Graduate Students	Distribution of All Students
Public Colleges	75.9%	50.6%	72.3%
Public 4-year	32.0%	50.6%	34.6%
Public 2-year	43.5%		37.3%
Public < 2-year	0.4%		0.3%
Non-profit Colleges	14.6%	42.1%	18.5%
Private nonprofit 4-year	14.1%	42.1%	18.1%
Private nonprofit 2-year	0.3%		0.3%
Private nonprofit < 2-year	0.2%		0.2%
For-profit Colleges	9.5%	7.3%	9.2%
For-profit 4-year	4.8%	7.3%	5.2%
For-profit 2-year	2.6%		2.2%
For-profit < 2-year	2.1%		1.8%

This yields the following totals for the quarter of Perkins loan funding based on prevalence of each sector.

- Public Colleges $1,084.5 million
- Non-profit Colleges $277.5 million
- For-profit Colleges $138.0 million

Bottom Line

Combining the totals for each of the criteria yields the following totals for Perkins loan funding under the old and new allocation formulas.

Institution Control	Old Allocation	Share of Old Funding
Public Colleges	$692.7 million	46.0%
Non-profit Colleges	$771.1 million	51.2%
For-profit Colleges	$41.2 million	2.7%

Institution Control	New Allocation	Share of New Funding
Public Colleges	$3,839.8 million	64.0%
Non-profit Colleges	$1,276.6 million	21.3%
For-profit Colleges	$883.6 million	14.7%

Institution Control	Increase in Funding	Share of Increase
Public Colleges	$3,147.1 million	70.0%
Non-profit Colleges	$505.5 million	11.2%
For-profit Colleges	$842.4 million	18.7%

The following table illustrates the financial impact of the increased Perkins loan funding on the student aid budgets according to institution control.

Institution Control	Percentage of Title IV Aid from Loans	Perkins Increase as a Percentage of Title IV Aid	Perkins Increase as a Percentage of Title IV Loans
Public Colleges	72.7%	7.3%	10.1%
Non-profit Colleges	86.6%	1.8%	2.0%
For-profit Colleges	79.8%	5.0%	6.3%

Assuming that the average Perkins loan amount does not change, the following table illustrates the number of recipients and the percentage of students receiving Perkins loans after the increase in funding.

All Students by Institution Control	Number of Recipients	Percentage Receiving	Average Perkins Loan
Public Colleges	1,815,410	10.4%	$2,115
Non-profit Colleges	535,904	11.9%	$2,382
For-profit Colleges	506,140	25.7%	$1,746
TOTAL	2,857,454	12.0%	$2,100

However, it is likely that the for-profit colleges will increase the average Perkins loan amount to $2,000 (the average for undergraduate students), as the average Perkins loan amount at for-profit colleges under the old allocation was lower due to insufficient funding. This would reduce the number of recipients at for-profit colleges to 441,800 (22.5%) and the overall total number of recipients to 2,793,114 (11.7%).

More Information

Summary of Student Aid and Fiscal Responsibility Act of 2009
http://www.finaid.org/educators/20090715hr3221.phtml