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ABSTRACT

This study used data from the 1996 National Postsecondary Student Aid Study to compare the demographic characteristics, income levels, educational costs, and financial need levels of Perkins loan and Stafford loan borrowers in academic year 1995-96. Major findings indicated the following: nearly 63 percent of undergraduate Perkins loan borrowers came from families with annual incomes of less than $30,000; the mean family income of Perkins borrowers was $33,566, versus $37,220 for subsidized loan borrowers and $61,714 for unsubsidized loan recipients; and 60 percent of undergraduates who received Perkins loans were also awarded Pell grants, compared to 51 percent of subsidized loan and 33 percent of unsubsidized loan borrowers. Results suggest that if funding for Perkins loans were further reduced or eliminated, many borrowers would have to replace Perkins loan funds with higher cost unsubsidized loans. Two major concerns with the Perkins loan program were identified. First, recent program changes, such as declines in program appropriations and increases in institutional matching fund requirements, may have caused the number of participating institutions to decline dramatically. Second, from 1994 to 1997, the number of Perkins loans in default has increased by 19 percent, at a time when Stafford subsidized loans have declined sharply. (DB)

Is There Still A Need For PERKINS LOANS?

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M O N O G R A P H S E R I E S

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F O R E W O R D

The Federal Perkins Loan program, originally authorized as the National Defense Student Loan program, has the distinction of receiving continuous annual federal funding for over 40 years, dating back to its passage in the National Defense Education Act of 1958. Surprisingly, this extraordinary funding record has been achieved in spite of the fact that every Presidential Administration since Lyndon Johnson's has recommended the elimination of new federal funding for the program.

While the program has faced various challenges over the years, the two basic reasons used to call for elimination of federal funding related to the federal budget scoring rules and the program's campus-based delivery mechanism. President Johnson, under his "guns and butter" policies, recommended that the federal government fund the guaranteed loan program exclusively to allow additional federal student loan costs to be deferred to future budget years. During the 1970s and 1980s, the obligation to fund new Perkins federal loan capital from the current budget (while guaranteed student loan program costs were spread over a number of years) served as an basis for recommending the elimination of federal allocations. Since the passage of the Budget Reconciliation Act of 1990, the federal budget scoring rules look at a multi-year period to determine program costs; thus, the Perkins Loan funding requirements pose less of a disadvantage for continued funding.

The Perkins Loan program, with its delegation of operational responsibility to the participating postsecondary education institutions, prompted the development of what has become known as the campus-based financial aid delivery system. The more centralized financial aid delivery system, initiated in 1972 to support the Federal Pell Grant program and supported by most federal policy-makers, did not provide a good operational match for the Perkins program. Thus, to some policy-makers, the Perkins program appeared duplicative and out of sync with the direction of the other federal student aid programs.

The Perkins program, however, has received extraordinary support from college and university leaders—the primary reason it has maintained annual federal funding. However, the program appears to be more vulnerable now. In 1993, the matching fund requirement for colleges to participate in the program was increased from one-ninth of federal allocations for new loans to one-third. This new requirement, along with declines in federal appropriations and other policy changes, has led to a substantial loss in the number of postsecondary institutions that participate, and to a decline in the number of awards to students. In addition, it appears likely that budgets from the Administration will continue to recommend no new funding.

In this monograph, Kenneth E. Redd assesses the characteristics of students who are served by the Perkins Loan program. His findings show that the program has a unique role in meeting the financial needs of low-income students who attend high-cost colleges. Hopefully, federal policy-makers will consider the Perkins Loan program's demonstrated record of helping needy students during debates on the program's future.

John R. Reeves
President
Sallie Mae Education Institute

In recent years, some policymakers in Washington have called for the elimination of federal funding for the Federal Perkins Loan program. These critics believe the program is too costly and the program is not as need-based as some other federal student aid programs. Supporters of the Perkins Loan program believe the funds have gone to financially needy students. The arguments for and against Perkins Loans have come at the same time as borrowing under the other federal student loan programs, Stafford Subsidized and Unsubsidized Loans, has jumped by 118 percent.

To assess these arguments, this study uses data from the 1996 National Postsecondary Student Aid Study (NPSAS:96) to compare the demographic characteristics, income levels, educational costs, and financial need levels of Perkins Loan and Stafford Loan borrowers in academic year 1995-96. The NPSAS:96 data show that the majority of Perkins Loans have been provided to low-income students who attend four-year colleges.

In academic year 1995-96, nearly 63 percent of the undergraduate Perkins Loan borrowers came from families with annual income of less than $30,000. The mean family income of financially dependent Perkins Loan borrowers was $33,566, versus $37,220 for subsidized loan borrowers and $61,714 for unsubsidized loan recipients. Despite their lower family incomes, Perkins Loan borrowers were able to attend higher-cost educational institutions. The mean tuition and fee amount charged to financially dependent Perkins Loan recipients was $9,585, compared to $6,992 for subsidized loan borrowers and $5,589 for unsubsidized loan recipients.

Sixty percent of the undergraduates who received Perkins Loans were also awarded Pell Grants (grant aid targeted to low-income undergraduate students), while just 51 percent of subsidized loan and only 33 percent of unsubsidized loan borrowers received these grants. Further, about 45 percent the Perkins Loan undergraduates also received the maximum subsidized loan amount for which they were eligible. This means that if funding for Perkins Loans were further reduced or eliminated, many of these borrowers might have to replace any lost Perkins Loan funds with higher-cost unsubsidized loans.

However, this report found two major concerns with the Perkins Loan program. First, recent changes in federal program policies, such as declines in program appropriations and increases in institutional matching fund requirements, may have caused the number of institutions that participate in the program to fall from 3,097 in 1989-90 to just 2,216 in 1996-97. This decline appears to have limited the program's benefits primarily to students enrolled at four-year public and private colleges, who accounted for more than 93 percent of the total borrowers. Second, from 1994 to 1997, the amount of Perkins Loans in default has increased by 19 percent, from $733 million to $873 million, at a time when defaults in the Stafford Subsidized Loan program have declined sharply. These defaults increased despite the program provisions that penalize institutions with high default rates. A key question, then, is what additional steps policymakers can take to enhance access to Perkins Loans while reducing defaults.

Introduction

In recent years, some policymakers in Washington have advocated for the elimination of federal funds for the Federal Perkins Loan program. Several Democratic and Republican presidential administrations and congressional leaders have implied that the program is too costly and is not as based on students' financial need as some of the other federal student aid programs. The Bush Administration, for example, argued that these low-interest loans provide a "heavy and unnecessary [federal] interest subsidization" for college students (Redd, 1990). In more recent years, the Clinton Administration has said that reducing federal Perkins Loan contributions would allow for greater increases in grants and other federal student aid programs that are a "higher-priority" and "more strictly need-based." The Administration also believed that students who might lose Perkins Loans as a result of the loss of federal funds could receive other loans that are "less heavily subsidized" (U.S. Department of Education, 1994a)

Despite these criticisms, higher education leaders have fought to preserve federal funding for Perkins Loans. They argue that the program "provides a low-interest source of self-help assistance to very needy students" and it provides flexibility for institutions in their attempts to meet their students' financial need (Committee for Education Funding, 1995). The program advocates also point out that program funds are small and have declined during much of its history. From fiscal year (FY) 1975—when federal appropriations for new loans reached their peak—to FY 1998, the amount Congress provided for new loans fell from $321 million to $135 million (U.S. Department of Education, 1998a). When adjusted for inflation, this represents an 87 percent decline in appropriations (Research Associates of Washington, 1997). The total amount borrowed fell by about 27 percent in inflation-adjusted value, from $1.5 billion to $1.1 billion.

This is in stark contrast to the recent increases in borrowing under the two largest federal student loan programs—Stafford Subsidized Loans and Stafford Unsubsidized Loans. Combined, the amount students borrowed under these two programs jumped by 118 percent, from $13.5 billion in FY 1993 to $29.4 billion in FY 1997 (U.S. Department of Education, 1997 and 1998b). Much of this increased Stafford Loan borrowing appears to have come from undergraduate students from families with adjusted gross income of $30,000 or higher (King, 1998).

The arguments for and against Perkins Loans bring with them important questions for education policy analysts: Are Perkins Loans still necessary? What types of students are served by Perkins Loans, and are they truly financially needy? Do the characteristics of Perkins Loan borrowers differ substantially from those who receive Stafford Subsidized and Unsubsidized Loans? And, perhaps most important, are changes needed in the loan programs, particularly Perkins Loans, to serve students better?

This report addresses these questions by first providing information on the key features of these three loan programs and describing how each is administered. The report then describes the recent funding and borrowing trends in each of the programs, and compares the demographic characteristics, income levels, and institutional types of the students who receive loans. The results of the study show that Perkins Loans play a key role in providing aid to low-income students who attend higher-cost four-year colleges and universities. However, due to declining federal appropriations and other changes in program policies, the benefits of Perkins Loans have been limited to a small number of students.

Key Features of the Federal Student Loan Programs

The Federal Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan programs are authorized under Title IV of the Higher Education Act (HEA), the federal law that governs the major federal student aid programs. The three loan programs have some common purposes and features. Each provides low-interest loans to students to help them pay for postsecondary education. Students must apply for financial aid before they receive any funds from the loan programs. The application students and their parents must file, the Free Application for Federal Student Assistance (FAFSA), collects income and financial assets and other data to help determine eligibility.

Undergraduate, graduate, and first professional students are eligible to receive funds from all three loan programs, and students may receive aid from one or more of the programs during the same academic year. However, the programs are administered and funded very differently, and these differences may help to explain the differences in the characteristics of students who receive the loans.

The Perkins Loan program was initially authorized in 1958 and called the National Defense Student Loan program. It is often referred to as "campus-based" because it is administered by financial aid administrators directly on the campuses of the participating postsecondary education institutions. These administrators use federal program guidelines to determine which students receive awards and how much they will receive; however, first priority for these loans must be given to students with the greatest financial need (based on the information on the FAFSA).

Funding for Perkins Loans comes from several sources. First is the annual federal program appropriation, called the Federal Capital Contribution (FCC).[1] FCC dollars are provided to the participating institutions based on a formula in the Higher Education Act. This formula allows all institutions that participated in the program prior to FY 1985 to receive at least their FY 1985 allocation.[2] This formula greatly affects the types of institutions that receive FCC funds, as institutions that have participated in the program for a longer period of time receive a larger share of the funds. Most of these are four-year public and private colleges and universities. In FY 1996, four-year colleges enrolled 58 percent of the students in all higher education institutions, but they received 88 percent of the Perkins Loan FCC appropriation (U.S. Department of Education, 1995 and 1998a).

Second, institutions must match at least one third of their FCC allocations with funds from their own resources. The amount that institutions contribute is called the Institutional Capital Contribution (ICC). And third, loan repayments from prior borrowers must be used to make Perkins Loans to future borrowers. The FCC allocations, ICC funds, and loan repayments must be deposited into a revolving loan fund at each institution, and these revolving funds are used to provide loans for future borrowers.

Participating institutions may also use loan funds to defray the costs for administering the program, such as the salaries and expenses of loan administrators and the costs of collecting loan repayments. In FY 1996, institutions spent $50.1 million for Perkins Loan administrative costs (U.S. Department of Education, 1998a).

Annual and cumulative maximum Perkins Loan amounts vary by borrowers' year in school. Undergraduates may borrow up to $4,000 per year (up to a cumulative maximum amount of $20,000), while graduate and first professional students may borrow up to $6,000. Eligible students may borrow up to $40,000 combined for undergraduate and graduate/first professional study (U.S. Department of Education, 1998c).

Most borrowers must begin to repay their Perkins Loans within nine months after they leave undergraduate or graduate/first professional study. The interest rate on Perkins Loans is fixed at 5 percent for all loans.[3] However, no interest accrues on the loans until borrowers enter repayment.

Repayments may be canceled if borrowers die, become permanently and totally disabled, or declare bankruptcy. A portion of the loan repayments may also be forgiven if borrowers engage in qualifying voluntary, health care, or military service—such as service in the Peace Corps, elementary and secondary school teaching in low-income areas, law enforcement in specified areas, or service in the U.S. Armed Forces in designated hostile regions. A recent study (The Institute for Higher Education Policy, 1998) found that, among the Perkins Loan borrowers who qualified for loan cancellation and loan forgiveness, 62 percent were involved in teaching or military service, 19 percent died or became permanently disabled, 9 percent declared bankruptcy, and 9 percent were engaged in law enforcement, volunteer service, or health care services.

Annual federal appropriations are provided to reimburse institutions for the amount of loans that are canceled or forgiven. Funds that institutions receive for loan cancellations must be deposited into their revolving loan accounts and used to make future Perkins Loans (Santiago, 1998; U.S. Department of Education, 1998d).

Borrowers who do not make payments on their loans for 240 days or more, and who do not qualify for loan forgiveness or cancellation, may enter into default.[4] Each year, the U.S. Department of Education calculates a default rate for each institution in the Perkins Loan program. This rate, the cohort default rate, equals the percentage of borrowers who enter repayment in a given fiscal year and default before the end of the following fiscal year (Coalition for Student Loan Reform, 1998).

Stafford Subsidized Loans have been in existence since 1965. The Stafford Unsubsidized Loan program is fairly new—it was initiated in FY 1993 to replace the Supplemental Loan for Students (SLS) program.[5]

Stafford Subsidized and Unsubsidized Loans are offered through two different programs, the Federal Family Education Loan (FFEL) program and the Federal Direct Student Loan program. The FFEL program is run by student loan guaranty agencies, which are state or private, not-for-profit agencies that contract with the U.S. Department of Education (ED) to oversee the program. Banks, credit unions, and other private lenders provide the capital for FFEL loans. Lenders work with postsecondary education institutions and guaranty agencies to deliver the loan funds to students. The Direct Loan program, begun in FY 1994, is administered by ED. Capital for Direct Loans is provided by the federal government rather than private lenders.

Despite these administrative differences, subsidized and unsubsidized loans share many common features. The interest rate on both types of loans is the same. Unlike Perkins Loans, this rate is variable—for loans received between July 1, 1998 and July 1, 2003, the interest rate paid by borrowers who are still enrolled in school is equal to the 91-day rate for Treasury bills (the T-bill rate) plus 1.7 percent; once borrowers leave school, the interest rate increases to the T-bill plus 2.3 percent (capped at 8.25 percent). However, lenders receive an interest rate of the T-bill plus 2.2 percent for borrowers enrolled in school and T-bill plus 2.8 percent for those in repayment.

Federal funds make up the difference between the borrower and FFEL lender rates. Federal program funds also pay a portion of the administrative costs for the programs and, for FFEL loans, partially reimburse lenders and guaranty agencies for the loss of loans that are canceled if borrowers default, die, declare bankruptcy, or become permanently and totally disabled. The federal program funds are called entitlements, since all program participates who qualify for the funds are guaranteed to receive payments.

Subsidized and unsubsidized borrowers also must pay an administrative fee for receiving these loans. The fee, which equals up to 4 percent of each loan, is deducted from each borrower's loan check (U.S. Department of Education, 1998d).

Like Perkins Loans, subsidized loans are awarded based on students' financial need, as determined by the information on the FAFSA. Unsubsidized loans, however, are not based on financial need. Students may receive these loans regardless of their family income or financial assets (although students must still file a FAFSA before they receive an unsubsidized loan).

The other important difference between subsidized and unsubsidized loans is that unsubsidized loan borrowers are responsible for the accrued interest on the loans while they are enrolled in their postsecondary institutions. The interest begins to accrue soon after the borrowers receive the loan proceeds. Borrowers may pay the interest while they are enrolled in school or may have it capitalized (added to the principal balance of the loans, thus increasing their total debt). Subsidized loan borrowers are not required to pay interest on their loans until they enter repayment, as federal funds are provided to lenders to pay the interest on the borrowers' behalf while they are in school and for six months after they leave their postsecondary education institutions.

Annual and cumulative maximum amounts for subsidized and unsubsidized loans are higher than those for Perkins Loans. The amounts vary by students' financial dependency status and academic grade level. Undergraduates who are financially *dependent* on their parents to pay at least a portion of their postsecondary education costs may borrow up to $2,625 in their first year of study, $3,500 in their second year, and $5,500 in their third, fourth, and fifth years (up to a maximum of $23,000).

Undergraduates who are financially *independent* (that is, not dependent on their parents to pay any of their higher education expenses)[6] may receive up to $6,625 in their first year ($2,625 in a subsidized loan, $4,000 unsubsidized); $7,500 for their second year ($3,500 subsidized); and $10,500 ($5,500 subsidized) for their third and higher years. The cumulative amount independent undergraduates may borrow is $46,000 ($23,000 in subsidized loans). Graduate and first professional students may borrow up to $18,500 for each year of study, of which up to $8,500 may be subsidized. The combined maximum any borrower may receive is $138,500 ($65,000 subsidized). The exact amount students receive is based on the information they provide on the FASFA, their educational costs, and the amounts of aid they may receive from other sources.

For most borrowers, repayments on subsidized and unsubsidized loans must begin six months after they leave postsecondary education. Borrowers may have their loans forgiven if they died, declare bankruptcy, or become disabled.[7] Borrowers in repayment status who do not make payments on their loans for 240 days or more may enter into default. Like Perkins Loans, cohort default rates are calculated annually for institutions that participate in the Stafford Loan programs.

Institutional Participation in the Loan Programs

Table 1 displays the number of postsecondary education institutions that participated in the Perkins, FFEL, and Direct Loan programs (Stafford Subsidized and Unsubsidized Loans combined) in FY 1996. About 2,200 institutions participated in the Perkins Loan program. Forty-one percent of these were four-year private colleges and 21 percent were four-year public colleges. Combined, the borrowers at four-year colleges received 93 percent of the loan funds, while students at two-year public colleges (community colleges) and proprietary schools (private, for-profit institutions) received only 6 percent.

Nearly 4,700 institutions participated in the FFEL program. Community colleges represented about 29 percent of the participating institutions, while 25 percent were four-year private colleges and just 7 percent were four-year public colleges. However, borrowers at four-year public colleges accounted for nearly 38 percent of the FFEL recipients, while

Table 1. Number of Participating Institutions, Borrowers, and Amounts Borrowed in the Federal Perkins Loan, FFEL, and Direct Loan Programs, by Type of Institution, FY 1996

Institutional Type	Number of Institutions	Pct. of Total	Number of Borrowers (in thousands)	Pct.of Total	Amount Borrowed (in millions)	Pct. of Total
Perkins Loans						
Public 2-Yr	262	11.8%	19	2.8%	$22.3	2.2%
Public 4-Yr	492	21.1	319	47.3	474.3	46.4
Private 2-Yr	93	4.2	5	0.7	9.1	0.9
Private 4-Yr	956	41.4	309	45.8	479.6	46.9
Proprietary	413	21.5	22	3.3	36.4	3.6
Total	2,216	100.0%	674	100.0%	$1,021.7	100.%
Federal Family Education Loans						
Public 2-Yr	1,345	28.7%	463	11.3%	$1,201	6.7%
Public 4-Yr	335	7.1	1,546	37.6	6,660	37.3
Private 2-Yr	477	10.2	93	2.3	329	1.8
Private 4-Yr	1,192	25.4	1,402	34.1	7,767	43.5
Proprietary	1,341	28.6	609	14.8	1,915	10.7
Total	4,690	100.0%	4,113	100.0%	$17,872	100.%
Federal Direct Student Loans						
Public 2-Yr	170	10.5%	117	6.0%	310	3.7%
Public 4-Yr	245	15.1	1,289	66.4	5,703	67.7
Private 2-Yr	52	3.2	17	0.9	51	0.6
Private 4-Yr	241	14.9	357	18.4	1,861	22.1
Proprietary	914	56.3	161	8.3	502	5.9
Total	1,622	100.0%	1,941	100.0%	$8,427	100.%

Sources: U.S. Department of Education, Federal Student Loan Programs Data Book, FY94-FY96, Tables 6, 7, and 11, pp. 30, 33, and 45 ; U.S. Department of Education, Federal Campus-Based Programs Data Book 1998 Section 1, pg. 4; U.S. General Accounting Office, Student Loans: Selected Characteristics of Schools in Two Major Federal Loan Programs, Report Number GAO/HEHS-97-45, January 1998.

community college borrowers represented just 11 percent. Borrowers at four-year private colleges and universities received about 43 percent of the FFEL funds, while those at four-year public colleges and universities received 37 percent. Community college borrowers received about 7 percent.

About 1,600 institutions participated in the Direct Loan program. Fifty-six percent of these institutions were proprietary schools. However, proprietary school borrowers accounted for only 8 percent of all recipients and they received just 6 percent of the loan funds. Four-year public colleges made up about 15 percent of the Direct Loan institutions, but borrowers at these institutions received over two-third of the funds. About 15 percent of the Direct Loan schools were four-year private colleges and universities, but borrowers at these institutions accounted for 22 percent of the total amount borrowed.

Table 2 shows the number of loans and amounts borrowed under the Perkins Loans, Stafford Subsidized, and Stafford Unsubsidized Loan (FFEL and Direct Loans combined) in FY 1996. While nearly 46 percent of the Perkins Loan recipients attended four-year private colleges, only 29 percent of the subsidized loan borrowers and 28 percent of unsubsidized loan recipients attended these institutions. Community college borrowers represented just 3 percent of the Perkins Loan recipients, but they were about 10 percent of the subsidized loan borrowers and 9 percent of the unsubsidized loan recipients. Nearly 15 percent of the Stafford Unsubsidized Loan recipients attended proprietary schools, compared to just 3 percent of the Perkins Loan borrowers and about 12 percent of those who were awarded subsidized loans.

Recent Trends in the Loan Programs

Several changes made in the Perkins Loan program during the 1990s may have made it more difficult for some institutions to continue to participate in the program. First, the federal FCC appropriation fell by 26 percent, from $183 million in FY 1989 to $135 in FY 1998. Second, in the 1992 reauthorization of the Higher Education Act, the institutional matching fund requirement was increased from 11 percent of FCC allocations to 33 percent. And third, institutions with loan cohort default rates of 20 percent or more were assessed penalties which reduced their FCC allocations (U.S. Department of Education, 1998a).

As a result of these changes, the number of Perkins Loan institutions fell by over 28 percent, from 3,097 in academic year 1989-90 to 2,216 in 1996-97. The decline was sharpest among proprietary schools, which fell from 749 to 413. Community college participants declined from 318 to 262.

Table 2. Number of Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Borrowers and Amounts Borrowed, by Type of Institution

Institutional Type	Number of Borrowers (in thousands)	Percentage of Total	Amount Borrowed (in millions)	Percentage of Total
Perkins Loans				
Public 2-Yr	19	2.8%	$22.3	2.2%
Public 4-Yr	319	47.3	474.3	46.4
Private 2-Yr	5	0.7	9.1	0.9
Private 4-Yr	309	45.8	479.6	46.9
Proprietary	22	3.3	36.4	3.6
Total	674	100.0%	$1,021.7	100.0%
Stafford Subsidized Loans				
Public 2-Yr	397	10.1%	$1,026	6.1%
Public 4-Yr	1,850	47.0	8,272	48.8
Private 2-Yr	72	1.8	237	1.4
Private 4-Yr	1,162	29.5	6,036	35.6
Proprietary	459	11.6	1,373	8.1
Total	3,940	100.0%	$16,944	100.0%
Stafford Unsubsidized Loans				
Public 2-Yr	183	8.7%	485	5.2%
Public 4-Yr	985	46.6	4,091	43.7
Private 2-Yr	38	1.8	143	1.5
Private 4-Yr	597	28.2	3,592	38.3
Proprietary	311	14.7	1,044	11.2
Total	2,114	100.0%	$9,355	100.0%

Sources: U.S. Department of Education, Federal Student Loan Programs Data Book, FY94-FY96, Tables 6,7, and 11, pp. 30, 33, and 45; U.S. Department of Education, Federal Campus-Based Programs Data Book 1998, Section 1, pg. 4.

Relatively few four-year public and private colleges and universities left the program—the number of public colleges dropped from 514 to 492, and the number of private colleges fell from 999 to 959 (U.S. Department of Education, 1990 and 1998a).

The loss of institutional participation appears to have reduced the number of Perkins Loan borrowers, which fell by about 1 percent from FY 1993 to FY 1996. The amount borrowed, however, grew by 11 percent when adjusted for inflation, from $917 million to $1.022 billion (see Table 3).

While the number of Perkins Loan borrowers declined, the Stafford Unsubsidized Loan program experienced tremendous growth. From FY 1993 to FY 1996 the number of unsubsidized borrowers grew by more than 450 percent, and the amount of loans jumped by 818 percent—from $1.02 billion to $9.5 billion. At the same time, the number of subsidized borrowers increased by just 24 percent, and the amount borrowed rose by only 36 percent. In just four years, the unsubsidized loan program grew from just 8 percent of combined Stafford Loan volume to nearly 36 percent.

Characteristics of the Student Loan Borrowers

Demographic Characteristics

The characteristics of students vary by the types of postsecondary education institutions they attend. Undergraduates enrolled at four-year colleges tend to be younger, "traditional-age" (between 18 and 24 years old) students who are enrolled full-time, while those at two-year colleges and proprietary schools generally are older, "non-traditional" students who are enrolled part-time. Further, the average cost of attendance at four-year colleges is higher than the average cost at other institutional types (U.S. Department of Education, 1997). Thus, students at four-year institutions generally have a greater financial need for student loans.

Because a larger share of the Perkins Loan recipients attend four-year colleges and universities, they have different demographic and financial characteristics than the Stafford Subsidized and Unsubsidized Loan borrowers. Table 4 shows the demographic characteristics of the students who received loans in academic year 1995-96. These data come from the 1996 National Postsecondary Student Aid Study (NPSAS:96, U.S. Department of Education, 1998e). NPSAS:96 is a survey of approximately 48,000 undergraduate, graduate, and first professional students, statistically weighted to represent the 19.4 million students who were enrolled in postsecondary education institutions at some time between July 1, 1995 and June 30, 1996. NPSAS:96 gives detailed information on the types of financial aid these students received, and provides comprehensive data on attendance status (full-time versus part-time), income, race/ethnicity, and other information on students and their families (Horn and Berktold, 1998).

Approximately 712,000 students in the NPSAS survey received Perkins Loans, while 4.2 million received Stafford Subsidized Loans and 2.1 million received unsubsidized loans.[8] About 87 percent of the Perkins Loan recipients were undergraduates, slightly higher than the proportion of subsidized loan (85 percent) and unsubsidized loan (79 percent) recipients. Eighty-three percent of Perkins borrowers were enrolled full-time, and 69 percent were financially dependent. Just 56 percent of subsidized loan borrowers and 46 percent of unsubsidized loan recipients were financially dependent. Thirty percent of Perkins Loan and Stafford Subsidized Loan recipients were racial/ethnic minority students, versus 25 percent of unsubsidized loan borrowers.

Due to the smaller annual loan maximums, Perkins Loan awards were generally lower than Stafford Loans. The average Perkins Loan for undergraduate students was $1,396, versus $3,114 for subsidized loans and $2,925 for unsubsidized loans. For financially dependent undergraduates, the average Perkins Loan was $1,416, compared to $3,073 for subsidized and $2,767 for unsubsidized loan recipients.

Income

Because Stafford Subsidized Loans and Perkins Loans are need-based, the recipients tend to come from low-income families. The mean[9] family adjusted gross income (AGI)[10] of

Table 3. Number of Borrowers and Amount Borrowed in the Federal Perkins Loan, Stafford Subsidized, and Stafford Unsubsidized Loan Programs, FY 1993 to FY 1996

	Number of Borrowers in FY 1993 (in thousands)	Number of Borrowers in FY 1996 (in thousands)	Pct. Change	Amount Borrowed in FY 1993 (in millions)	Amount Borrowed in FY 1996 (in millions)	Pct. Change
Perkins Loans	685	674	-1.6%	$917	$1,022	11.4%
Stafford Subsidized Loans	3,178	3,940	23.9	12,471	16,944	35.9
Stafford Unsubsidized Loans	382	2,114	453.4	1,019	9,355	818.1

Sources: U.S. Department of Education, Federal Campus-Based Programs Data Book 1998, Section 1, pg. 4. U.S. Department of Education, Federal Student Loan Programs Data Book, FY94-FY96, Tables 6,7, and 11, pp. 30, 33, and 45. Figures for Stafford Subsidized and Unsubsidized Loans include FFEL and Direct Loans.

financially dependent Perkins Loan borrowers in 1994 was $33,566, compared to $37,220 for subsidized borrowers and $61,714 for unsubsidized borrowers (see **Table 5**). About 62 percent of all undergraduate Perkins and Stafford Subsidized Loan borrowers came from families with AGI of less than $30,000, compared to just 49 percent of unsubsidized borrowers.

More than two-thirds of the graduate and first professional Perkins Loan borrowers had AGI of less than $10,000, while 50 percent of subsidized and 45 percent of unsubsidized loan borrowers had income at this level. The mean AGI for graduate/first professional Perkins Loan recipients was $10,477, slightly higher than the mean for subsidized loan borrowers, but $2,000 less than the mean AGI for unsubsidized borrowers.

Costs of Attending Postsecondary Education Institutions

Despite their low income levels, a substantial share of Perkins Loan recipients attended higher-cost institutions. Nearly 38 percent of all Perkins Loan recipients were enrolled at colleges and universities that charged $10,000 or more in tuition and fees, compared to just 19 percent of subsidized and 21 percent of unsubsidized borrowers (**Table 6**). The $9,585 mean tuition and fee amount charged to dependent undergraduates who received Perkins Loans was more than $2,500 higher than that charged to Subsidized Stafford Loan recipients ($6,992) and nearly $4,000 higher than the amount charged to unsubsidized loan borrowers ($5,589). The mean tuition and fee amount charged to graduate and first professional Perkins Loan borrowers, $11,221, was 15 percent higher than the amount charged to unsubsidized loan borrowers ($9,729), and 32 percent more than the mean for subsidized loan recipients ($8,484).

Perkins Loan recipients also had higher average total educational costs. The mean total cost of attendance (tuition and fees plus room and board, books and supplies, and other miscellaneous expenses incurred while attending higher education institutions) for undergraduate Perkins Loan recipients was $14,708, compared to $11,382 for Stafford Subsidized Loan borrowers and $11,821 for Stafford Unsubsidized Loan recipients. The mean total cost for dependent Perkins Loan recipients was $15,931, versus $12,855 for those who got subsidized loans and $11,337 for unsubsidized loan borrowers. The mean total costs for Perkins Loan graduate and first professional borrowers, $23,531, was more than $2,600 higher than the mean for unsubsidized loan borrowers, and over $4,400 higher than the mean cost for those who received subsidized loans.

Expected Family Contribution and Financial Need

The estimated amount that students and their families can afford to pay for college expenses, the Expected Family Contribution (EFC), is calculated when students apply for financial aid. The EFC, which is based on the college costs, family income and financial assets, and other information collected from the FAFSA, can range from $0 to the full cost of attendance at students' postsecondary institutions.

Because Perkins Loan borrowers come from families with lower incomes, the amount they can afford to pay for higher education expenses is generally lower. **Table 7** shows that 32 percent of all Perkins Loan borrowers had 0 EFC, while just 22 percent of Stafford Unsubsidized Loan recipients had EFCs at this level. The mean EFC amount for all undergraduate Perkins Loan recipients in 1995-96 was $2,264, compared to $2,731 for subsidized loan borrowers and $6,497 for unsubsidized loan recipients. The mean EFC for financially dependent Perkins Loan borrowers, $2,848, was about $700 lower than the amount for dependent subsidized loan borrowers ($3,536), and more than $7,600 lower than the mean for unsubsidized loan recipients ($10,463). The mean EFC amount for graduate/first professional Perkins Loan borrowers was $1,931, versus $3,229 for subsidized and $4,906 for unsubsidized loan recipients.

Table 7 also displays the mean financial need amounts for the student loan recipients. Financial need equals the difference between students' total costs of education and their EFCs. Perkins Loan recipients typically have higher financial need because more of them attend higher-cost institutions, come from families with lower incomes, have higher total educational costs, and lower expected family contributions. The $12,888 mean financial need for all undergraduate Perkins Loan borrowers was more than $3,000 higher than financial need of Stafford Subsidized recipients ($9,541) and $6,000 higher than unsubsidized loan borrowers ($6,814). About 63 percent of undergraduate Perkins Loan borrowers had need of $10,000 or more, but only 40 percent of subsidized loan recipients and 30 percent of unsubsidized loan borrowers had financial need at this level.

The mean financial need for graduate/first professional Perkins Loan recipients was $21,716, compared to $16,682 for unsubsidized loan borrowers and $16,029 for those who were awarded subsidized loans. Nearly 44 percent of the graduate and first professional Perkins Loan recipients had financial need of $20,000 or more. Only 28 percent of the unsubsidized and 23 percent of subsidized loan recipients had need at this level.

Characteristics of Loan Recipients by Type of Institution

Tables 8 and 9 show the characteristics of borrowers who attended four-year public and private colleges and universities in 1995-96. These tables show that, even within each type of institution, Perkins Loan borrowers attended higher-cost colleges and universities. This suggests that, even after adjusting for type of institution, colleges and universities that participated in the Perkins Loan program were more likely to be higher-cost four-year "universities," rather than lower-cost four-year "colleges".

Table 8 shows that the $4,091 mean tuition and fee amount charged to undergraduate Perkins Loan borrowers who attended four-year public institutions was more than $700 higher than the mean for Stafford Unsubsidized recipients, and about $800 higher than the amount charged to Stafford Subsidized borrowers. Many of the Perkins Loan recipients who attended four-year public colleges and universities came from low-income families. The mean AGI for undergraduates who received these loans was $22,101, versus

Table 4. Demographic Characteristics of Perkins Loan, Stafford Subsidized, and Stafford Unsubsidized Borrowers Who Received Loans in Academic Year 1995-96

Demographic Characteristic	Perkins Loan Borrowers	Subsidized Stafford Loan Borrowers	Unsubsidized Stafford Loan Borrowers
Percentage of Borrowers Who Were Undergraduates	87.5%	85.0%	79.4%
Percentage of All Borrowers Enrolled Full-Time	83.1%	76.2%	74.1%
Percentage Financially Dependent	69.4%	55.9%	45.7%
Percentage from Racial/Ethnic Minority Groups	30.8%	30.0%	25.2%
Average Loan (All Undergraduates)	$1,396	$3,114	$2,925
Average Loan (Financially Dependent Undergraduates)	$1,416	$3,073	$2,767
Average Loan (Graduate & First Professional)	$2,138	$6,971	$6,900

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate Data Analysis Systems, May 1998.

Table 5. Family Income Levels of Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Borrowers

	Perkins Loan Borrowers	Subsidized Stafford Loan Borrowers	Unsubsidized Stafford Loan Borrowers
Mean Family Adjusted Gross Income (AGI) for Financially Dependent Undergraduates	$33,566	$37,220	$61,714
Mean AGI (All Undergraduate Borrowers)	$26,427	$27,207	$38,805
Mean AGI (Graduate/First Professional)	$10,477	$10,038	$12,068
Percentage from Families with AGI of Less than $30,000 (Undergraduates)	62.5%	62.1%	49.3%
Percentage from Families with AGI of $10,000 or Less (Graduate/First Professional)	67.4%	50.0%	45.1%

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998.

$26,495 for subsidized borrowers, and $43,691 for unsubsidized loan recipients.

Perkins Loan borrowers at four-year public colleges also had substantially higher financial need. The mean amount of need for undergraduate borrowers at these institutions was $9,936, about $2,100 higher than the mean need amount for the subsidized loan borrowers, and more than $4,800 higher than the mean for those who received unsubsidized loans.

Table 9 shows that the $13,131 mean tuition and fee amount charged to Perkins Loan borrowers at four-year private colleges was more than $1,900 higher than the mean for subsidized borrowers ($11,215) and $3,100 higher than the mean for unsubsidized loan recipients ($9,969). Perkins Loan borrowers also came from families with lower incomes. The mean family AGI for these borrowers was $34,420, compared to $35,512 for subsidized loan recipients and $46,959 for those who got unsubsidized loans.

The mean financial need for undergraduate Perkins Loan recipients at the private colleges was $16,716, versus $13,748 for subsidized borrowers and $9,336 for unsubsidized loan recipients. Financial need for graduate/first professional borrowers was much higher—$25,319 for Perkins Loan recipients, $19,014 for subsidized loan borrowers, and $19,684 for those who received unsubsidized loans.

At public less-than-four-year colleges (primarily community colleges and one-year public vocational/technical training schools), the average total cost of attendance was nearly equal for borrowers in all three loan programs ($6,023 for Perkins Loans, $6,146 for Stafford Subsidized Loans, and $6,413 for Stafford Unsubsidized borrowers—see **Table 10**). However, the mean AGI for Perkins Loan recipients at these institutions was $12,823, compared to $20,189 for subsidized loan recipients and $32,853 for unsubsidized borrowers. (Statistics for Perkins Loan borrowers at private, non-profit less-than-four-year colleges could not be generated because the number of these borrowers in the NPSAS:96 sample was too low to provide a reliable estimate.)

Just 5 percent of the Perkins Loan recipients in the NPSAS:96 sample attended proprietary schools, and nearly all of these students were undergraduates. The average loan for the proprietary school recipients was $1,449 (**Table 11**). Mean tuition and fee charges and total educational costs were higher for the Perkins Loan recipients, and their mean family income was about $2,500 less than the mean for subsidized borrowers ($17,418 versus $19,986), and over $5,500 less than the mean for unsubsidized loan recipients ($22,932).

Financial Aid Packages

Student loans are generally designed to supplement the financial aid students receive from other sources; that is, aid from these programs usually is part of a financial aid "package," or a combination of different types of aid that is designed to meet students' total cost of attending higher education institutions. In addition to loans, the types of aid that students might receive in a financial aid package include grants, which are cash awards that students are not required to repay; work-study,[10] which provides part-time jobs to low-income students; and other types of aid, such as tuition remission.[12] Financial aid packages can come in several forms, but the most typical are "grants and loans," "grants,

Table 6. Mean Educational Costs for Federal Student Loan Borrowers in 1995-96

	Perkins Loan Borrowers	Subsidized Stafford Borrowers	Unsubsidized Stafford Borrowers
Mean Tuition and Fees (All Undergraduates)	$8,095	$5,724	$5,208
Mean Tuition and Fees (Dependent Undergraduates)	$9,585	$6,992	$5,589
Mean Tuition and Fees (Graduate/First Professional)	$11,221	$8,484	$9,729
Percentage Enrolled at Institutions that Charged $10,000 or More in Tuition and Fees	37.8%	19.0%	21.3%
Mean Total Cost of Education (Dependent Undergraduates)	$15,931	$12,855	$11,337
Mean Total Cost (All Undergraduates)	$14,708	$11,382	$11,821
Mean Total Cost (Graduate/First Professional)	$23,531	$19,106	$20,850

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998.

Table 7. Mean Expected Family Contribution and Financial Need Amounts for Student Loan Borrowers in 1995-96

	Perkins Loan Borrowers	Subsidized Stafford Borrowers	Unsubsidized Stafford Borrowers
Percentage of Borrowers with Zero EFC	32.5%	29.5%	22.1%
Mean EFC (All Undergraduates)	$2,264	$2,731	$6,497
Mean EFC (Dependent Undergraduates)	$2,848	$3,536	$10,463
Mean EFC (Graduate/First Professional)	$1,931	$3,229	$4,906
Mean Financial Need for All Undergraduates	$12,888	$9,541	$6,814
Percentage of Undergraduates with Need of $10,000 or More	63.4%	40.3%	30.1%
Mean Financial Need for Graduates/First Professionals	$21,716	$16,029	$16,682
Percentage of Graduates/First Professionals with Need of $20,000 or More	43.9%	23.0%	28.1%

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998.

Table 8. Characteristics of Perkins Loan, Stafford Subsidized Loan , and Stafford Unsubsidized Loan Borrowers Who Attended Four-Year Public Colleges and Universities, 1995-96

	Perkins Loan Borrowers	Subsidized Stafford Borrowers	Unsubsidized Stafford Borrowers
Average Loan (Undergraduates)	$1,403	$3,319	$2,905
Average Loan (Graduate/First Professional)	$2,250	$7,340	$7,825
Mean Tuition and Fee Charge (Undergraduates)	$4,091	$3,289	$3,365
Mean Tuition and Fee Charge (Graduate/First Professional)	$7,538	$5,384	$3,719
Mean AGI (Undergraduate)	$22,101	$26,495	$43,691
Mean AGI (Graduate/First Professional)	$8,499	$12,974	$16,074
Mean Financial Need (Undergraduate)	$9,936	$7,812	$5,120
Mean Financial Need (Graduate/First Professional)	$18,346	$13,568	$13,682

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998.

Table 9. Characteristics of Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Borrowers at Four-Year Private, Non-Profit Colleges and Universities, 1995-96

	Perkins Loan Borrowers	Subsidized Stafford Borrowers	Unsubsidized Stafford Borrowers
Average Loan (Undergraduate)	$1,382	$3,548	$3,262
Average Loan (Graduate/First Professional)	$2,250	$7,340	$7,825
Mean Tuition and Fee Charge (Undergraduates)	$13,131	$11,215	$9,969
Mean Tuition and Fee Charge (Graduate/First Professional)	$15,106	$12,003	$13,029
Mean AGI (All Undergraduates)	$34,420	$35,512	$46,959
Mean AGI (Graduate/First Professional)	$12,587	$18,053	$21,732
Mean Total Financial Need (Undergraduate)	$16,716	$13,748	$9,336
Mean Financial Need (Graduate/First Professional)	$25,319	$19,014	$19,684

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998.

Table 10. Characteristics of Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Borrowers Who Attended Public and Private, Non-Profit Less-Than Four-Year Colleges in 1995-96

	Perkins Loan Borrowers	Subsidized Stafford Borrowers	Unsubsidized Stafford Borrowers
Public Less-Than-Four-Year Colleges			
Average Loan	$1,390	$2,382	$2,531
Mean Tuition and Fee Charge	—	$1,271	$1,406
Mean AGI	$12,823	$20,189	$32,853
Mean Total Cost	$6,023	$6,146	$6,413
Mean Total Financial Need	—	$5,561	$3,390
Private Less-Than-Four-Year Colleges			
Average Loan	—	$2,611	$2,975
Mean Tuition and Fee Charge	—	$4,939	$5,094
Mean AGI	—	$23,195	$28,703
Mean Total Cost	—	$11,288	$11,266
Mean Total Financial Need	—	$8,705	$7,483

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate Data Analysis System, May 1998.
– indicates that the sample size is too small to calculate a reliable estimate.

loans, and work-study," and "loans only."

Table 12 shows the financial aid packages for borrowers in 1995-96. A plurality of undergraduate loan recipients received packages of grants and loans. However, nearly 38 percent of the unsubsidized borrowers received loans only. Many of these borrowers probably did not qualify for grants due to their higher family incomes.

Only 7 percent of Perkins Loan borrowers received "loans only" aid packages, while nearly 29 percent received "grants, loans, and work-study." Conversely, just 12 percent of subsidized loan borrowers and 5 percent of unsubsidized loan recipients received grants, loans, and work-study.

Perkins Loan borrowers were also more likely to receive need-based grant assistance in their aid packages. Sixty percent of Perkins Loan undergraduate borrowers also received Pell Grants (federal grants provided to financially needy undergraduate students).[13] Just 51 percent of Stafford Subsidized Loan borrowers and only 33 percent of unsubsidized loan recipients received Pell Grants.

Most undergraduates who received Perkins Loans also got Stafford Loans. About 65 percent of these Perkins Loan recipients also received a subsidized loan, and 17 percent received both subsidized and unsubsidized loans. Just 18 percent received a Perkins Loan only. Forty-five percent of the Perkins Loan borrowers also received the maximum Stafford Subsidized Loan for which they were eligible. This means that if federal funding for Perkins Loans were reduced or eliminated, many of these borrowers might have to received higher-cost unsubsidized loans to make up for any lost Perkins Loan aid.

Most grant and work-study aid dollars are directed to low-income undergraduates, so a majority of graduate and first professional Stafford Loan borrowers received only loans. Fifty-four percent of graduate/first professional unsubsidized and 51 percent of subsidized borrowers received "loans only" aid packages. However, just 39 percent of the Perkins Loan borrowers received these packages. Thirty-eight percent of the Perkins Loan borrowers, compared to 28 percent of subsidized and unsubsidized loan borrowers, received "grants and loans" aid packages.

About 68 percent of graduate/first professional Perkins Loan borrowers also received both subsidized and unsubsidized loans, and 27 percent received a subsidized loan. Only 5 percent received a Perkins Loan exclusively. About 78 percent of the graduate and first professional Perkins Loan borrowers also received $8,500 in Subsidized Stafford Loans, the maximum amount for which they were eligible.

Table 13 displays the average amounts of financial aid received in the borrowers' financial aid packages. For both undergraduate and graduate/first professional students, Perkins Loan borrowers received much higher average total awards. This was probably due to their lower family incomes, higher average costs of attendance, and lower expected family contributions.

The average total aid awarded to undergraduate Perkins Loan recipients was $10,601, about $2,900 higher than the average for subsidized ($7,650) and about $3,000 higher than the amount received by unsubsidized borrowers. Perkins Loan recipients who received "grants, loans, and work-study" financial aid packages had the highest average awards, $13,590, while those with "other" types of financial aid combinations received, on average, $13,531. Stafford Unsubsidized borrowers had higher average "loans and work-study" packages, $7,138 versus $6,498 for subsidized and $6,470 for Perkins Loan borrowers.

Graduate and first professional Perkins Loan borrowers received average financial aid awards of $19,799, compared to $14,913 for Stafford Subsidized Loan borrowers and $17,162 for unsubsidized borrowers. Perkins Loan borrowers with "grants and loans" packages received $21,909, about $2,000 higher than Stafford Unsubsidized Loan recipients ($19,851) and $4,500 more than Stafford Subsidized Loan borrowers ($17,331). Graduate and first professional Perkins Loan borrowers with "other" types of aid packages received average total awards of $21,370, while unsubsidized borrowers received $19,896 and subsidized loan recipients received $17,666.

Cumulative Debt

Because many Perkins Loan recipients also received Stafford Loans, they graduated with higher average total debt

Table 11. Characteristics of Undergraduate Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Borrowers Who Attended Proprietary Schools in 1995-96

	Perkins Loan Borrowers	Subsidized Stafford Borrowers	Unsubsidized Stafford Borrowers
Average Loan	$1,449	$2,421	$2,942
Mean Tuition and Fee Charges	$7,346	$6,328	$6,652
Mean AGI	$17,418	$19,986	$22,932
Mean Total Cost of Education	$13,716	$12,064	$12,721
Mean Total Financial Need	$12,253	$10,033	$9,686

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate Data Analysis System, May 1998.

Table 12. Financial Aid Packages Received by Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Recipients, 1995-96

	Grant & Loan	Grant, Loan, & Work-Study	Loan & Work	Loan Only	Other	Total
Undergraduate						
Perkins Borrowers	47.1%	28.6%	1.5%	7.1%	15.6%	100.0%
Stafford Subsidized Borrowers	51.5%	12.2%	1.0%	21.7%	13.6%	100.0%
Stafford Unsubsidized Borrowers	43.5%	5.2%	1.1%	37.9%	12.3%	100.0%
Graduate & First Professional						
Perkins Borrowers	38.2%	5.6%	4.0%	39.1%	13.1%	100.0%
Stafford Subsidized Borrowers	28.2%	2.6%	2.1%	51.1%	15.9%	100.0%
Stafford Unsubsidized Borrowers	28.2%	2.3%	2.2%	54.5%	12.8%	100.0%

Source: U.S. Department of Education, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998. Due to rounding, percentages may not add to 100.

Table 13. Average Total Financial Aid Received by Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Recipients in 1995-96, by Financial Aid Package

	Grant & Loan	Grant, Loan, & Work-Study	Loan & Work	Loan Only	Other	Average Total Aid
Undergraduate						
Perkins Borrowers	$8,835	$13,590	$6,470	$4,719	$13,531	$10,601
Stafford Subsidized Borrowers	$7,047	$12,230	$6,498	$4,329	$11,196	$7,650
Stafford Unsubsidized Borrowers	$8,129	$12,541	$7,138	$4,710	$10,737	$7,376
Graduate & First Professional						
Perkins Borrowers	$21,909	—	—	$17,102	$21,370	$19,799
Stafford Subsidized Borrowers	$17,331	$18,697	$15,649	$12,493	$17,666	$14,913
Stafford Unsubsidized Borrowers	$19,851	$22,410	$17,711	$14,886	$19,896	$17,162

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998.

than other loan recipients. The average cumulative federal student loan debt for undergraduate Perkins Loan borrowers who received their degrees in 1995-96 was $15,909, while subsidized loan recipients had borrowed just $12,712 and unsubsidized loan recipients borrowed $14,042 (see **Table 14**). The average total debt for undergraduate Perkins Loan borrowers who graduated from four-year private colleges was $18,415, compared to $16,340 for subsidized borrowers and $19,244 for unsubsidized loan recipients.

Graduate/first professional Perkins Loan borrowers left school owing, on average, $43,166 in federal loans (including the amounts they borrowed as undergraduates). The average for unsubsidized recipients was $40,690, while the average for Stafford Subsidized Loan borrowers was $34,565. At private colleges, the average cumulative debt for Perkins Loan recipients was $48,585, and the average at public colleges was $39,508.

Loan Defaults

In recent years, defaults among Perkins Loan borrowers have been rising. From 1994[14] to 1997, the cohort default rate on Perkins Loans increased from 11.4 percent to 12.9 percent. The dollar amount of loans in default grew by 19 percent, from $733.5 million to $873.3 million (U.S. Department of Education, 1994b and 1998a). Perkins Loan default rates vary by institutional type. At four-year private colleges, the average default rate in 1997 was 10.8 percent, compared to 11.6 percent at four-year public colleges and universities, 16.4 percent at private two-year colleges, 21 percent at community colleges, and 29 percent at proprietary schools (U.S. Department of Education, 1998a).

At the same time, defaults in the Stafford Subsidized Loan program have declined sharply. From FY 1990 to FY 1996, the default rate on these loans declined from 22.4 percent to 9.6 percent (U.S. Department of Education, 1997a; Burd, 1998). The largest decline occurred in the default rate for proprietary school borrowers, which fell from 41.2 percent to 18.2 percent. At two-year public colleges, the default rate fell from 17 percent to 13 percent, and at two-year private colleges the rate fell from 18 percent to 14 percent. At four-year public colleges and universities the default rate remained at about 7 percent, while the rate at four-year private institutions remained at 6 percent. As a result of the decline, the amount paid to lenders for subsidized loans defaults fell by 10 percent, from $2.68 billion in FY 1990 to $2.29 billion in FY 1995 (U. S. Department of Education, 1997a).

Table 14. Average Cumulative Debt for Perkins Loan, Stafford Subsidized Loan, and Stafford Unsubsidized Loan Recipients Who Received Their Degrees in 1995-96

	Perkins Loan Borrowers	Subsidized Stafford Borrowers	Unsubsidized Stafford Borrowers
Undergraduates			
Total	$15,909	$12,712	$14,042
Four-Year Public Colleges	$16,203	$14,148	$16,322
Four-Year Private Colleges	$18,415	$16,340	$19,244
Two-Year Pubic Colleges	—	$6,583	$6,822
Two-Year Private Colleges	—	$8,601	$10,818
Proprietary Schools	$10,008	$7,431	$8,624
Graduate and First Professional			
Total	$43,166	$34,565	$40,690
Public Colleges	$39,508	$30,187	$35,566
Private Colleges	$48,585	$39,398	$46,467

Source: U.S. Department of Education, National Center for Education Statistics, 1995-96 National Postsecondary Student Aid Study, Undergraduate and Graduate/First Professional Data Analysis Systems, May 1998. Cumulative debt figures include amounts borrowed under the Supplemental Loans for Students (SLS) program. Cumulative debt for graduate and first professional students include amounts borrowed as undergraduates. – indicates that the sample size is too small to calculate a reliable estimate.

Summary/Conclusions

Despite criticisms from some Washington policymakers and declining federal appropriations, the Perkins Loan program continues to play a vital role in providing need-based financial aid to low-income students. Data from the NPSAS:96 survey show that the majority of Perkins Loans have been provided to students from families with less than $30,000 in annual income. Many of these students have attended colleges and universities with tuition and fee charges of over $10,000. It is possible that some Perkins Loan recipients would have been unable to attend these high-cost institutions if this aid were unavailable.

Perkins Loans are effective because, as designed and intended, they supplement the aid needy students receive from other federal student aid programs. About 60 percent of the undergraduates who received Perkins Loans in 1995-96 were also awarded Federal Pell Grants, and 82 percent also received Stafford Subsidized Loans. It appears that financial aid officers have effectively packaged Perkins Loans and targeted the dollars to students most in need.

The NPSAS:96 data also show that 45 percent of the undergraduates who got Perkins Loans also received the maximum Stafford Subsidized Loan amount for which they were eligible. This means that if funding for Perkins Loans were further reduced or eliminated, many of these borrowers might have to replace any lost funds with higher-cost unsubsidized loans.

While the Perkins Loan program does appear to be providing aid to low-income students, there are still some valid program concerns. One is that recent changes in federal program policies—declines in FCC program appropriations, the FCC allocation formula, increases in matching fund requirements, and default penalties—may have limited access to these loans to students at four-year colleges. In FY 1996, over 93 percent of the Perkins Loan recipients attended four-year colleges and universities. Since 1990, the number of community colleges and proprietary schools that participate in the program has fallen by 18 percent and 45 percent, respectively.

Fortunately, a majority of federal policymakers have come to recognize the strengths of the Perkins Loan program and have sought to expand program benefits to more students. In the recently enacted Higher Education Amendments of 1998, Congress increased the annual and maximum loan limits and changed the FCC allocation formula in an attempt to distribute the funds more evenly to higher education institutions. These changes may help to reverse the negative program trends.

However, at the same time, Congress also reduced the appropriation for new federal loan capital from $135 million in FY 1998 to $100 million in FY 1999. If Perkins Loan allocations continue to decline, more institutions may discontinue program participation and the effectiveness of the recently passed changes in program policies may be limited.

Another more troubling concern is the rising amount of Perkins Loans in default, which increased by 19 percent at a time when defaults in the Stafford Subsidized Loan program have declined sharply. These defaults increased despite the program provisions that penalize institutions with high default rates. Higher defaults may have been due to the higher total student loan indebtedness of Perkins Loan borrowers. Because average Perkins Loan amounts are small, relative to recipients' total educational costs, many of these borrowers have had to receive Stafford Loans in order to pay their expenses. Further increases in Perkins Loan limits, along with increases in grant aid, might help to reduce borrowers' reliance on Stafford Loans and may, over time, reduce the default rate.

These concerns should not overshadow the many positive benefits of the Perkins Loan program. The program remains necessary because it provides aid to needy students and, because of its revolving loan fund features, will continue to help many higher education students in the future. The program has been an excellent partnership between the federal government, financial aid officers, and college students and their families. It deserves to be strengthened and expanded to help even more students and their families in the years ahead.

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Endnotes

1 Beginning in FY 1999, Perkins Loan FCCs will also be provided through a new Perkins Loan Revolving Fund. This fund consists of program dollars returned by participating institutions to the U.S. Department of Education due to default collections and audits.

2 Beginning in FY 2000, the FCC allocations will be based on the amounts that institutions receive in FY 1999 (see U.S. Department of Education, 1998c).

3 Beginning in FY 2000, borrowers who make 48 consecutive payments on their loans may have their interest rate reduced to 4 percent for the remainder of their loan repayment periods (see U.S. Department of Education, 1998c).

4 Some Perkins and Stafford Loan borrowers who have trouble making their loan payments may qualify for temporary loan forbearance status, during which loan payments are delayed but interest on the outstanding loan balance continues to accrue.

5 SLS Loans were provided primarily to graduate and first professional students and financially independent undergraduates.

6 Financially independent undergraduates are those who are at least 24 years old, married, or have dependents other than a spouse. All graduate and first professional students are considered independent.

7 Beginning in academic year 1999-2000, Stafford Loan borrowers may have a portion of their loan repayments cancelled if they become employed as childcare workers or teachers in low-income areas.

8 Due to sampling variations, the number of student loan awards in NPSAS is slightly higher than the numbers listed in other tables of this report.

9 In the NPSAS system, mean income includes all borrowers, including those with zero income. This differs slightly from the average income, which excludes borrowers with zero income.

10 Adjusted gross income is the amount of income reported to the Internal Revenue Service when the aid applicants file their federal income tax returns (IRS Form 1040-Line 31, Form 1040A-Line 16, Form 1040EZ-Line 3). Amounts reported are for calendar year 1994.

11 The largest work-study program is the Federal Work-Study program, which provided $764 million in employment earnings to undergraduate, graduate, and first professional students in 1995-96.

12 "Other" types of aid also include tuition reimbursement from employers and other types of aid from non-governmental sources.

13 The Federal Pell Grant program provides cash assistance to low-income undergraduate students. In 1995-96, this program provided $5.5 billion to students.

14 In 1994, the formula used to calculate Perkins Loan default rates was changed. Default rates for years prior to 1994 are not comparable.

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