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In recent years, some policy-makers in Washington have called for the elimination of federal funds for the Federal Perkins Loan program. Federal law requires the Perkins Loan funds to be provided to the neediest students. However, despite this provision, several Democratic and Republican presidential administrations have implied that the program is not as need-based as other federal student aid programs. The Clinton Administration has said that reducing Perkins Loan contributions would allow for greater increases in federal student aid programs that are a "higher-priority" and "more strictly need-based" (U.S. Department of Education, 1994a). In the face of these criticisms, higher education leaders have fought to preserve federal funding for Perkins Loans. These advocates believe the program "provides a low-interest source of self-help assistance to very needy students" (Committee for Education Funding, 1994).

The arguments for and against Perkins Loans raise some important questions for education policy analysts: Are Perkins Loans still necessary? Do financial aid administrators effectively target Perkins Loans to the most needy students? Do the characteristics of Perkins Loan borrowers differ substantially from those who receive subsidized and unsubsidized Stafford Loans? Are changes needed in the loan programs, particularly Perkins Loans, to serve students better?

This paper addresses these questions by describing the recent trends in borrowing under the federal student loan programs and comparing the demographic characteristics, income levels, educational costs, and financial need levels of Perkins Loan and subsidized and unsubsidized Stafford Loan recipients. For purposes of this paper, the term "Stafford Loan" refers to student loans through both the Stafford Loan and the Direct Loan programs.

Recent Trends in the Federal Student Loan Programs

The 1990s have seen a decline in the number of Perkins Loan recipients. From fiscal year (FY) 1993 to FY 1996, the number of students who received Perkins Loans fell by about 1%, from about 685,000 to 674,000, and the amount borrowed grew by 11%, from $919 million to about $1 billion (U.S. Department of Education, 1998a). Meanwhile, the unsubsidized Stafford Loan program experienced tremendous growth. From FY 1993 to FY 1996, the number of unsubsidized loans grew by more than 450%, and the amount borrowed jumped from $1.02 billion to $9.35 billion. The number of subsidized Stafford Loans increased by 27%, and the amounts borrowed rose by 45%. This means that, throughout the 1990s, more students depended on higher-cost unsubsidized loans to meet their college expenses. From FY 1993 to FY 1996, the unsubsidized loan program grew from just 8% of combined Stafford Loan volume to nearly 36% (U.S. Department of Education, 1998b).

Several changes in the Perkins Loan program made during the early 1990s may have caused the decline in the number of recipients. First, federal funding for new loans fell from $183 million in FY 1989 to $135 million in FY 1998; when adjusted for inflation, this represents a 47% decline in federal dollars. Second, in the 1992 reauthorization of the Higher Education Act, the institutional matching fund requirement rose from 11% of federal allocations to 33%. This meant that institutions had to increase their program contributions in order to remain eligible for participation. And third, institutions that had loan default rates of 20% or more were assessed penalties which cut their federal allocations (U.S. Department of Education, 1998a).

As a result of these changes, the number of institutions participating in the Perkins Loan program fell by nearly 34%, from 3,097 in FY 1989 to 2,045 in FY 1998. The decline was sharpest among proprietary (private, for-profit) schools, which fell from 749 to 322. Two-year public college participants dropped from 318 to 196. However, few four-year public and private colleges and universities left the program—the number of the public colleges decreased from 514 to 492 and the number of private colleges fell from 999 to 959. Currently, nearly 71% of the institutions that participate in the Perkins Loan program are four-year colleges (U.S. Department of Education, 1990 and 1998a).

Who Borrows Perkins Loans?

Demographic Characteristics

Due to the program funding shifts and other trends, a disproportionate share of Perkins Loan borrowers attend four-year colleges and universities. In FY 1996, 93% of Perkins Loan borrowers, versus 76% of subsidized and 75% of unsubsidized recipients, were enrolled at public and private four-year colleges (U.S. Department of Education, 1998a).

This is important because student characteristics differ at each institution type. Students enrolled at four-year colleges tend to be younger, "traditional age" (between 18 and 24 years old) and attend full-time. Those who attend two-year colleges and proprietary schools generally are older, "non-traditional" students who attend part-time. Thus, Perkins Loan recipients have different demographic and financial characteristics than Stafford Loan borrowers.

Table 1 shows the demographic characteristics of borrowers in academic year 1995-96. These data come from the 1996 National Postsecondary Student Aid Study (NPSAS:96), a survey of approximately 48,000 undergraduate and graduate/

TABLE 1
Demographic Characteristics of Federal Perkins Loan, Subsidized Stafford Loan, and Unsubsidized Stafford Loan Borrowers in Academic Year 1995-96

Demographic Characteristic	Federal Perkins Loan Borrowers	Subsidized Stafford Loan Borrowers	Unsubsidized Stafford Loan Borrowers
Percentage who were undergraduates	87.5%	85.0%	79.4%
Average loan (undergraduate)	$1,396	$3,114	$2,925
Average loan (graduate/first professional)	$2,138	$6,971	$6,900
Percentage from racial/ethnic minority groups	30.8%	30.0%	25.2%
Percentage enrolled full-time	83.1%	76.2%	74.1%
Percentage financially dependent	69.4%	55.9%	45.7%

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.

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 (Horn and Berktold, 1998).

About 87% of Perkins Loan borrowers were undergraduates, slightly higher than the proportion of subsidized (85%) and unsubsidized (79.4%) recipients. About 83% of Perkins recipients were enrolled full-time, and 69% were financially dependent. Just 56% of the subsidized loan borrowers and 46% of the unsubsidized loan recipients were financially dependent.

Family Income

Because subsidized Stafford and Perkins Loans are need-based, the recipients tend to come from low-income families. However, Perkins Loan recipients have even lower income than subsidized loan borrowers. The mean family adjusted gross income (AGI) of undergraduate Perkins Loan borrowers in 1995-96 was $26,427, compared with $27,207 for subsidized Stafford Loan borrowers and $38,805 for unsubsidized Stafford Loan borrowers (see Table 2). About 62% of undergraduate Perkins and subsidized loan recipients came from families with incomes of less than $30,000, compared with 49% of unsubsidized borrowers.

These data include borrowers who may have received more than one type of loan during the academic year. Nearly 82% of undergraduate Perkins Loan recipients also received a subsidized or unsubsidized loan. Perkins Loan borrowers who received just one type of loan also had lower family incomes. The mean family income of those who received a Perkins Loan only was $19,830, compared with $27,408 for those who received a subsidized Stafford Loan only and $68,852 for those who received a unsubsidized Stafford Loan exclusively.

TABLE 2
Adjusted Gross Income Levels of Federal Perkins Loan, Subsidized Stafford Loan, and Unsubsidized Stafford Loan Borrowers in 1995-96

	Federal Perkins Loan Borrowers	Subsidized Stafford Loan Borrowers	Unsubsidized Stafford Loan Borrowers
Mean AGI (undergraduate)	$26,427	$27,207	$38,805
Mean AGI (graduate/first professional)	$10,477	$10,038	$12,068
Percentage of undergraduates from families with AGI of less than $30,000	62.5%	62.1%	49.3%
Percentage from families with AGI of less than $10,000 (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.

The Cost of Attending Postsecondary Education Institutions
Despite their lower income, a greater percentage of Perkins Loan recipients attended higher-cost institutions. About 38% of Perkins borrowers were enrolled at colleges and universities that charged $10,000 or more in tuition and fees, compared with 19% of subsidized Stafford Loan borrowers and 21% of unsubsidized Stafford Loan borrowers (Table 3).

The $8,095 mean tuition and fee amount charged to undergraduates who received Perkins Loans was about $2,300 higher than the amounts charged to subsidized borrowers, and more than $2,800 higher than the amount charged to unsubsidized loan recipients.

Expected Family Contribution and Financial Need
Because Perkins Loan borrowers come from families with lower incomes, the amount their families can afford to pay for higher education expenses is substantially lower. Table 4 shows that 32% of all Perkins Loan borrowers had a zero Expected Family Contribution (EFC); only 22% of unsubsidized Stafford Loan recipients had EFCs at this level. The $2,264 mean EFC amount for undergraduate Perkins Loan recipients in 1995-96 was 17% lower than the mean amount for subsidized Stafford borrowers and 65% lower than the mean EFC for unsubsidized loan recipients.

Table 4 also displays the borrowers' mean financial need amounts. Perkins Loan recipients, because of their higher educational costs and lower expected family contributions, had much higher financial need.

The mean financial need for undergraduate Perkins Loan borrowers was $12,888, more than 35% higher than the mean financial need of subsidized Stafford recipients ($9,541), and

TABLE 3
Tuition and Fee Charges and Total Cost of Attendance for Federal Perkins Loan, Subsidized Stafford Loan, and Unsubsidized Stafford Loan Borrowers in 1995-96

	Federal Perkins Loan Borrowers	Subsidized Stafford Loan Borrowers	Unsubsidized Stafford Loan Borrowers
Mean tuition (undergraduate)	$8,095	$5,724	$5,208
Mean tuition (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%
Percentage enrolled at institutions that charged $5,000 or less in tuition and fees	43.5%	55.2%	57.4%

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 4
Mean Expected Family Contribution and Financial Need Amounts for Federal Perkins Loan, Subsidized Stafford Loan, and Unsubsidized Stafford Loan Borrowers in 1995-96

	Federal Perkins Loan Borrowers	Subsidized Stafford Loan Borrowers	Unsubsidized Stafford Loan Borrowers
Percentage of borrowers with zero Expected Family Contribution (EFC)	32.5%	29.5%	22.1%
Mean EFC (undergraduate)	$2,264	$2,731	$6,497
Mean EFC (graduate/first professional)	$1,931	$3,229	$4,906
Mean financial need (total educational costs minus EFC) for 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 graduate/first professionals	$21,716	$16,029	$16,682
Percentage of graduate/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.

89% higher than unsubsidized borrowers ($6,814). About 63% of undergraduate Perkins Loan borrowers had need of $10,000 or more. Just 30% of unsubsidized and 40% of subsidized recipients had financial need at this level.

Financial Aid Packages

Table 5 shows the financial aid packages for federal student loan recipients in 1995-96. A plurality of undergraduate borrowers received packages of "grants and loans." However, nearly 38% of unsubsidized borrowers received "loans only." Only 7% of Perkins Loan borrowers received "loans only" aid packages, while nearly 29% received "grants, loans, and work-study." Conversely, just 12% of subsidized loan borrowers and 5% of unsubsidized loan recipients received "grants, loans, and work-study" packages. This means that Perkins Loan borrowers were more likely to receive multiple types of aid. This was probably due to their greater financial need.

Perkins Loan borrowers were also more likely to receive need-based grant assistance in their financial aid packages. Sixty percent of the undergraduate Perkins Loan borrowers also received a Federal Pell Grant. Just 51% of subsidized and 33% of unsubsidized borrowers received Federal Pell Grants.

TABLE 5
Financial Aid Packages Received by Federal Perkins Loan, Subsidized Stafford Loan, and Unsubsidized Stafford Loan Recipients in 1995-96

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

Perkins Loan borrowers also were very likely to receive multiple loans in their aid packages. About 65% of the undergraduate Perkins Loan recipients also received a subsidized loan, and 17% received both a subsidized and an unsubsidized loan. Forty-five percent of the undergraduate Perkins Loan borrowers also received the maximum subsidized Stafford Loan amount for which they were eligible. This means that if funding for Perkins Loans was further reduced or eliminated, many of these borrowers might have to receive higher-cost unsubsidized loans to make up for any lost Perkins Loan aid.

Cumulative Debt

Because many Perkins Loan recipients also received Stafford Loans in their aid packages, they graduated with higher average student loan debt than other borrowers. The average total federal student loan debt for Perkins undergraduate borrowers was $15,909, while subsidized loan recipients had borrowed just $12,712 and unsubsidized loan recipients borrowed $14,042 (see Table 6). Average debt was substantially higher for borrowers who attended four-year private colleges and universities. Cumulative debt for undergraduate Perkins Loan borrowers who

TABLE 6
Average Cumulative Debt for Federal Perkins Loan, Subsidized Stafford Loan, and Unsubsidized Stafford Loan Recipients Who Received Their Degrees in 1995-96

	Federal Perkins Loan Borrowers	Subsidized Stafford Loan Borrowers	Unsubsidized Stafford Loan Borrowers
		Undergraduate	
Total	**$15,909**	**$12,712**	**$14,042**
Four-year public colleges and universities	$16,203	$14,148	$16,322
Four-year private colleges and universities	$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 and universities	$39,508	$30,187	$35,566
Private colleges and universities	$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 figures for graduate and first professional students include amounts borrowed as undergraduates.

– indicates that the sample size is too small to calculate a reliable estimate.

left these colleges was $18,415, compared with $16,340 for subsidized loan borrowers and $19,244 for unsubsidized loan recipients.

Graduate and 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 subsidized Stafford Loan borrowers was $34,565. At private colleges and universities, the average cumulative debt for Perkins Loan recipients was $48,585, and the average at public colleges was $39,508.

Perkins Default Rates Rise; Stafford Rates Drop

In recent years, possibly due to their higher average cumulative debt, defaults among Perkins Loan borrowers have been rising. From 1994 to 1997, the cohort default rate on Perkins Loans rose from 11.4% to 12.9% (in 1994, the formula used to calculate default rates was changed; therefore, default rates reported for years prior to 1994 are not comparable). The dollar amount of loans in default for 240 days or more rose by 19%, from $733.5 million to $873.3 million (U.S. Department of Education, 1994b and 1998a).

At the same time, subsidized Stafford Loan defaults have declined sharply. From FY 1990 to FY 1996, the default rate on subsidized loans declined from 22.4% to 9.6%. The amount paid to lenders for defaults fell by 14%, from $2.68 billion in FY 1990 to $2.29 billion in FY 1995 (U.S. Department of Education, 1997).

Conclusions

Despite criticisms from some Washington policy-makers 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 borrowers are 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 assistance needy students receive from other federal student aid programs. About 60% of the undergraduates who received Perkins Loans in 1995-96 also received Federal Pell Grant awards and 82% also received subsidized Stafford Loans. It appears that financial aid administrators have effectively packaged Perkins Loans and targeted the dollars to students most in need.

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 changes in federal program policies undertaken in the early- and mid-1990s—declines in program appropriations, 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% 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% and 45%, respectively.

Fortunately, a majority of federal policy-makers 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 Perkins Loan limits and changed the allocation formula used to distribute program dollars to higher education institutions. These changes may help to reverse the negative program trends.

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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.

Other changes might also help to encourage more institutions to participate in this program. For instance, perhaps it would be better to lower the matching fund requirement for two-year public and private institutions from 33% of federal program allocations to 10%. These institutions tend to have fewer financial resources than four-year colleges. This change might provide an incentive for these institutions to remain in the program.

An even more troubling concern is the rising amount of Perkins Loans in default, which increased by 19% at a time when defaults in the subsidized Stafford 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, over time, may 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 more students in the future. The program has been an excellent partnership between the federal government, financial aid administrators, 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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