

**Testimony of the
Coalition of Higher Education Assistance Organizations
Submitted for the Record to the
United States House of Representatives
Committee on Education and Labor**

Hearing on “Increasing Student Aid Through Loan Reform”

May 21, 2009

To Members of the U.S. House of Representatives, Committee on Education and Labor:
Thank you for the opportunity to present testimony to the Education and Labor
Committee's hearing on Increasing Student Aid Through Loan Reform. This testimony
is presented on behalf of the Board of Directors of the Coalition of Higher Education
Assistance Organizations. COHEAO is a coalition of more than 300 colleges,
universities and commercial organizations with a shared interest in fostering improved
access to postsecondary education. Our focus is on legislative and regulatory advocacy
for Perkins and other campus-based student loan programs.

The Perkins Loan Program is a campus-based program that represents a partnership
between the Federal Government and the participating institutions of higher education.
The institutions contribute one-third or more of Perkins funds as a match to the federal
capital contribution. This amounts to institutional risk sharing in the Perkins Program,
and it also serves to multiply the federal taxpayer contribution to the Perkins Fund.

As a result of the Federal-institutional partnership, the Perkins Loan is the best student
loan available. No interest accrues during the in-school, nine-month grace, and deferment
periods, an important benefit to students. There are no origination or guarantee fees, and
the interest rate is fixed at 5%. There is a 10-year repayment period.

The Perkins Loan program plays a critical role in our nation's financial aid system,
especially for the lowest-income and lower middle-income students. The Perkins Loan
Program provides flexibility to the financial aid office so it can direct these low-cost
loans to the students who most need them. For many who have no other options, Perkins
makes the difference between attending college or not being able to go.

COHEAO has advocated for many years for funding of the Perkins Loan Program and for
improvements in it so that it can best serve students. In the Higher Education
Amendments of 2008, several important improvements were made, including increasing
the loan limits, expanding loan forgiveness options to firefighters, the military and some
librarians, and increasing the authorized level for appropriations to \$300 million. In

addition, Congress expressed strong support for the program, noting in the final Conference Report: *“It is the sense of Congress that the Federal Perkins Loan Program, which provides low-interest loans to help needy students finance the costs of postsecondary education, is an important part of Federal student aid, and should remain a campus-based aid program at colleges and universities.”*

In addition, the revolving funds system results in the funds being repaid and reused over and over again, so that future students will continue to benefit from capital contributions made as long ago as 1958. This is a unique feature in the student aid area, one that COHEAO believes is important to the functioning of the program and that will be increasingly important in years ahead.

President Obama and Secretary Duncan have taken the welcome step of proposing a major expansion of the Perkins student loan program, calling for these lowest-interest, public service-oriented loans to be made to more students at more institutions. COHEAO has advocated funding for this critical loan program for many years, and has fought attempts to close it as misguided and lacking an understanding of the program’s value to students.

However, COHEAO believes that students and the American people will be best served by maintaining the well-established infrastructure for operating a broadly expanded Perkins Loan program. We believe this can be accomplished while still accomplishing the worthy goal of expanding the program to include many more students and schools. The main hurdles that have to be overcome are federal accounting issues that actually do not affect federal expenditures. It is important to deal with these issues on their own terms rather than being forced to eliminate the campus-based backbone of the Perkins Loan program in order to deal with them.

COHEAO urges Congress to retain the current subsidized Perkins Loan Program. Perkins Loan borrowers are students with high need and often have other loans. However, the proposed expanded program would not provide for that interest subsidy.

Since students can seldom make interest payments while in school, interest would accumulate and significantly increase debt levels upon graduation.

Families with Dependent Undergraduate Students comprise the largest percentage of Perkins borrowers. During Award Year 2006-2007, 27% percent of these families had an income under \$25,000. Twenty-one percent of Perkins Loan borrowers are independent students. Thirty-six percent of these students have incomes below \$12,000 with an additional 11% falling in the \$12,000-\$19,999 income range. Thus, 47% of independent students have incomes less than \$20,000.

An undergraduate who borrows the maximum Perkins Loan each year would owe an additional \$5,000 upon graduation. Some students would be forced to seek excessive part-time work that may be inconsistent with their studies, especially since many low-income students are challenged in preparation for college due to inadequate elementary and secondary education systems. We understand the desire to generate savings from the Perkins Loan Program, but we don't believe that this should be done at the expense of Perkins Loan borrowers.

Here are more of our proposals:

Expand funding for the Perkins Loan Program so that it can serve more students and retain the in-school interest benefit. Expanding the program and providing for its ongoing funding could make higher education affordable to thousands more students every year.

Make Perkins Loans available to more students at more schools without penalizing current students. The formula for allocating Perkins Loan federal capital contributions to schools for lending was designed to make sure that needy students at older schools were not hurt when new schools joined the program. Making additional funds available will ensure that students at schools who don't presently participate in the Perkins Program aren't simply taking aid from students at schools who do participate. The controversial allocation formula for Perkins Loan capital contributions, which also is used for other

campus-based aid programs, can be scrapped *without hurting students at participating schools* if Perkins is adequately funded, as the President proposes. COHEAO supports modifying the formula for Perkins Loan funding so that funds are targeted to institutions with high populations of students with substantial financial need. We believe this can be done without penalizing students at schools who now participate in the program, given the President's expanded funding proposal.

Make use of schools' expertise in managing the Perkins Loan Program to best serve their students' needs. Since the Perkins Loan Program was created in 1958 as the National Defense Loan Program, colleges have had the flexibility to make loans available to students according to their need. Today, Perkins Loans remain a key tool for financial aid administrators to tailor aid to their students. Schools also collect loan repayments, either directly or by hiring a service provider who is accountable to them. Those that wish to remain responsible for loan collection should be allowed to do so. They have been successfully collecting Perkins Loans for many years. The latest Perkins default rate of 5.5% is comparable to the Direct Loan and FFELP default rates, an important achievement considering that Perkins Loans are specifically targeted to low-income students. In addition, schools have instituted financial literacy and customized default prevention programs to help their students on an individual basis.

Retain the institutional match but phase it in for new schools There is no other entity within the federal loan processes that has a greater vested interest in the borrower's successful repayment than that of the institution participating in the Perkins Loan Program. This is especially true since the institution has a substantial amount of its own funds involved, a risk sharing concept that should be retained in order to keep loan costs down. COHEAO does believe, however, that provisions should be made to reduce the institutional match in special circumstances. For example, new institutions that are joining the program could have their match requirement phased in over five years, with no match during the first year, when there would be additional administrative burdens on the institution. In addition, institutions with unusual funding constraints, such as those

facing state budget cuts, could apply for a waiver of the institutional match requirement for a particular year.

Allow schools to continue loan collection in order to achieve the best results for the program and its students. The experienced professionals at schools are best equipped to work with their former students. COHEAO members have found that a borrower who is behind on his or her payments will set things right once they realize that they are denying opportunity to other students at their alma mater. Rather than having the federal government responsible for all collections, COHEAO supports giving schools additional flexibility and tools that can be used before involving the government in the collection process. This is in the best interest of borrowers who may have circumstances that deserve careful, individualized consideration.

Retain the public service cancellation benefits that are available now in the Perkins Program. These are more generous than in the Stafford Program and have drawn hundreds of thousands of students into public service over the years. Since the inception of the Federal Perkins Loan Program in 1958, over \$1.16 billion in Perkins Loans have been forgiven for students who took advantage of program benefits. Today, Perkins Loan cancellation is available to public servants who work in 16 different professions, including teaching, nursing, the military, law enforcement, the Peace Corps, firefighting, librarians and social work.

For example, one COHEAO member university has received a total since 1958 of \$166 million in federal capital contributions to its Perkins Loan revolving fund. It has contributed a total of \$53 million in institutional funds to its Perkins Loan fund. Yet is has lent \$912 million, benefiting 392,141 students. In addition, the University's students now receive over \$1 million in annual public service cancellations.

Another COHEAO member university has contributed a total of \$140 million in federal and institutional funds to the Perkins Loan revolving fund, but has made \$690 million in loans to date. This has helped 429,500 students pay for college. A total of \$30.2 million

has been cancelled for students who worked in public service professions, 21.5 percent of the total loaned.

The Perkins Loan cancellation benefits are especially advantageous to students because with a Perkins Loan, the borrower gets credit for each year he or she works in the qualifying public service profession, with full cancellation after five years. This recognizes that borrowers should get credit for what they accomplish, without being punished by losing all cancellation benefits if their circumstances change. We believe this sort of incentive serves as a truly powerful way to attract young people to public service and, at the same time, reduces their loan indebtedness.

In summary, COHEAO's members are excited by the prospect of an Administration that joins with Congress to recognize that the Perkins Loan Program is an essential part of the financial aid system that makes higher education possible for millions of Americans. Expanding the funding available will make millions of additional students eligible for the program. We look forward to working with the Committee, the Congress and the Administration on ways to meet our mutual goals of expanding the program to more students and schools while also continuing to take advantage of the hands-on experience that schools have in administering the program for their students.

We appreciate the opportunity to submit testimony to the Committee. Please contact us or any member of the Board of Directors if you have any questions. Please see our website is www.coheao.org for information about our association or contact the executive director, Harrison Wadsworth at hwadsworth@wpllc.net or 202-289-3900.

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