

## **Attachment-Survey Results**

To: COHEAO Membership  
From: Harrison Wadsworth, Krista Heckler  
Re: Perkins Loan Shortfalls  
Date: May 16, 2008

### **NACUBO/COHEAO Survey Shows Perkins Shortfalls, Drop in Loans**

Almost 30 percent of institutions expect to have a shortfall in their Federal Perkins Loan funds at the end of the current award year, according to responses to a recent survey. Further, a substantial majority project a significant decrease in new Perkins lending for 2008-09 compared to two years ago.

Almost 30 percent of institutions expect to have a shortfall in their Federal Perkins Loan fund at the end of the current award year, requiring their institution to make a loan to the fund, according to responses to a recent survey. An additional 18 percent are unsure if they will have a shortfall. Further, the amount of money that institutions will have to lend through the Perkins loan program is projected to decrease in 2008-09, with more than 80 percent of respondents reporting that they expect to have, on average, about one third less money for loans than they did two years ago.

The Coalition of Higher Education Assistance Organizations (COHEAO), an organization of institutions and servicers focused on campus-based loan programs, partnered with the National Association of College and University Business Officers to survey the combined membership of 1,271 NACUBO- and COHEAO-member institutions that participated in the Perkins Loan program during academic year 2006-07. Between April 22 and May 2, 273 institutions responded to the web-based survey for a response rate of 21 percent.

Of the 273 institutions that responded to the survey, 76 institutions (28 percent of respondents) indicated that they expected their institution to have a shortfall in their Perkins Loan fund on June 30, 2008, which would require their institution to make a loan to the fund. Another 49 institutions (18 percent) were unsure if they would have a shortfall. The institutions expecting a shortfall are primarily small, private institutions; 68 percent of the 76 institutions are private, four-year institutions, and more than 60 percent have a full-time equivalent student enrollment of 5,000 students or less.

The average projected shortfall anticipated at these 76 institutions is \$560,304, or a median of \$200,000. Twenty-one institutions (31 percent) anticipated that collections in the upcoming fiscal year would be sufficient to fully repay their institution's loan to the fund. However, 25 institutions (37 percent) indicated that they did not believe that collections would be sufficient and 21 institutions (31 percent) were unsure.

### **Background**

Colleges and universities are finding themselves in this unprecedented situation due to several factors over the last few years, including the lack of new capital contributions by

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the federal government and large swings in the number of borrowers choosing to consolidate Perkins loans with their other federally guaranteed loans after leaving school.

Between July 2002 and July 2006, interest rates for variable rate Stafford and PLUS loans dropped to historically low levels. This led to a massive wave of loan consolidation as borrowers locked in those low rates for the life of their repayment periods. Many borrowers included their Perkins Loans when they consolidated their Stafford or PLUS loans. This resulted in a sudden, unprecedented spike in early repayments to each institution's Perkins Loan fund, since a loan is repaid in full when it is consolidated. The Perkins program is structured as a revolving fund, and participating institutions are expected to use all available funds to help students pay for college. If they don't, they are required to send their "excess cash" to the Department of Education. Rather than lose Perkins Loan funds, colleges had to significantly increase their Perkins lending.

Now, with dramatic increases in interest rates followed by the advent of fixed rates for Stafford and PLUS loans, consolidation loan lending has dropped to small fraction of its peak. Suddenly, Perkins loans are not being repaid through consolidation. At the same time, loan collections are down significantly because fewer loans are in repayment and a larger than usual portion of Perkins borrowers are still in school. This means many institutions do not have the Perkins Loan funds they need even for continuing students, let alone new students.

### **Consequences**

The result: institutions running a shortfall will have to find institutional dollars to lend to their Perkins fund, at least for the short term. Even at institutions that do not have shortfalls, students are likely to receive much less support from the Perkins Loan program next year. This will compound the effects of the tightening of the student loan markets for students and institutions.

NACUBO and COHEAO are planning to work with the Department of Education to provide guidance to institutions that are experiencing shortfalls in their Perkins Loan funds.