THE CHRONICLE OF HIGHER EDUCATION http://chronicle.com/daily/2008/04/2416n.htm

Today's News

Wednesday, April 9, 2008

Dwindling Funds Force Colleges to Cut the Size and Number of Awards

By KELLY FIELD

Washington

Last year, Iowa State University gave its neediest students more than $6-million in low-interest federal Perkins Loans. Next year it expects to award only half of that, just over $3-million.

The university is not alone. Across the country, colleges are reporting significant declines in the amount of Perkins Loan money that they have available to lend to students. The drop, which is due to cuts in federal support and a decline in the consolidation of student loans, is expected to result in thousands of students receiving smaller Perkins Loan awardsÂâ€”or no award at allâ€”this year as compared to last.

For college students, the timing could not be worse, advocates of the Perkins program say. The cuts come amid a credit crunch that could make private student loans and home-equity loans harder to obtain this fall, particularly for borrowers with poor credit. Low-income students who lose out on a Perkins Loan could struggle to make up the money elsewhere, the advocates warn.

At Iowa State, financial-aid administrators have responded to the drop in funds by slashing the size of the average loan amount, from $1,873 in the 2006-7 academic year to $1,060 this year. Other colleges are reducing the number of loans they are making.

Administrators at Ohio University say they have made just 761 Perkins Loans this year, fewer than half of the 1,612 they made a year ago, when the university's Perkins pool was flush with capital from the boom in the consolidation of student loans. Next year they expect to also shrink the size of the average loan, from $2,100 this year to $1,800.

Federal Share Evaporates

Created by Congress in 1958, the Perkins Loan program provides low-interest loans to financially needy students through a risk-sharing agreement between the federal government and colleges. For each dollar Congress provides to the program, colleges are required to put in 25 cents of their own money.

Three years ago, the federal government stopped making any contributions to the program, saying the money could be better spent on Pell Grants. Overnight, colleges saw thousands, even millions, of dollars vanish from their revolving funds, the pools of money that colleges use to make new Perkins Loans.

For a while, colleges were able to offset their losses with an influx of capital from student-loan consolidations. With interest rates low, students were rushing to refinance their loans, and colleges' revolving funds were flooded with money from loans that students repaid. During the peak years of the consolidation boom, from 2004 through 2006, some colleges saw their Perkins Loan repayments double.

The University of California is one example. Before the consolidation craze, the university issued roughly $20-million in Perkins Loans each year; at its apex in the 2006-7 academic year, the university made $42-million in Perkins Loans.

All that began to change two years ago, when Congress passed a law that switched Stafford Loansâ€”another federal need-based loanâ€”from a variable interest rate to a fixed interest rate. That change, coupled with rising interest rates on existing loans, made consolidation much less attractive to borrowers. With more borrowers opting to hold onto their Perkins Loans, colleges are now receiving only their monthly repayments, not the infusions of recent years.

Abrupt Change

At the University of Maryland at College Park, Perkins Loan repayments are down at least 60 percent, said Sarah Bauder, director of student financial aid. She expects the university to take in around $1.2-million in loan repayments this year, far less than the roughly $3-million it has received in recent years. She said the drop was "very sudden," appearing only this year.

Federal loan-forgiveness programs have further drained colleges' coffers. While the government is supposed to reimburse colleges for loans that are canceled when students go into public service, funds for the reimbursement program have fallen short in recent years. In 2006, colleges got only 41 percent of what they were owed by the government, according to Harrison M. Wadsworth, executive director of the Coalition of Higher Education Assistance Organizations, which lobbies Congress on behalf of the Perkins program.

Most Perkins Loan borrowers come from lower-income families. In the 2005-6 academic year, 72 percent of dependent student borrowers came from families earning $42,000 or less per year. Borrowers who were dependent on their families made up 65 percent of all Perkins Loan recipients that year.

Finding a Substitute

As the revolving funds colleges use to make new Perkins Loans dry up, some financial-aid offices are making up the difference with institutional aid. Pamela W. Fowler, the financial-aid director at the University of Michigan at Ann Arbor, said she has awarded $8.7-million in Perkins Loans this year, less than half of the $19-million she awarded in the 2004-5 academic year. But because the university is required to meet the full financial need of its in-state students, it has filled the gap with institutional grants, using money from the university's endowment, she said. She said it's been "quite a budgeting balancing act" to come up with the money.

Recent regulatory changes could further deplete colleges' Perkins pools. Last year, the U.S. Department of Education adopted rules that would require colleges to assign defaulted Perkins Loans to the department after seven years and allow the department to keep the money it collects on the loans.

In an attempt to undo that change, lawmakers in the U.S. House of Representatives have added language to legislation to reauthorize the Higher Education Act that would require the department to return the money to colleges' revolving funds. A Senate version of the bill did not contain the provision, however, and the two bills must now be reconciled.

Lawmakers from the two chambers are expected to begin meeting in conference committee soon.
