

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is a light blue color with darker blue outlines for continents. The hourglass is centered on the page.

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*Federal Perkins Loans and FFEL/DL Stafford Loans: A
Brief Comparison*

David P. Smole, Domestic Social Policy Division

June 3, 2005

Abstract. This report provides an introduction to and comparison of key aspects of Perkins Loans and Stafford Loans. Following a brief summary of these loan products, the report compares Perkins Loans and Stafford Loans according to selected criteria. This report is intended to provide the interested reader with a basic understanding of Perkins Loans and Stafford Loans and to highlight some of their key similarities and differences.

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Updated June 3, 2005

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Federal Perkins Loans and FFEL/DL Stafford Loans: A Brief Comparison

Summary

Currently undergraduate, graduate, and professional students have the option, consistent with student eligibility requirements and institutional participation, of borrowing to finance the costs of their higher education using three types of federal education loans authorized under the Higher Education Act (HEA): Perkins Loans, Subsidized Stafford Loans, and Unsubsidized Stafford Loans. Perkins Loans are low-interest, fixed-rate loans made available to students with financial need under the Federal Perkins Loan program. No interest accrues on Perkins Loans while students are enrolled in school at least half-time, nor during grace or deferment periods. Subsidized Stafford Loans are low-interest, variable-rate loans made available to students on the basis of their financial need. The federal government subsidizes the loans by paying the interest that accrues on the loans while students are in school, and during grace and deferment periods. Unsubsidized Stafford Loans are low-interest, variable-rate loans made available to students regardless of their financial need. The federal government does not pay the interest that accrues on these loans. Both Subsidized Stafford Loans and Unsubsidized Stafford Loans may be awarded under either of two competing federal loan programs: the Federal Family Education Loan (FFEL) program, and the William D. Ford Direct Loan (DL) program.

The HEA is expected to be considered for reauthorization during the 109th Congress, and during debate over reauthorization, consideration may be given to amending the terms and conditions of existing federal education loan programs. The Congress also might consider whether it is optimal to continue offering federal higher education loans through multiple programs. The Administration has called for terminating the Federal Perkins Loans program, having determined it to be duplicative of the Subsidized Stafford Loans available under the FFEL and DL programs, and because of its shrinking role in financing students' higher education costs.

This report provides a brief introduction to and comparison of key aspects of Perkins Loans and Stafford Loans. Following a brief summary of these loan products, the report compares Perkins Loans and Stafford Loans according to selected criteria. This report is intended to provide the interested reader with a basic understanding of Perkins Loans and Stafford Loans and to highlight some of their key similarities and differences. It will be updated consistent with programmatic changes.

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Federal Perkins Loans and FFEL/DL Stafford Loans: A Brief Comparison

Introduction

Currently, several types of federal student aid (FSA) education loans may be made available to undergraduate, graduate, and professional students in attendance at participating institutions of higher education (IHEs) through programs authorized under the Higher Education Act of 1965 (HEA), as amended by P.L. 105-244. Federal **Perkins Loans** are low-interest, fixed-rate loans made available to students with financial need.¹ Students are not charged fees for borrowing Perkins Loans and no interest accrues while students are enrolled in school at least half-time, nor during grace or deferment periods. **Subsidized Stafford Loans** are low-interest, variable-rate loans made available to students on the basis of their financial need. The federal government subsidizes the loans by paying the interest that accrues on the loans while students are in school, and during grace and deferment periods. **Unsubsidized Stafford Loans** are low-interest, variable-rate loans made available to students regardless of their financial need. The federal government does not pay the interest that accrues on these loans. Students may be charged fees of up to 4% for borrowing Stafford Loans. Both Subsidized Stafford Loans and Unsubsidized Stafford Loans may be awarded under either of two competing federal loan programs: the Federal Family Education Loan (FFEL) program, and the William D. Ford Direct Loan (DL) program.²

The HEA is expected to be considered for reauthorization during the 109th Congress.³ As bills that would reauthorize HEA programs are introduced and considered, the Congress may debate reauthorizing (and potentially amending the terms and conditions of) Perkins Loans and Stafford Loans. Also, in its FY2006 budget request, the Administration proposed terminating the Perkins Loan program, in large part because the Office of Management and Budget (OMB) has found Perkins Loans to be duplicative of the Subsidized Stafford Loans available under the

¹ For additional information on Perkins Loans, see CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*, by David P. Smole.

² In this report for purposes of simplicity, where commonalities exist, Subsidized Stafford Loans and Unsubsidized Stafford Loans are jointly referred to simply as **Stafford Loans**. However, significant differences between Subsidized and Unsubsidized Stafford Loans are noted as appropriate. For further information on Subsidized and Unsubsidized Stafford Loans, see CRS Report RL30655, *Federal Student Loans: Terms and Conditions for Borrowers*, by Adam Stoll. (Hereafter cited as CRS Report RL30655.)

³ For further information on reauthorization of the HEA, see CRS Issue Brief IB10097, *The Higher Education Act: Reauthorization Status and Issues*, by Adam Stoll.

FFEL and DL programs, and because of the declining number of IHEs participating in the program and the small percentage of students served.⁴

This report provides a brief introduction to and comparison of key aspects of Perkins Loans and Stafford Loans. Following a brief summary of these loan products, the report compares Perkins Loans and Stafford Loans according to selected criteria. This report is intended to provide the interested reader with a basic understanding of Perkins Loans and Stafford Loans and to highlight some of their key similarities and differences.

Perkins Loans

The Federal Perkins Loan Program is one of the three campus-based HEA programs. It is currently authorized under Title IV-E of the HEA and is a successor to Title II — Loans to Students in Institutions of Higher Education, of the National Defense Education Act of 1958 (P.L. 85-864), which was incorporated into the HEA through the Education Amendments of 1972 (P.L. 92-318). As a campus-based program, participating institutions play a significant role in the program's operation, ranging from being required to provide institutional matching funds for the capitalization of institutional revolving loan funds, to their discretion in establishing institution-specific criteria for awarding and packaging aid, to their responsibility for administering their own Perkins Loan portfolios.

Under the Perkins Loan program, federal funds are allocated to participating IHEs to assist them in capitalizing revolving loan funds for the purpose of making low-interest loans (fixed at 5%) to students with financial need. Institutions' revolving loan funds are capitalized with a combination of federal capital contributions (FCCs) and institutional capital contributions (ICCs),⁵ principal and interest repaid by students previously awarded Perkins Loans, and any other charges or earnings associated with the operation of the program. Maximum values for Perkins Loan awards are set by statute; however, the actual value of a Perkins Loan awarded to any individual student depends in large part on institution-specific conditions, such as the size of the IHE's revolving loan fund, the student's financial need relative to the need of other FSA applicants at the institution, and the application of the IHE's own policies on awarding campus-based aid. Borrowers have a grace period of nine months after no longer being enrolled at least half-time to begin repaying their Perkins Loans. No interest accrues on Perkins Loans prior to a student beginning repayment, while repayment is suspended during deferment, and during grace periods. In general, Perkins Loans must be repaid within 10 years of a student beginning repayment. Students may have their Perkins Loans cancelled following their employment in certain types of public service.

⁴ Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2006 — Appendix: Department of Education*, p. 368; Office of Management and Budget, Program Assessment Rating Tool, Department of Education, Federal Perkins Loans, available at [<http://www.whitehouse.gov/omb/budget/fy2006/pma/education.pdf>]; and U.S. Department of Education, *Fiscal Year 2006 Justifications of Appropriation Estimates to the Congress*, vol. 2, p. N-6.

⁵ Under current law, IHEs must contribute ICCs to match FCCs on at least a 1-to-3 basis.

Stafford Loans

Subsidized and Unsubsidized Stafford Loans are authorized to be awarded to eligible students under both the Federal Family Education Loan (FFEL) and the William D. Ford Direct Loan (DL) programs.⁶ (Other types of loans authorized under the FFEL and DL programs are PLUS Loans (loans for parents) and Consolidation Loans.)⁷ The FFEL program is a successor to the Guaranteed Student Loan (GSL) program, first enacted under the HEA of 1965. Currently, the FFEL program is authorized under Title IV-B of the HEA. The DL program was established under the Higher Education Amendments of 1992 (P.L. 102-325), and is currently authorized under Title IV-D of the HEA. IHEs may participate in either program.

Both Subsidized and Unsubsidized Stafford Loans are low-interest variable-rate loans (with interest rates capped at 8.25%) that may be awarded to eligible undergraduate and graduate and professional students. Maximum loan limits are set by statute and students are entitled to borrow amounts (combined subsidized and unsubsidized) up to applicable loan limits. A student's Subsidized Stafford loan amount is determined through need analysis procedures. The federal government "subsidizes" or pays interest as it accrues on Subsidized Stafford Loans during the period when eligible borrowers are enrolled at least half-time, during a six-month grace period, and during deferment. Borrowers of Stafford Loans may select from among a range of repayment options. They may also consolidate multiple Stafford Loans (along with other loans, including Perkins Loans) to simplify the repayment of their loans or obtain preferable terms of repayment. Certain Stafford Loan borrowers who are employed as highly qualified teachers in low-income schools may have up to \$17,500 of their loan balance forgiven.

Comparison Between Perkins Loans and Stafford Loans

The remainder of this report presents a brief comparison between Perkins Loans and Stafford Loans (distinguishing between Subsidized and Unsubsidized Stafford Loans, as appropriate) on the basis of selected criteria. These comparisons highlight in simplified terms how the loan products match up against one another.⁸ A basic

⁶ A key distinction between the FFEL and the DL programs is that under the FFEL program, loans are capitalized by private lenders, with the federal government providing lenders with a guarantee against loss due to borrowers' inability to repay their loans; whereas under the DL program, the federal government is the lender and capitalizes loans with federal funds.

⁷ For a more thorough description of loan products available under the FFEL and DL programs, see CRS Report RL30655.

⁸ Terms and conditions of FSA loan programs are detailed and complex. This report only highlights several key characteristics of Perkins Loans and Stafford Loans. It is not intended to provide a complete description of all aspects of these FSA loan products. For example, administrative costs for the Perkins Loan program and loan subsidy rates for Stafford Loans under the FFEL and DL programs are beyond the scope of this report.

description of the characteristics of Perkins Loans and Stafford Loans is provided for each criterion.

Institutional Participation

Perkins Loans. As with all Title IV programs, determination of institutional eligibility for participation and continued eligibility is made in accordance with the requirements of HEA §102.⁹ In addition, IHEs participating in the Federal Perkins Loan program must apply annually to the U.S. Department of Education (ED) to request additional FCCs to expand their revolving loan funds and to receive authorization to disburse loans for the upcoming award year (AY)—their authorized level of expenditure (LOE).¹⁰ During AY2004-AY2005, nearly 1,800 IHEs participated in the Perkins Loan program.¹¹

Institutions may lose their eligibility to participate in the Perkins Loan program for having a cohort default rate in excess of allowable levels.¹² An IHE with a cohort default rate of 25% or greater is not eligible to receive an FCC. An IHE with a cohort default rate of 50% or greater, for each of the three most recent years for which data are available, loses eligibility to participate in the program for the remainder of the current award year and the succeeding two years. These IHEs are also required to liquidate their revolving loan funds, returning the federal share to the federal government; and to assign the outstanding loan portfolio to ED.

Stafford Loans. Title IV-eligible institutions may participate in the FFEL program, the DL program, or both. Under the FFEL program, eligible students attending participating institutions may receive both Subsidized Stafford Loans and Unsubsidized Stafford Loans from participating banks and other lenders. FFEL lenders are responsible for capitalizing and servicing their loans. Students attending institutions participating in the DL program borrow Subsidized Stafford Loans and Unsubsidized Stafford Loans from the federal government. Under the DL program, loans are capitalized by the federal government and serviced by private contractors. In FY2004, approximately 5,000 institutions participated in the FFEL program and nearly 1,000 participated in the DL program.¹³

⁹ For further information on institutional eligibility, see CRS Report RL31926, *Institutional Eligibility for Participation in Title IV Student Aid Programs Under the Higher Education Act: Background and Issues*, by Rebecca R. Skinner.

¹⁰ For FY2005, no funds were appropriated for FCCs. Participating IHEs were still required to request authorized LOEs for purposes of disbursing new loans for AY2005-AY2006.

¹¹ U.S. Department of Education, Office of Postsecondary Education, *Federal Campus-Based Programs Data Book 2004*, available at [<http://www.ed.gov/finaid/prof/resources/data/databook2004/index.html>].

¹² Cohort default rates are described in greater detail below (“**Loan Default and Cohort Default Rates**”).

¹³ U.S. Department of Education, *Fiscal Year 2006 Justifications of Appropriation Estimates to the Congress*, vol. 2, pp. Q-3 through Q-4.

Similar to the Perkins Loan program, institutions may lose their eligibility to participate in the FFEL and DL programs due to an excessive cohort default rate. Under the FFEL and DL programs, an IHE loses eligibility to participate for having either a cohort default rate of 25% or more for each of the three most recent fiscal years, or a cohort default rate of 40% or more for the most recent fiscal year. In either case, an IHE loses eligibility for the remainder of the current fiscal year and the two subsequent fiscal years.¹⁴

Basic Borrower Eligibility

Perkins Loans. In general, students with **financial need**¹⁵ (undergraduate, graduate, and professional) are eligible to receive Perkins Loans. Students enrolled in a program leading to a degree or certificate are eligible for Perkins Loans, even if enrolled less than half-time.¹⁶ If any part of an institution's FCCs were based in part on the financial need of independent students or students enrolled less than half time, then a "reasonable" proportion of the total value of Perkins Loans made by that IHE must be awarded to those categories of students. Institutions are required to establish and maintain written procedures for selecting students for Perkins Loans and to give priority in the making of loans to students with exceptional financial need consistent with those procedures. Eligibility to receive a Perkins Loan is contingent upon the borrower being willing to repay the loan; and failure to have made payments on a previous loan may be considered evidence of unwillingness to repay.¹⁷

As a campus-based program, Perkins Loans are administered by the IHE a student attends. A student's opportunity to receive aid under the program may be affected by institution-specific factors. These include the amount of funds available from which to make Perkins Loans, the IHE's criteria for awarding aid, and the mix of students competing for loans. For example, a middle-income undergraduate dependent student at a private four-year institution with a very large Perkins Loan fund, but few low-income students may be more likely to receive a Perkins Loan than a comparable student attending a public two-year institution with a small Perkins Loan fund, but many low-income students.¹⁸

¹⁴ Certain exceptions apply for historically black colleges and universities (HBCUs) and tribally controlled colleges and universities (TCCUs). For further information on these exceptions and on FFEL/DL cohort default rates in general, see CRS Report RS21760, *Student Loan Cohort Default Rates: Exceptions for Certain Minority-Serving Institutions*, by Charmaine Jackson.

¹⁵ For information on the determination of financial need, see CRS Report RL32083, *Federal Student Aid Need Analysis: Background and Selected Simplification Issues*, by Adam Stoll and James B. Stedman.

¹⁶ Students enrolled in teacher certification or professional credential programs that do not lead to a degree or certificate must be enrolled at least half time to be eligible for Perkins Loans.

¹⁷ 34 CFR 674.9(e).

¹⁸ For further information on the distribution of Perkins Loan aid to students, see CRS Report RL32775, *The Campus-Based Financial Aid Programs: A Review and Analysis of* (continued...)

Stafford Loans. All students meeting eligibility requirements are entitled to receive Stafford Loans. (Loan availability is not contingent on federal appropriations.) Students (undergraduate, graduate, and professional) must be enrolled at least half-time to borrow Stafford Loans and must be enrolled in a program leading to a degree or certificate.¹⁹ Only students with financial need may borrow Subsidized Stafford Loans. Students may borrow Unsubsidized Stafford Loans (up to applicable loan limits — discussed later) irrespective of their financial need. The institution a student attends determines whether to make Stafford Loans available under the FFEL or DL program. IHEs are permitted to refuse to certify or originate Stafford Loans, or to certify them for reduced amounts on a case-by-case basis.²⁰

Borrowers and Loan Volume

Perkins Loans. Information on students awarded Perkins Loans is presented in **Table 1**. Perkins Loans — which are available only to students determined to have financial need — are awarded to substantially fewer students than are Stafford Loans. Over 756,000 students received Perkins Loans averaging \$2,166 in AY2003-AY2004 (the latest year for which data are available).

**Table 1. Perkins Loan Borrowers and Loan Volume:
AY2003-AY2004**

Loan type	Borrowers	Volume	Average borrowed
Perkins Loan	756,348	\$1,638,502,202	\$2,166

Source: U.S. Department of Education, Office of Postsecondary Education, *Fiscal Operations Report and Application to Participate: Award Period July 1, 2003-June 30, 2004*.

Stafford Loans. Selected information on Subsidized Stafford Loans and Unsubsidized Stafford Loans awarded under both the FFEL and DL programs is presented in **Table 2** for AY2003-AY2004. Subsidized Stafford loans, which are most similar to Perkins Loans, were awarded to 5.4 million students. The average Subsidized Stafford Loan was \$3,448 and some borrowers took out more than one loan. Over 3.9 million students took out Unsubsidized Stafford Loans, with the average loan amount being \$4,150. Contingent upon financial need and applicable loan limits, some students borrow both Subsidized and Unsubsidized Stafford Loans.

¹⁸ (...continued)

the Allocation of Funds to Institutions and the Distribution of Aid to Students, by David P. Smole.

¹⁹ Students enrolled in teacher certification or professional credential programs that do not lead to a degree or certificate also are eligible to receive Stafford Loans under either the FFEL or DL programs.

²⁰ 34 CFR 682.603(e) and 685.301(a)(7).

**Table 2. Stafford Loan Borrowers and Loan Volume:
AY2003-AY2004**

(net commitments^a — estimated)

Loan type	Borrowers	Volume	Average loan ^b
Subsidized Stafford	5,418,000	\$22,458,000,000	\$3,448
Unsubsidized Stafford	3,951,000	\$20,062,000,000	\$4,150

Source: U.S. Department of Education, Budget Service, Student Loan Volume Tables — FY2006 President's Budget.

- a. Net commitments represents loans disbursed to students and excludes loans that were originated, but never disbursed due to students dropping out or otherwise failing to attend school.
- b. "Average loan" is less than total volume divided by the number of borrowers because some borrowers have more than one loan.

Costs to Borrowers

Perkins Loans. In general, other than interest, there are no charges associated with borrowing under the Perkins Loan program. However, borrowers who are late in making payments or who default on their loans may be assessed charges, such as late fees (limited to 20% of a borrower's monthly payment), attorney's fees, or other collection costs.

Stafford Loans. Stafford Loan borrowers may be required to pay loan origination and insurance fees totaling up to 4%. However, lenders have some discretion in assessing these fees, depending on whether loans are disbursed under the FFEL or the DL program. Under the FFEL program, loan origination fees of up to 3% of the principal borrowed may be assessed to borrowers. In addition, guaranty agencies may assess lenders an insurance premium of not more than 1%, and lenders may pass this fee on to borrowers. Under the DL program, a 3% loan origination fee is charged to all borrowers. DL borrowers are not charged an insurance fee.

Annual Loan Limits

Perkins Loans. Annual loan limits for Perkins Loans are shown in **Table 3**. The annual loan limit is the same for dependent and independent undergraduate students and does not depend on a student's year in school.²¹ Students may borrow up to the lesser of the amount of their financial need or the applicable loan limit.

²¹ Independent students often have greater financial need than dependent students because their parents' financial resources are not considered in determining their expected family contribution (EFC).

Table 3. Perkins Loans: Annual Loan Limits

Student type	Annual loan limit
Undergraduate (dependent and independent)	\$4,000
Graduate and professional	\$6,000

Source: HEA § 464(a).

Note: Annual loan limit may be increased by up to 20% for students studying abroad in approved programs.

Stafford Loans. Annual Stafford Loans limits are shown in **Table 4**. Undergraduate independent students have higher total loan limits than undergraduate dependent students with the same number of years in school. Loan limits for graduate and professional students are higher than for undergraduates and are not dependent on their year in school. The total annual Stafford Loan limit applies to the sum of Subsidized and Unsubsidized Stafford Loans. Undergraduate dependent students can borrow up to the total loan limit with any combination of Subsidized and Unsubsidized Stafford Loans. (Students may borrow Subsidized Stafford Loans up to the lesser of either their financial need or the applicable Subsidized Stafford Loan limit.) For independent students (undergraduate, graduate and professional) the total annual loan limit is higher than the Subsidized Stafford Loan limit.

Table 4. Stafford Loans: Annual Loan Limits

Student type	Subsidized Stafford	Total (Subsidized & Unsubsidized Stafford)
<i>Undergraduate dependent*</i>		
1 st year	\$2,625	\$2,625
2 nd year	\$3,500	\$3,500
3 rd year & beyond	\$5,500	\$5,500
<i>Undergraduate independent</i>		
1 st year	\$2,625	\$6,625
2 nd year	\$3,500	\$7,500
3 rd year and beyond	\$5,500	\$10,500
<i>Graduate and professional</i>		
Any year	\$8,500	\$18,500

Source: HEA §§ 425(a) and 428H(d); and 34 CFR 682.204 and 685.203.

* Parents of undergraduate dependent students also are eligible to borrow PLUS loans. Loan limits may be lower for students enrolled less than full time.

Aggregate Loan Limits

Perkins Loans. Aggregate loan limits for Perkins Loans are presented in **Table 5**. The loan limits apply only to unpaid principal.

Table 5. Perkins Loans: Aggregate Loan Limits

Student type	Aggregate loan limit
Undergraduate (dependent and independent) who have not yet completed two years of undergraduate study	\$8,000
Undergraduate (dependent and independent) who have completed two or more years of undergraduate study	\$20,000
Graduate and professional	\$40,000

Source: HEA §464(a).

Note: Aggregate loan limit may be increased by up to 20% for students studying abroad in approved programs.

Stafford Loans. Aggregate loan limits applicable to Stafford Loans are shown in **Table 6**. For undergraduate students, aggregate Subsidized Stafford Loan limits are the same for dependent and independent students. Undergraduate independent students may borrow more in the aggregate than may dependent students by borrowing both Subsidized and Unsubsidized Stafford Loans. Loan limits for graduate and professional students are substantially higher than those for undergraduate students.

Table 6. Stafford Loans: Aggregate Loan Limits

Student type	Subsidized Stafford	Total (Subsidized and Unsubsidized Stafford)
Undergraduate dependent*	\$23,000	\$23,000
Undergraduate independent	\$23,000	\$46,000
Graduate and professional	\$65,500	\$138,500

Source: HEA §§ 425(a) and 428H(d); and 34 CFR 682.204 and 685.203.

* Parents of undergraduate dependent students also are eligible to borrow PLUS loans. Loan limits may be adjusted for students enrolled less than full time.

Interest: Rates and Accrual

Perkins Loans. For Perkins Loans disbursed on or after October 1, 1981, interest accrues at a fixed annual rate of 5%.²² No interest accrues on Perkins Loans while a student is enrolled at least half-time, during a grace period of nine months following a student ceasing to be enrolled at least half time, nor during deferment (discussed later). Institutions may establish incentive repayment programs in which they may reduce the interest rate by up to 1 percentage point in instances where a student has made 48 consecutive payments. In addition, if a student repays a Perkins Loan in full prior to the end of the repayment period, an institution may discount the loan balance owed by up to 5% at the time the repayment is made.

Stafford Loans. Stafford Loans currently carry a variable interest rate that fluctuates annually with the bond equivalent rate of the 91-day Treasury bill determined at the final auction held prior to June 1. For Stafford Loans disbursed between July 1, 1998 and June 30, 2006, the interest rate is set at the 91-day Treasury bill rate, plus 1.7% for in-school, grace, and deferment periods; and the 91-day Treasury bill rate, plus 2.3% during repayment periods. Both rates are capped at 8.25%. The federal government pays the cost of interest as it accrues on Subsidized Stafford Loans during in-school, grace, and deferment periods. Stafford Loans disbursed during other periods carry different rates.²³ FFEL lenders are authorized to offer borrowers interest rates lower than those described above — and in practice, many do, such as for direct debit or timely repayment.²⁴ Under the DL program, the Secretary is authorized to offer interest rate reductions to encourage on-time repayment, as long as the reductions are cost neutral and in the best interest of the government.²⁵

Historical interest rates during periods of repayment for Perkins Loans and Stafford Loans disbursed after July 1, 1995 are presented in **Figure 1**. Stafford Loans disbursed between July 1, 1995 and June 30, 1998 carry different rates from Stafford Loans disbursed between July 1, 1998 and June 30, 2006. Rates for these loans are presented separately in **Figure 1**.

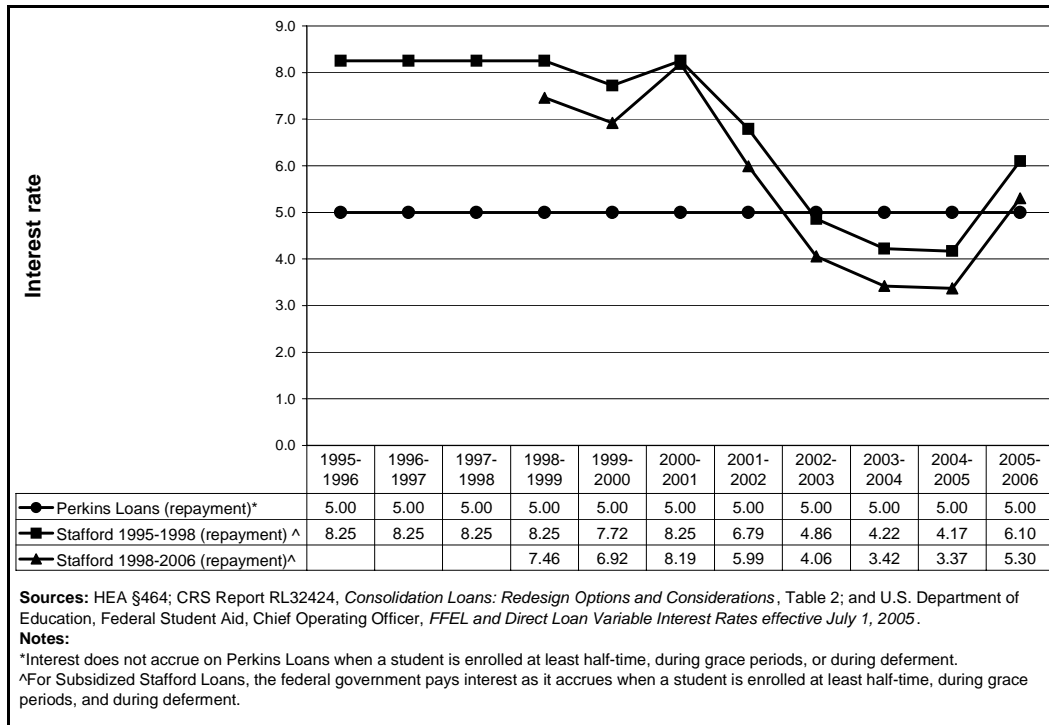
²² For loans disbursed prior to July 1, 1980, the interest rate was 3%; and for loans disbursed between July 1, 1980 and September 30, 1981, the interest rate was 4%.

²³ A long-term history of interest rates for loans made under the Stafford Loan program is presented in CRS Report RL32424, *Consolidation Loans: Redesign Options and Consideration*, by Adam Stoll, **Table 2**. Under current law, Stafford Loans made after July 1, 2006 will carry an interest rate of 6.8%; and no interest rate reduction will be provided for in-school, grace, or deferment periods.

²⁴ HEA § 427A(m); and “Stafford Loan Highlights: Interest Rate Discounts During Repayment,” *The Greentree Gazette*, Sep. 2003, pp. 100-101.

²⁵ HEA § 455(b)(8). For further information on Stafford Loan interest discounts, see CRS Report RL30655.

Figure 1. Historical Rates During Repayment for Perkins Loans and Stafford Loans: 1995-1996 Through 2005-2006



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Repayment Period and Options

Perkins Loans. The standard repayment period for Perkins Loans is 10 years. This period begins after an initial nine-month grace period following a student ceasing to be enrolled at least half time. Grace periods and periods during deferment and forbearance are not counted toward the 10-year repayment period. Institutions may extend the repayment period for low-income individuals up to an additional 10 years.

Stafford Loans. Stafford Loan borrowers are required to begin repayment following a six-month grace period. Borrowers may be eligible to select from among a range of repayment plans depending on whether their loan was disbursed under the FFEL or DL program. FFEL Stafford borrowers may select from among standard, graduated, and income-sensitive repayment plans. An extended repayment plan is available to certain FFEL Stafford Loan borrowers who accumulate loan balances totaling over \$30,000. All DL Stafford Loan borrowers are eligible to choose from among standard, graduated, extended, and income-contingent repayment plans. The repayment periods of these plans range from 10 to 30 years, and some of their terms differ slightly between loan programs.²⁶

²⁶ For a detailed description of FFEL and DL repayment plans, see CRS Report RL30655.

Repayment Relief

Perkins Loans. Several types of repayment relief are available to borrowers under the Perkins Loan program. These include grace periods, deferment, forbearance, and cancellation. Each is discussed briefly below:

Grace Period. A grace period is a period of time prior to a borrower being required to begin or resume payment on a loan. Perkins Loan borrowers are entitled to an initial nine-month grace period after ceasing to be enrolled at least half time.²⁷ Borrowers also are entitled to a six-month post-deferment grace period following periods of deferment.

Deferment. In general, deferment is a period during which a borrower is not required to make payments on the loan balance and during which interest does not accrue. Borrowers may be granted deferment while they are enrolled at least half-time at an eligible institution, and while pursuing a graduate fellowship or rehabilitation training program approved by the Secretary. They also may be granted deferment while they are seeking, but unable to find, full-time employment, or while experiencing economic hardship (for up to a maximum of three years in each instance). In addition, borrowers are eligible for concurrent deferment during any period while they are engaged in types of service which make them eligible for loan cancellation (discussed below).

Forbearance. In general, forbearance is a temporary suspension or postponement of payments during which interest continues to accrue. Upon written request, a borrower may be granted forbearance from paying principal and interest or of principal only if the borrower's debt burden due to HEA student financial assistance loans is greater than or equal to 20% of the borrower's gross income, or if the institution determines that forbearance should be granted for other reasons. Examples include service in AmeriCorps or for reasons due to a "national military mobilization or other national emergency."²⁸ Borrowers are required to request forbearance in writing. Forbearance is granted in one-year intervals, and may be renewed for a total period of up to three years.

Cancellation. Individuals who have engaged in certain types of public service are eligible to have a portion of, or the entire amount of their Perkins Loans cancelled. The proportion of a Perkins Loan cancelled is based on both the number of years of service an individual has completed and the cancellation rate applicable to the particular type of service. **Table 7** shows the percentage of Perkins Loan principal that may be cancelled for each year of eligible public service. A borrower's liability to repay Perkins Loans is also cancelled upon death or becoming permanently and totally disabled. The Secretary is required to reimburse institutions

²⁷ For members of the Armed Forces Reserve, time counted toward the initial nine-month grace period does not include any period up to three years during which the borrower is called to active duty for more than 30 days.

²⁸ *U.S. Department of Education, 2004-2005 Federal Student Aid Handbook*, vol. 6: *Campus-Based Programs*, p. 6-71.

for the costs of loan cancelled for public service. Institutions assume the cost of loans cancelled for death and disability.

Table 7. Perkins Loan Cancellation Rates by Type of Service

Type of service	Percent of Perkins Loan principal cancelled per year of service			
	1 st and 2 nd years	3 rd and 4 th years	5 th year and later	Max. total
Elementary or secondary school teacher in designated ESEA Title I-A school	15%	20%	30%	100%
Staff member in Head Start program	15%	15%	15%	100%
Special education teacher/IDEA professional provider	15%	20%	30%	100%
Armed Forces in area of hostilities	12½%	12½%	N/A	50%
Peace Corps or VISTA volunteer	15%	20%	N/A	70%
Law enforcement or corrections officer	15%	20%	30%	100%
Full-time teacher in shortage subject area	15%	20%	30%	100%
Nurse or medical technician	15%	20%	30%	100%
Employee of provider of services to high-risk children and families	15%	20%	30%	100%

Source: HEA § 465.

Consolidation. The Perkins Loan program does not contain provisions for loan consolidation. However, borrowers of loans made under either the FFEL or DL programs may consolidate their Perkins Loans with other loans into a consolidation loan. Perkins Loans that are consolidated assume the terms and conditions of the new Consolidation Loan.

Stafford Loans. Repayment relief is available to Stafford Loan borrowers in the following forms: grace periods, deferment, forbearance, forgiveness, discharge, and consolidation. Each is discussed briefly below:

Grace Period. Borrowers have a six-month grace period after ceasing to be enrolled at least half-time to begin repayment of Stafford Loans.

Deferment. For Stafford Loans, unlike Perkins Loans, interest continues to accrue during periods of deferment. For borrowers of Subsidized Stafford Loans, the federal government pays the interest as it accrues during deferment. Borrowers of Unsubsidized Stafford Loans must either continue paying interest as it accrues or

have it capitalized into their loan balance. Stafford Loan borrowers who first received loans on or after July 1, 1993 are eligible to be granted deferment while they are enrolled at least half-time at an eligible institution. Deferment may also be granted for a period of up to three years while a borrower is pursuing a graduate fellowship or rehabilitation training program approved by the Secretary; while seeking, but unable to find, full-time employment; or while experiencing economic hardship. (Different provisions apply to Stafford Loans made prior to July 1, 1993.)

Forbearance. Stafford Loan holders are required to grant forbearance to borrowers under three conditions: when the borrower is serving in a medical or dental residency or internship and does not qualify for deferment; when the borrower's Title IV debt burden exceeds 20% of their income; or for service in AmeriCorps. Borrowers may also receive forbearance, at the discretion of the lender, to prevent defaulting on a loan or during collection on a defaulted loan. The Secretary is also authorized to grant "administrative" forbearance for borrowers affected by military mobilizations.

Forgiveness. Teachers who are Stafford Loan borrowers and who had no loan balance as of October 1, 1998 may have up to \$5,000 of their outstanding loan balance forgiven for teaching in a low-income school. Certain highly-qualified mathematics, science, and special education teachers who had no loan balance as of October 1, 1998 may have up to \$17,500 of their loan balance forgiven for teaching in a low-income school.²⁹

Discharge. Stafford Loans may be discharged if the borrower dies or becomes permanently disabled. They also may be discharged if the borrower's school closes prior to the borrower completing his or her program of study, if the borrower's eligibility to borrow is falsely certified by the school, if the school does not appropriately refund loan proceeds to the lender, and in rare instances, through bankruptcy.

Consolidation. Multiple Stafford Loans (as well as PLUS and certain Consolidation Loans) may be consolidated into a single loan under the FFEL and DL programs. (A Perkins Loan may be consolidated into a Consolidation Loan that includes at least one FFEL or DL program loan.) This might be done to simplify repayment, to obtain a different repayment period, or to lock in a fixed interest rate based on the weighted average of the loans being consolidated (rounded up to the nearest one-eighth of 1%, and capped at 8.25%).³⁰

Loan Default and Cohort Default Rates

Perkins Loans. Perkins Loan borrowers are considered to be in default after failing to comply with the terms of their promissory note or failing to make payments on their loans for 240 days (for loans repayable monthly) or 270 days (for loans

²⁹ For further information on teacher loan forgiveness, see U.S. Department of Education, Dear Colleague Letter (GEN-05-02), Teacher Loan Forgiveness Application and Forbearance Forms (Revised), Mar. 9, 2005.

³⁰ For further information on consolidation loans, see CRS Report RL30655.

repayable quarterly). After attempting to collect on defaulted loans, institutions may assign them to the Secretary for collection.

An institution's cohort default rate is defined as the percentage of current and former students entering repayment on Perkins Loans received for attendance at that institution who default on their loans before the end of the next award year. Cohort default rates are calculated over a three-year period for institutions with less than 30 students entering repayment in any one year.

Stafford Loans. Stafford Loan borrowers are considered to be in default after failing to comply with the terms of their promissory note or failing to make payments for 270 days (for loans repayable monthly) or 330 days (for loans repayable less frequently).

An institution's cohort default rate is defined as the percentage of a school's borrowers who enter repayment during a fiscal year and default on their loan prior to the end of the next fiscal year. IHEs with less than 30 students entering repayment in any one year have their cohort default rates calculated over a three-year period. PLUS Loans and Consolidation Loans are not directly included in the calculation of cohort default rates (although Consolidation Loans may have some indirect effect on the calculation).

Cohort default rates for the Federal Perkins Loan program and the FFEL/DL programs are presented in **Table 8** for the period from 1996 through 2003. Perkins Loan cohort default rates have consistently been several percentage points higher than cohort default rates for FFEL/DL loans. Differences between programs in cohort default rates may be explained in part by the different periods of time before which a borrower is considered in default, and by differences in the characteristics of borrowers, especially considering that borrowers of Unsubsidized Stafford Loans may borrow regardless of financial need.

Table 8. Federal Perkins Loan Program and FFEL/DL Program Cohort Default Rates, 1996-2003

Loan type	1996	1997	1998	1999	2000	2001	2002	2003
Perkins ^a	12.57	12.95	12.48	11.54	10.61	9.99	8.35	8.85
FFEL/DL ^b	10.7	10.4	9.6	8.8	6.9	5.6	5.9	5.4

Sources: ED, *Federal Campus-Based Programs Data Books, 1996 through 2004*; U.S. Department of Education, Official Cohort Default Rates for Schools, National Student Loan Default Rates.

- a. Perkins Loan cohort default rates are for the two-year period ending June 30 of the year indicated.
 b. FFEL/DL cohort default rates are for the two-year period ending September 30 of the year indicated.

Loan Rehabilitation

Perkins Loans. A borrower who has defaulted on a loan may rehabilitate the loan by making 12 consecutive on-time payments. Rehabilitated borrowers are

returned to regular repayment status, begin a new 10-year repayment schedule, and have the default removed from their credit history.

Stafford Loans. Borrowers may rehabilitate a defaulted loan by making 12 consecutive monthly payments. Upon rehabilitation, a borrower's loan may be either sold or reinstated. Borrowers whose loans have been rehabilitated regain full borrower privileges.

Conclusion

According to the criteria used to compare Perkins Loans and Stafford Loans (both Subsidized and Unsubsidized), this report has shown that there are distinct differences between the types of loans. Still, Subsidized Stafford Loans might be considered as being somewhat more similar to Perkins Loans than Unsubsidized Stafford Loans, because they are need-based and because the federal government pays the cost of interest as it accrues during in-school, grace, and deferment periods. This report has also shown that far fewer institutions offer Perkins Loans than make available Stafford Loans under either the FFEL or DL programs; and that far fewer students receive Perkins Loans than receive Stafford Loans.

The extent to which Perkins Loans may be considered duplicative of Subsidized Stafford Loans depends on a range of factors, some of which are institution- and student-specific, and others which are programmatic. Perkins Loans might be more easily considered duplicative of Subsidized Stafford Loans in instances where an institution offers both loan products and a student's financial need is less than the annual loan limit applicable to either loan type for a given year of study (i.e., less than \$2,625 for a 1st year undergraduate student). On the other hand, Perkins Loans and Subsidized Stafford Loans might be considered as supplementing one another, rather than being duplicative, in instances where an IHE participates in both programs and a student's financial need is greater than could be met entirely with either type of loan.