



NEWS RELEASE
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How Do Colleges Respond When Students Apply for Risky Private Loans?

New Report Identifies both Promising and Problematic Practices

Private student loans are one of the riskiest ways to pay for college. They typically have uncapped, variable interest rates that are highest for those who can least afford them. Private student loans also lack the important consumer protections and flexible repayment options that come with federal student loans, such as unemployment deferments, income-based repayment, and public service loan forgiveness. *Yet a majority of undergraduates who take out risky private loans could have borrowed more in safer federal loans instead.*

A new report from the Project on Student Debt at The Institute for College Access & Success (TICAS) shows that college financial aid offices can and should play a significant role in reducing their students' reliance on private loans.

“College financial aid offices have unique opportunities and responsibilities to help people make informed and affordable choices about student loans,” said TICAS president Lauren Asher. “Millions of students end up with risky and expensive private loans when they actually have safer options, and the financial consequences can be devastating and last a lifetime. We found that counseling and information at critical decision points can really help borrowers make smarter choices.”

[Critical Choices: How Colleges Can Help Students and Families Make Better Decisions about Private Loans](#) documents promising practices that a variety of financial aid offices are using to help prospective borrowers avoid unnecessarily risky and costly debt. It also identifies some problematic practices that bypass key opportunities to inform students' and parents' borrowing decisions. The report draws on interviews with more than 20 financial aid administrators at colleges across the country. While they all shared the broad consensus that private loans should be used only as a last resort, their practices varied considerably.

The most promising practices involve some form of counseling for students who apply for private loans, particularly those with untapped federal loan eligibility. At schools that tracked their policy's impact, about half or more of students contacted changed their borrowing plans.

These and other efforts to reach students *before* they take out a private loan rely on a voluntary lender practice called “school certification,” in which the lender asks schools to confirm the borrower's enrollment and costs after expected aid. This certification process prevents students from borrowing more than they are eligible for and gives financial aid offices a crucial

opportunity to inform borrowing decisions, but some lenders offer “uncertified” loans that leave colleges out of the loop. The report found that some financial aid offices work with bursars’ offices to try to identify and counsel students with uncertified loans as well.

The most problematic practices identified in the report involve approving all lender requests for school certification without first contacting borrowers, and including risky private student loans in financial aid packages even though they are not a form of financial aid.

The report also describes the current market and policy context for private student loans. Students currently borrow billions in private loans each year, and there are signs that volume is rising after drops due to the recent credit crunch. While interest is growing in requiring that all private loans be school certified, the practice is currently voluntary. The report’s recommendations focus on how colleges can use the information they have to help minimize unnecessarily risky student borrowing, such as reviewing their financial aid policies, adopting promising practices identified in the report, and tracking and sharing outcomes to help colleges and policymakers focus on what works.

“The promising practices we identified can serve as models for all types of colleges, regardless of size, cost or financial aid resources,” said report author and TICAS program director Matthew Reed. He will be presenting the report’s findings and recommendations at the National Association of Student Financial Aid Administrators’ annual conference in Boston on July 18.

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The Project on Student Debt is an initiative of the Institute for College Access & Success (TICAS), a nonprofit, non-partisan organization working to make higher education more available and affordable for people of all backgrounds. For more information and to download a free copy of Critical Choices, see www.projectonstudentdebt.org and www.ticas.org.