Private Loans: Facts and Trends

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THE PROJECT ON STUDENT DEBT

Private student loans are one of the riskiest ways to finance a college education. Like credit cards, they usually have variable interest rates that are higher for those who can least afford them – as high as 18% in 2008. But unlike credit card debt, these loans are nearly impossible to discharge in bankruptcy. And private student loan borrowers are not eligible for the important deferment, income-based repayment, or loan forgiveness options that come with federal student loans.

Experts agree that students and families should exhaust all of their federal aid options before even considering private loans. Nevertheless, more college students have been turning to private loans before taking out all they can in safer and more affordable federal loans, or before taking out any federal loans at all.

The following facts and figures reflect undergraduate borrowing levels before the credit crunch, which hit the private student loan industry hard in the spring of 2008. Although private loans are now more likely to require a co-signer and a higher credit score, these loans are still available from Sallie Mae, Wells Fargo and many others.

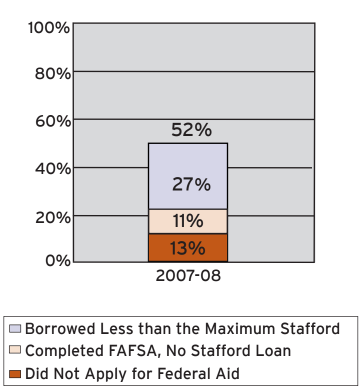
Big increase in private loan borrowing by undergraduates

- **The percentage of all undergraduates with private loans** has risen dramatically, from 5% in 2003-04 to 14% in 2007-08, and the number of private loan borrowers increased from approximately 935,000 to 2,946,000.
- **Private loan volume** also grew substantially, from $6.5 billion in 2003-04 to $17.1 billion in 2007-08.*
- **Private loan borrowing by sector**
  - *For-profit* (proprietary) colleges had the largest proportion of students taking out private loans, and the largest increase in private loan borrowing: 42% of all proprietary school students had private loans in 2007-08, up from 12% in 2003-04.
  - At *private non-profit four-year* schools, 25% of students had private loans in 2007-08, up from 11% in 2003-04.
  - At *public four-year* schools, 14% of students had private loans in 2007-08, up from 5% in 2003-04.
  - At *public two-year* schools, 4% of students had private loans in 2007-08, up from 1% in 2003-04.

Students could be using cheaper, safer federal loans

- The majority (52%) of private student loan borrowers in 2007-08 **borrowed less than they could have in federal Stafford loans**. In contrast, only 43% of private loan borrowers took out all they were eligible for. These figures are based on individual borrowers' specific Stafford eligibility, which varies by class level, dependency status, and college costs after financial aid. (For the remaining 5% of borrowers, detailed Stafford loan eligibility could not be determined.)**
- In 2007-08, 25% of private loan borrowers **took out no Stafford loans at all**: 13% did not apply for federal financial aid, and 11% filled out the FAFSA (a requirement for federal loans) but did not take out a Stafford loan.
- In 2007-08, 27% of private loan borrowers had Stafford loans, but **borrowed less than they could have**.

Private Loan Borrowers who do not Maximize Stafford Loans



Note: Due to rounding, subcategories may not add up to overall figures.

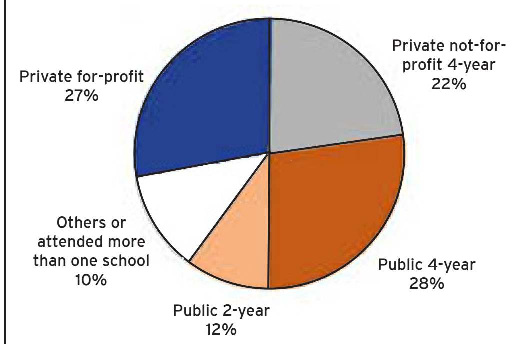
The majority of private loan borrowers attend lower priced schools

- In 2007-08, 57% of private loan borrowers attended schools charging $10,000 or less in tuition and fees. More than half of these borrowers (31% of all private loan borrowers) attended schools with tuition and fees of $5,000 or less.
- One-third (34%) of private loan borrowers attend higher priced schools that charge tuition and fees above $10,000. (For 9% of private loan borrowers in the sample, tuition and fees for the year could not be determined because the student attended more than one institution.)
- Although a minority of private loan borrowers attend higher priced schools, students at these schools are more likely to borrow. In 2007-08, 32% of students at schools charging more than $10,000 in tuition and fees took out private loans, compared to 11% of students at lower cost colleges.
- Only 15% of all undergraduates attended schools with tuition and fees of more than $10,000 in 2007-08. Over three-quarters (77%) of all undergraduates attended schools with tuition and fees of $10,000 or less. (For 8% of all undergraduates, tuition and fees could not be determined.)

Private loan borrowers disproportionately attend private colleges

- In 2007-08, for-profit schools and private nonprofit four-year schools had disproportionate shares of students with private loans.
  - Students attending *for-profit* schools composed about 9% of all undergraduates, but 27% of those with private loans.
  - Students attending *private nonprofit four-year* schools composed about 13% of all undergraduates, but 22% of those with private loans.
  - The percentage of all undergraduates who attend *public four-year* schools (29%) was about the same as the percentage of private loan borrowers who attend these schools (28%).
  - Students attending *public two-year* schools are least likely to take out private loans: they composed about 40% of all undergraduates but only 12% of private loan borrowers.

Private Loan Borrowers by Type of School, 2007-08

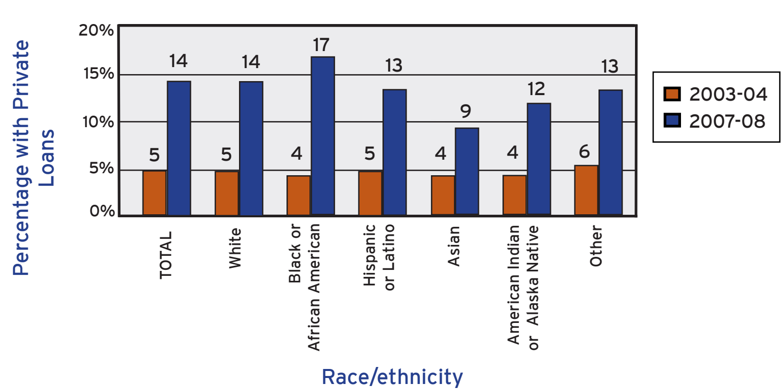


Note: Due to rounding, percentages do not equal 100%.

African-American undergraduates are now the most likely to take out private loans

- The percentage of African-American undergraduates who took out private loans quadrupled between 2003-04 and 2007-08, from 4% to 17%.
- In 2007-08, students' likelihood of turning to private loans before taking out all they could in federal loans was similar regardless of race or ethnicity.

Private Borrowing by Race/ethnicity



About the Data: Unless otherwise noted, the figures in this fact sheet are based on the Project on Student Debt's analysis of data from the U.S. Department of Education's National Postsecondary Student Aid Study (NPSAS), a comprehensive nationwide survey conducted every four years, most recently in academic year 2007-08. Due to rounding, figures for subcategories may not add up to overall figures. These figures represent borrowing that took place in a single academic year, not over the entire time a student was in school. Calculations only include undergraduates who are citizens or permanent U.S. residents and attend colleges in the 50 states, District of Columbia, or Puerto Rico. A small percentage of these students may be ineligible for federal loans for various reasons. The term "private loans" includes bank and lender-originated loans only, not all non-federal loans.

* Private loan volume declined to an estimated $6.3 billion in 2009-10 but major lenders began reporting a return to growth in 2010-11. Volume data are from Table 2A, *Trends in Student Aid 2010*. The College Board. http://bit.ly/ojxHgS

** Almost two-thirds (63%) of private loan borrowers took out less than the maximum Stafford loan allowed for their class level and dependency status. The numbers in this fact sheet reflect updated and more precise data on individual students' specific Stafford loan eligibility which the U.S. Department of Education released since the August 2009 version of this fact sheet.