PRIVATE LOANS: FACTS AND TRENDS IN 2008

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Private education loans are one of the riskiest ways to finance a college education. Like credit cards, they typically 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 very difficult to discharge in bankruptcy. And private loans 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.

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 others.

Big increase in private loan borrowing by undergraduates.

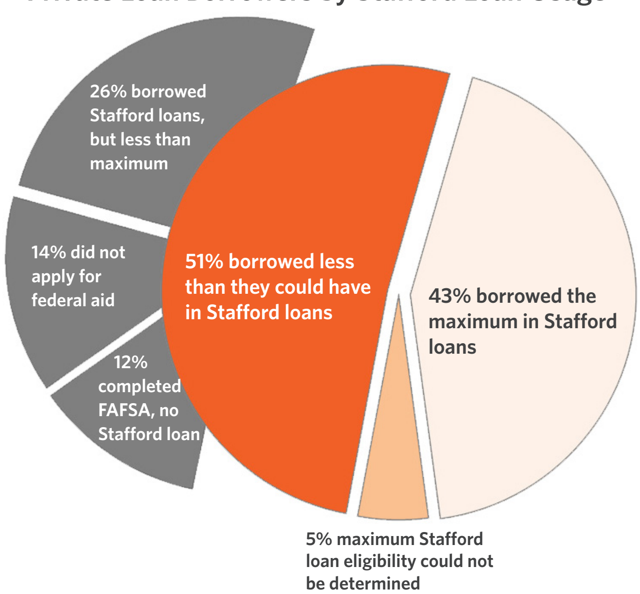
- The percentage of all undergraduates with private loans rose dramatically, from 5% in 2003-04 to 14% in 2007-08, and the number of private loan borrowers increased from approximately 930,000 to 2,901,000.
- Private loan volume also grew substantially, from $7.0 billion in 2003-04 to $18.1 billion in 2007-08.
- Private loan borrowing by sector
  - *For-profit* colleges had the largest proportion of students taking out private loans, and the largest increase in private loan borrowing: 40% of students had private loans in 2007-08, up from 13% in 2003-04.
  - At *private nonprofit four-year* colleges, 26% of students had private loans in 2007-08, up from 12% in 2003-04.
  - At *public four-year* colleges, 14% of students had private loans in 2007-08, up from 5% in 2003-04.
  - At *public two-year* colleges, 4% of students had private loans in 2007-08, up from 1% in 2003-04.

Students could have used cheaper, safer federal loans.

The majority (51%) of private loan borrowers in 2007-08 borrowed less than they could have in federal Stafford loans.[2]

- 25% of private loan borrowers took out no Stafford loans: 14% did not apply for federal financial aid, and 12% filled out the FAFSA (a requirement for federal loans) but did not take out a Stafford loan.
- 26% of private loan borrowers had Stafford loans, but borrowed less than they could have.

Private Loan Borrowers by Stafford Loan Usage[1]



The majority of private loan borrowers attended lower priced schools.

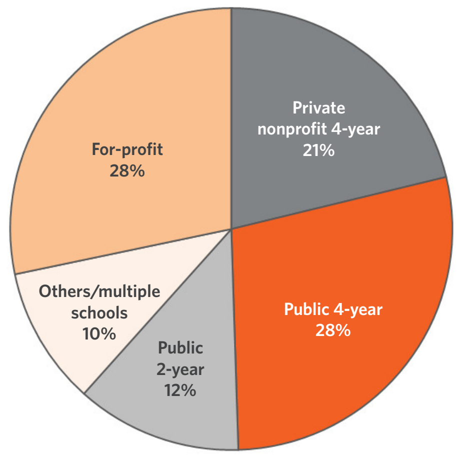
- In 2007-08, 57% of private loan borrowers attended schools charging $10,000 or less in tuition and fees. More than half of these borrowers (32% of all private loan borrowers) attended schools with tuition and fees of $5,000 or less.
- One-third (34%) of private loan borrowers attended higher priced schools charging tuition and fees more than $10,000. (For the remaining 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 attended higher priced colleges, students at these schools were more likely to borrow. In 2007-08, 33% 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. More than three-quarters (77%) of all undergraduates attended colleges 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 attended private nonprofit and for-profit colleges.

In 2007-08, for-profit schools and private nonprofit four-year colleges had disproportionate shares of students with private loans.

- Students who attended *for-profit* colleges comprised about 10% of all undergraduates, but 28% of those with private loans.
- Students who attended *private nonprofit four-year* colleges comprised about 12% of all undergraduates, but 21% of those with private loans.
- The percentage of all undergraduates who attended *public four-year* colleges (28%) was the same as the percentage of private loan borrowers who attended these schools (28%).
- Students who attended *public two-year* colleges were least likely to take out private loans: they comprised about 41% of all undergraduates but only 12% of private loan borrowers.

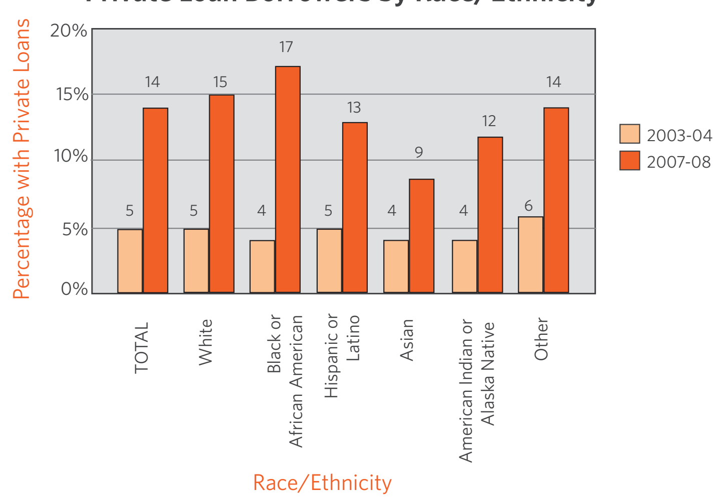
Private Loan Borrowers by Type of School, 2007-08[3]



In 2007-08, African-American undergraduates were the most likely to take out private loans.

- The percentage of African-American undergraduates who took out private loans more than 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 Loan Borrowers by Race/Ethnicity



[1] Due to rounding, percentages do not equal 100%, and pullout does not add up to 51% .

[2] These figures are based on individual borrowers' annual maximum Stafford eligibility, which varies by class level, dependency status, and college costs after financial aid. While 51% of private loan borrowers took out less than they were eligible for in Stafford loans, 43% took out all they were eligible for. For the remaining 5% of borrowers, detailed Stafford loan eligibility could not be determined. Due to rounding, percentages do not equal 100% and subcategories do not add up to overall figures.

[3] Due to rounding, percentages do not equal 100%.

Source: Unless otherwise noted, the figures in this fact sheet are based on TICAS' 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. Figures reflect the latest available data as of April 2014, including revisions made to the 2007-08 data by the U.S. Department of Education in August 2013. 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, or the District of Columbia. A small percentage of these students may be ineligible for federal loans for various reasons. The term "private education loans" is defined here to include bank and lender-originated loans only, not all non-federal loans.

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