

PRIVATE LOANS FACTS AND TRENDS

April 2019

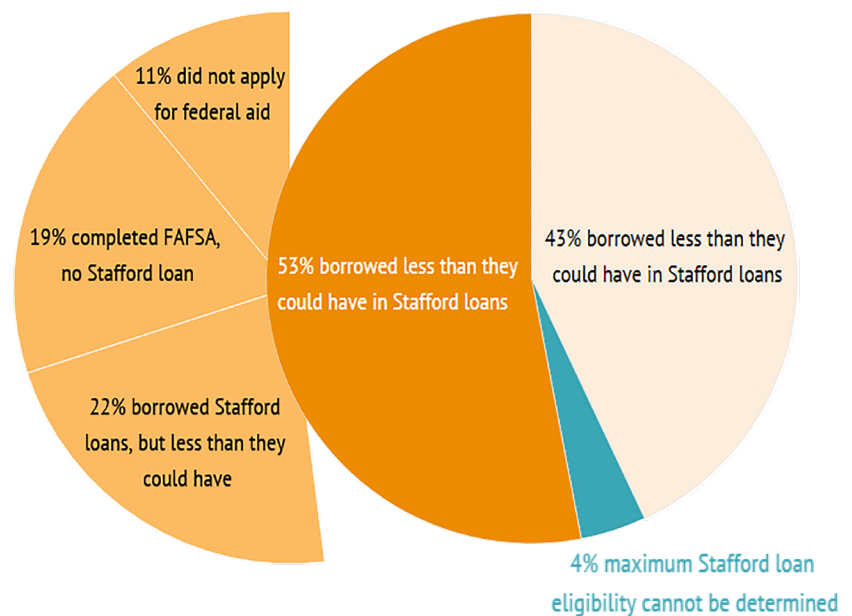
Private loans are one of the riskiest ways to finance a college education. Like credit cards, these bank- and lender-originated loans typically have variable interest rates. Both variable and fixed rates for private loans are higher for those who can least afford them. In April 2019, interest rates for undergraduate private education loans were as high as 14.24 percent, compared to a federal undergraduate student loan interest rate of 5.05 percent.¹ Private loans are not eligible for the important deferment, income-based repayment, or loan forgiveness options that come with federal student loans. Private loans are also much harder than other forms of consumer debt to discharge in bankruptcy.

The following facts and figures reflect the most recent data available about undergraduate private loan borrowing and the evolving private loan market. The figures represent borrowing in one academic year (2015-16), unless otherwise noted. For data on cumulative student debt (both federal and private loans) at graduation with a bachelor's degree, see [Quick Facts About Student Debt](#).

About 1.1 million (5%) undergraduates borrowed private loans in 2015-16, and less than half of these students used the maximum amount of more affordable federal loans.

- Experts agree that students and families should exhaust all of their federal aid options before even considering private loans. However, more than half (53%) of private loan borrowers in 2015-16 borrowed less than the annual maximum allowed for safer federal Stafford loans,² including:
 - 11 percent who did not apply for federal financial aid;
 - 19 percent who did apply for federal aid (a requirement for Stafford loans) but did not take out a Stafford loan; and
 - 22 percent had Stafford loans, but borrowed less than they could have.

Private Loan Borrowers by Federal Loan Usage



The share of students borrowing private loans **varies by sector**. In 2015-16:

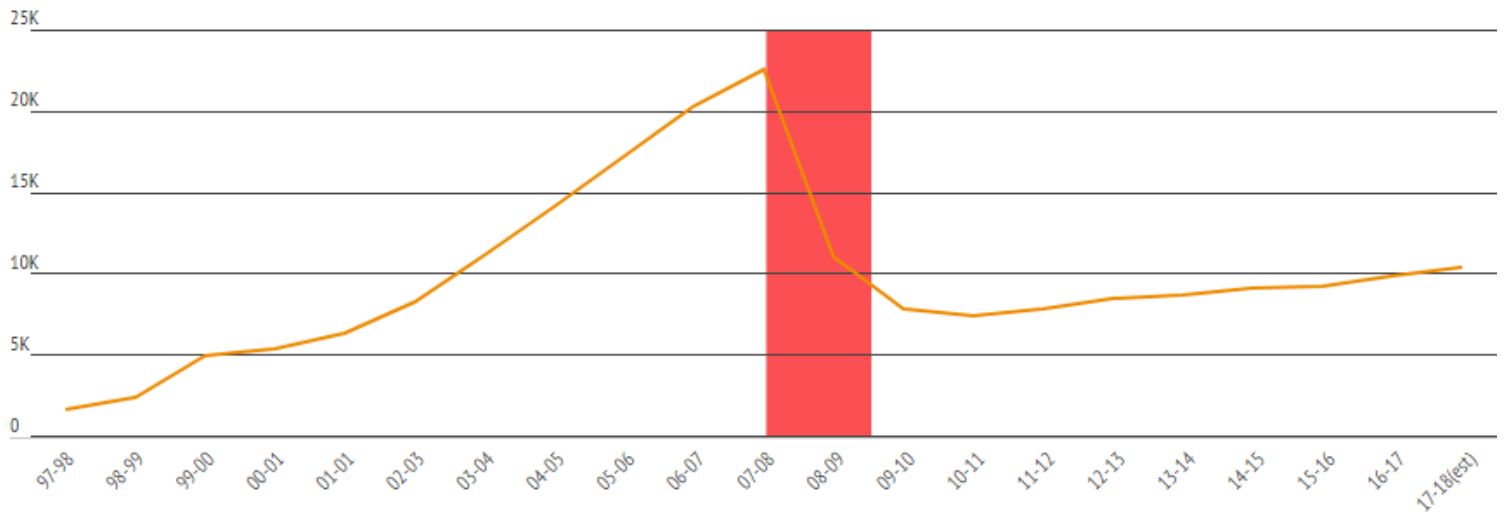
- 7 percent of students at for-profit colleges had private loans.
- 12 percent of students at private nonprofit four-year colleges had private loans.
- 7 percent of students at public four-year colleges had private loans.
- 1 percent of students at public two-year colleges had private loans.

While students attending higher priced schools are more likely to borrow private loans, 4 in 10 private loan borrowers attend lower priced schools.

- Private loan borrowers are disproportionately represented at higher cost schools. In 2015-16, half (51%) of private loan borrowers attended schools that charge tuition and fees above \$10,000, while only 24 percent of all undergraduates attend such schools.
- In 2015-16, almost 4 in 10 (39%) private loan borrowers attended schools charging \$10,000 or less in tuition and fees.³

Nonfederal loan volume is increasing after earlier declines. Annual nonfederal loan volume, inclusive of private, state, and institutional loans, peaked at \$22.6 billion in 2007-08 before the recession, decreased to \$7.4 billion by 2010-11, and has since steadily increased to reach \$10.3 billion in 2017-18.⁴

Undergraduate Nonfederal Loan Borrowing and 2008 Recession (2017 Dollars)



Source: Unless otherwise noted, the facts and figures above are based on analysis of the most recent undergraduate data from the National Postsecondary Student Aid Study (NPSAS), which is conducted every four years by the U.S. Department of Education. These figures represent borrowing that took place in the 2015-16 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. The term “private loans” is defined as loans currently originated by banks and lenders, distinct from prior FFEL loans issued by banks and guaranteed by the federal government. Other types of non-federal loans include those offered by some states and colleges; less than one percent of undergraduates borrowed state or institutional loans in 2015-16.

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1. For example, Wells Fargo advertised fixed rates from 7.49% to 14.24% for the Wells Fargo Student Loan for Career and Community Colleges; <https://www.wellsfargo.com/student/community-college-loans> and https://wfefs.wellsfargo.com/terms/todays_rates.jsp, accessed April 19, 2019.

2. Another 43% reached their individual annual and/or cumulative Stafford limit or were ineligible for Stafford loans because they attended less than half-time, and eligibility cannot be determined for the remaining 4% of borrowers. Breakouts of private loan borrowers who used less than the maximum federal loan amount do not total to 53% due to rounding. Individual borrowers’ Stafford eligibility for 2015-16 varied by class level, dependency status, and college costs after financial aid. Some students who took out less than they were eligible for may have been ineligible for at least part of the award year because they failed to make satisfactory academic progress, previously defaulted on a federal student loan, or for various other reasons, but data limitations prevent us from quantifying the share of students who take out less than their annual limit for these reasons.

3. While 39% of private loan borrowers attended lower-priced schools charging \$10,000 or less in tuition and fees, 51% attended higher-priced schools, and cost data are not available for the remaining 10% of borrowers. Among all undergraduates, 66% attended lower priced schools, 24% attended higher priced schools, and cost data are not available for the remaining 9%. Due to rounding, figures do not add up to 100%.

4. Volume data include private, state, and institutional loans, and are in 2017 dollars for all undergraduates. From Table 1_UG, Trends in Student Aid 2018. The College Board. https://trends.collegeboard.org/sites/default/files/2018-trends-student-aid-source-data_0.xlsx.